

Public Sector Audit

Beverley Town Council

Interim Internal Audit Report for the year ended 31 March 2020

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Introduction

Part 2, paragraph 5 (1) of the Accounts and Audit Regulations 2015 imposes a duty on Local Councils to “undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

Internal audit is a key component of the system of internal control. The purpose of internal audit is to review whether the systems of financial and other controls over a council's activities and operating procedures are effective.

At the request of the council I have conducted an interim Internal Audit review of the council's accounting records in respect of the financial year ended 31 March 2020. I have acted independently and, on the basis of an assessment of risk, carried out a selective assessment of compliance with relevant procedures and controls expected to be in place during the financial year.

The audit has been carried out in accordance with the council's needs and planned coverage. On the basis of the findings in the areas examined, the internal audit conclusions and recommendations have been recorded in the table below.

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Prioritisation of recommendations

In accordance with good internal audit reporting practice and the Governance and Accountability for Local Councils Practitioners Guide, the recommendations contained in this report have been prioritised. The following 'traffic light' system for the prioritisation of recommendations has been adopted: Page | 3

- Significant weakness in internal control requiring urgent attention.
- Moderate weakness in internal control requiring attention within the current year.
- Minor weakness in internal control, or matters of good practice the council may wish to consider, to be addressed within the current year.

Distribution List

Chairman of the Council

All members of the Council

Clerk to the Council

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The findings of the audit are summarised below

	Tests Performed	Findings and Recommendations
1	Have appropriate books of account been properly maintained throughout the year?	<p><u>Appropriate accounting records</u></p> <p>Findings</p> <p>The cash book is maintained on a computerised system designed by Rialtas Business Systems (RBS) for Town and Parish Councils. It is well maintained and balanced up to the end of December 2019. It is comprehensively analysed and provides all of the information required for the preparation of year end accounts and the Annual Governance and Accountability Return.</p> <p>It is understood the council is to upgrade its accounting system to a higher level package from RBS which will incorporate subsidiary accounting functions, such as allotments and events, and will provide improved functionality and transparency. It is anticipated that the upgraded system will be operational from the 1st April 2020.</p> <p>The system ensures that it is arithmetically correct and monthly bank reconciliation confirms that the cash book and bank are in agreement.</p> <p>Records are maintained to provide an audit trail from original receipts and invoices to the cash book and bank.</p>
2	Have the council's Financial Regulations and Standing Orders been formally adopted and complied with?	<p><u>Adherence to Financial Regulations and Standing Orders</u></p> <p>Findings</p> <p>The council reviewed and approved its Standing Orders at the council meeting held on the 8th April 2019. The Standing Orders that were approved reflect the latest NALC Model which incorporates the latest legislative changes. An amendment to Standing Order 3 (c) was approved by council on the 13th January 2020.</p> <p>The council's current Financial Regulations, which were reviewed and approved at the council meeting on the 22nd July 2019, reflect the 2016 NALC Model.</p>

		During July 2019 NALC revised its Model Financial Regulations. The changes since the 2016 regulations are in respect of Contracts Regulations. The July 2019 revised NALC Model regulations were presented to council on the 13th January 2020 and are due to be re-presented to the February meeting for final approval.
3	<p>Are payment controls effective and VAT properly accounted for?</p> <p>Has the council recorded s137 expenditure separately and is it within the statutory limit?</p>	<p><u>Adequate payment controls</u></p> <p>Findings</p> <p>I have tested a sample of payments from April to December 2019. All of the invoices tested have been correctly analysed in the cashbook and authorised and minuted.</p> <p>I have tested that VAT has been identified and correctly recorded in the accounting records. It was noted that on one occasion an invoice for electricity supplies from Npower included VAT at 5%. The invoice, however, has been entered in the accounting system as 20% VAT.</p> <p>To the date of audit, a total of £1,152 expenditure has granted to one organisation using the powers the council has available to it under s.137 of the 1972 Local Government Act. A separate account has now been established in the council's accounting system for s.137 expenditure.</p> <p>I have checked that the two signature rule has been applied to payments made by the council. All invoices and petty cash receipts are authorised by two members prior to payment. When the members have authorised a batch of payments they are passed to the Town Clerk for final authorisation and the processing of the BACS payments through the bank.</p> <p>All cheque payments during the year have been evidenced by three authorised signatories initialling the cheque stubs to signify agreement with the cheques and supporting documentation provided at the time of signing.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● Care should be taken to ensure that the correct rate of VAT is recorded in the council's accounting system for reclaim from HMRC purposes.

4	<p>Has the council assessed the significant risks in delivering its activities and services and regularly reviewed the adequacy of these assessments?</p> <p>Is insurance cover appropriate and adequate?</p> <p>Are financial controls documented and regularly reviewed?</p>	<p><u>Assessment of significant risks</u></p> <p>Findings</p> <p>The council currently uses "Local Council Risk Assessments" produced by DMH Solutions. They are reviewed and approved annually for continued relevance and were approved by council on the 24th June 2019. The Clerk is currently reviewing alternative Risk Assessment packages with a view to updating the current package and also including a Treasury Risk Management policy. A draft Investment Strategy Policy was presented to council on the 21st October and it was resolved that the Policy Committee finalise the Strategy. The Policy Committee resolved, on the 6th January, to cease the ongoing work to open new bank accounts and to invite a representative from CCLA to give a presentation to a future Policy Committee at the earliest opportunity. A revised Investment Policy is due to be presented to the February meeting of the Policy Committee to reflect the council's wish to use the services of banks and building societies with a good track record of ethically responsible investments and environmental sustainability.</p> <p>It is noted that the council uses the Play Inspection Company to carry out an annual inspection of the skate park. A detailed report is issued by the company and any matters requiring attention are rectified by the council. Visual inspections of the skate park are also carried out several times each week by the council's Handyman and detailed inspection sheets are completed in respect of these checks. It is noted, however, that the inspection sheets do not include provision for the recording of any remedial action that needs to be taken (and the date of completion of repairs etc.) in the event of any issues or faults being identified. It is also noted that the inspection sheets are not returned to the Town Council's offices for review and filing.</p> <p>The council also maintains a Health and Safety Policy and Lone Working Policy which were reviewed and approved on the 25th February 2019.</p> <p>I have reviewed the council's insurance policy and the levels of indemnity are considered to be adequate.</p> <p>I have reviewed the security of cash on the premises and in transit and confirmed that the sums insured are adequate.</p> <p>The council's principal financial controls and procedures are identified within Financial Regulations which are</p>
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		<p>reviewed for continuing relevance and approved annually.</p> <p>The security and back up of the council's electronic records has been reviewed and the Clerk has confirmed that all of the council's financial and other electronic data are backed up each night to a server and weekly to two external hard drives. One of the hard drives is removed each week and held away from the council's offices in a secure environment. The hard drives are encrypted to prevent unauthorised access.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● Inspection sheets should include provision for the recording of any issues or faults identified and the resultant action taken, including dates, to rectify these. Such information is necessary in the event of an injury occurring or a claim against the council by a member of the public. ● All inspection sheets should be returned to the Town Council's offices for review, signed as checked by an officer and retained for record purposes. Any remedial action or repairs found necessary should be monitored to ensure satisfactory completion and the date of completion should be entered on the inspection sheets.
5	<p>Has the annual precept requirement resulted from an adequate budgetary process?</p> <p>Has progress against budget been regularly monitored and reported?</p>	<p><u>Adequate budgetary process</u></p> <p>Findings</p> <p>The council prepared a detailed annual budget in support of its 2019/20 Precept. The budget and Precept for 2019/2020 were confirmed at the council meeting held on the 14th January 2019. The Precept was confirmed as £296,106.</p> <p>Detailed budget monitoring reports are produced monthly by the council's RBS accounting system. The reports are reviewed by the Clerk and Deputy Clerk and submitted to each council meeting for review and approval. Any actions considered necessary are discussed by council and, if necessary, funds can be transferred from one budget head to another. Such actions would be confirmed within the minutes.</p> <p>Year-end balances as at the 31st March 2019 totalled £758,267. The council has traditionally held earmarked reserves for specific projects and liabilities which have changed over the years as required. In addition to these specific reserves the council resolved, on the 24th June 2019, to identify 4 categories of Community</p>

		<p>Cohesion, Enterprise, Sustainability and Development, and allocate £85,000 to each of these categories. The Clerk is currently reviewing the specific earmarked reserves for both relevance and adequacy and, following this review, the whole of the council's balances and reserves will be again reviewed by the council.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● For clarity and transparency purposes the council should consider identifying the types of projects which could be allocated to each of the four broad categories identified by council on the 24th June 2019.
6	<p>Was all expected income fully received in accordance with the current scale of charges, properly accounted for and promptly banked?</p> <p>Were security controls over cash and cash equivalents effective?</p>	<p><u>Adequate income controls</u></p> <p>Findings</p> <p>The council's Precept for 2019/20 is £296,106 which agrees to the two instalments of £158,053 received from ERYC on 30/04/19 and 30/09/19.</p> <p>A review of the bank statements and income records identified that no trust fund income has been received.</p> <p>A formal Scale of Charges is not maintained. Instead, the council reviews the charges for events, such as the Christmas Food and Drink and the Food Festival, and minutes the agreed charges accordingly. At the council meeting held on the 14th January 2019 it was resolved to not increase the stall prices for these events for 2019/20. Planning and Property Services Committee agree the charges for allotments and these were increased for 2019/20 at the meeting held on the 29th January 2019. The charges for hanging baskets and stall hire will be reviewed during February and the prices for these will be minuted.</p> <p>I have checked and agreed a sample of income received for allotments (cash, cheque and Internet banking) to the council's accounting records.</p> <p>A sample of income in respect of hanging baskets and stall income has also been checked and agreed to the council's accounting records.</p> <p>Other income includes grants, VAT refunds, Christmas lights refund and a pancake race donation. Sundry charges are also made for photocopying on behalf of the Civic Society and the council receives a small amount</p>

		of bank interest.
7	<p>Were petty cash payments appropriate and supported by receipts?</p> <p>Was all expenditure approved and reported to members?</p> <p>Has VAT been correctly accounted for?</p>	<p><u>Appropriate petty cash controls</u></p> <p>Findings</p> <p>The council maintains a separate petty cash system. The petty cash float is topped up when required, to an imprest of £400.</p> <p>The petty cash payments are separately recorded in the council's accounting system and reported to the Policy Committee together with all other council payments. The schedules of all council payments are signed as authorised by three signatories, including the Clerk, and these schedules include the periodic reimbursement of the petty cash float.</p> <p>I have checked a sample of petty cash payments to confirm that they have been correctly entered in the accounting system, analysed to the correct account code and that VAT has been correctly identified and recorded for the purpose of the HMRC VAT reclaim.</p> <p>It was noted that, on one occasion, VAT has been recorded in RBS, for subsequent reclaim from HMRC, in the absence of a valid VAT receipt. Also, on one occasion VAT has been recorded in RBS for reclaim purposes for a non-vatable supply.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● Care should be taken to ensure that valid VAT receipts are obtained whenever possible and that VAT is only identified in the cash book and included on the VAT reclaim when a valid VAT receipt is available. ● Only vatable supplies should be included in the HMRC reclaim.
8	Do all employees have contracts of employment with clear terms and conditions?	<p><u>Adequate payroll controls</u></p> <p>Findings</p> <p>All of the council's employees have contracts of employment which contain clear terms and conditions.</p>

	<p>Are salaries to employees and all other payments and allowances paid in accordance with council approvals?</p> <p>Has PAYE and NI been correctly deducted and paid to HMRC?</p>	<p>Each month's gross pay calculation for each member of staff has been checked to confirm that all payments made agree to the original contracts of employments, subsequent changes agreed by the council and the current NJC pay scales.</p> <p>A sample of overtime payments has been checked and agreed to individual timesheets. Timesheets are submitted to each Personnel Committee for review and approval.</p> <p>All employees have been subject to PAYE and NI regulations and deductions for the sample checked have been correctly paid to HMRC.</p> <p>It is noted that, owing to a software problem on the council's payroll provider's computer system, pension payments to the East Riding Pension Fund have been temporarily suspended. These will recommence, including the arrears, when the payroll provider's system is operational again.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● Following the issue of updated guidance from HMRC during September last year, the council should note that it is unable to claim Employment Allowance unless it has charitable status. The council should, therefore, check that it is not claiming this allowance and, if it is, it should untick the box on the payroll software system to cease claiming it. Further advice can be obtained using the following link; <ul style="list-style-type: none"> • www.gov.uk/government/publications/employment-allowance-more-detailed-guidance/eligibility-for-employment-allowance-further-employer-guidance
9	<p>Is the asset and investment register complete and accurate and reviewed on a regular basis?</p>	<p><u>Appropriate recording of assets</u></p> <p>Findings</p> <p>The council maintains an Asset Register on a spread sheet in the recommended format.</p> <p>Any additions and deletions of assets during the year are added to or deleted from the register at the end of the year.</p> <p>The basis of valuation for the Annual Governance and Accountability Return is cost or nominal value in</p>

		<p>accordance with current guidance.</p> <p>A detailed review of the Asset Register will be undertaken at the final year-end audit.</p>
10	<p>Were bank reconciliations performed on a regular and timely basis?</p> <p>Have all bank reconciliations been reviewed by an appointed member and evidenced as such?</p>	<p><u>Adequate bank reconciliations</u></p> <p>Findings</p> <p>The council maintains nine bank accounts: Current, Deposit, Business Term Deposit, Events, In Bloom, Field to Table, Youth Town Council, Skatepark and Christmas Lights. Each account is separately recorded in RBS and is reconciled monthly within the accounting system. Two further bank accounts are administered by the council on behalf of the Mayor. A Mayor's Account is used for sundry expenditure such as the Mayor's attendance at Civic dinners. Also, a Mayor's Charity Account, which is used to record income and expenditure in respect of fundraising events for the Mayor's chosen charity(s).</p> <p>The monthly balances on all of the above accounts are summarised and reported to Policy Committee.</p>
11	<p>Has the previous year's Internal Audit Report been submitted to council and actioned as necessary?</p>	<p><u>Previous Internal Audit Report actioned</u></p> <p>Findings</p> <p>The 2018/19 Final Internal Audit Report was presented to and approved at an Extraordinary meeting of the Full Council held on the 24th June 2019.</p>
12	<p>Has the council met its responsibilities as a trustee?</p>	<p><u>Trustee responsibilities</u></p> <p>Findings</p> <p>I have seen no evidence that the council has responsibility for Trust Funds and the Clerk has confirmed that this is the case.</p>
13	<p>Are council's minutes maintained in accordance with legislative requirements?</p>	<p><u>Correct maintenance of council minutes</u></p> <p>Findings</p> <p>I have reviewed the minutes of the council and its committees and working parties for 2019/20 to the date of the audit.</p> <p>The minutes have been signed as a correct record by the Chairman and each page of the minutes has been</p>

		<p>initialled and signed as required by the Local Government Act 1972 (Schedule 12.41(2)).</p> <p>All Full Council and Committee minutes are numbered consecutively throughout the year as required by the above legislation.</p>
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Executive Summary

The accounts and governance arrangements of the council have continued to be maintained to a high standard and the assistance of the Clerk and officers of the council in the completion of this audit was much appreciated.

The internal financial control environment within the council is good and the adoption of the above recommendations and consideration of the advisory notes will serve to further enhance and strengthen the systems, procedures and governance arrangements already in place.

The Internal Audit has been conducted in accordance with the Governance and Accountability for Local Councils – Practitioners Guide 2019.

I confirm that I have no relationship or interest, financial or otherwise, with any member or officer of the council.

Richard Dixon

Public Sector Audit

25th January 2020

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