

Public Sector Audit

Beverley Town Council

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 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:

- 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

The findings of the audit are summarised below

	Test	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 March 2020.</p> <p>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 (AGAR). The Town Clerk has confirmed that the council has upgraded its accounting system from the 1st April 2020 to a higher level package from RBS which incorporates subsidiary accounting functions, such as allotments and events in addition to a purchase ledger function to facilitate the raising of purchase orders and invoices; all of which will provide improved functionality and transparency.</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. The council's Administrative Assistant has confirmed that staff travel was claimed during the year. The council's accounting package, however, has allocated this cost to box 6, all other payments, on the year-end Accounting Statement on the AGAR. Government guidelines require that such costs should be treated as staff costs and should, therefore, allocated to box 4, staff costs, on the Accounting system. The Town Clerk has confirmed that this has now been corrected.</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 legislative changes. An</p>

		<p>amendment to Standing Order 3 (c) was approved by council on the 13th January 2020. On the 24th February 2020 council resolved to approve and sign the final versions of Standing Orders.</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> <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 on the 24th February 2020 council resolved to send the Financial Regulations to Policy Committee to amend and send back to Full Council for approval. The Clerk has confirmed that this will be actioned in July 2020.</p>
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. Owing to current restrictions, it was not possible to test payments for the last quarter of the financial year. 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>The council's accounting system confirms that, during the year, a total of £1,152 has been allocated to s.137 of the 1972 Local Government Act. It is noted that a separate account has now been established in the council's accounting system for s.137 expenditure. From the information received from the Administrative Assistant, the expenditure is appropriate for this statutory power. The total expenditure during the year is also well within the statutory limit.</p> <p>I have checked that the two signature rule has been applied to payments made by the council. All invoices</p>

		<p>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 electronic payments through the bank.</p> <p>All cheque payments tested 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>Following the Interim Audit it was reported that <i>"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."</i></p> <p>Owing to current Government restrictions I have been unable to review in detail the progress made regarding these matters. The Clerk has confirmed that the Investment Policy will be amended by Councillors presented to Policy Committee in July 2020.</p> <p>The Clerk confirmed on the 3rd June that she was in the process of finishing the Risk Assessment Report and</p>

compiling a financial risk plan similar to a neighbouring Town Council and not using the “usual Town and Parish Disc”. On the 5th June the Clerk confirmed that she was finalising the Financial Risk Assessment. The updated Risk Assessments have not been provided to audit for review and verification purposes.

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. At the Interim Audit it was noted that the inspection sheets do not include provision for 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. The Town Clerk has confirmed that this has now been actioned. It was also noted that the inspection sheets are not returned to the Town Council's offices for review and filing. The Clerk has confirmed that the inspection sheets were kept at the handyman's storage unit but are now returned to the Town Council office and monitored as necessary.

I have reviewed the council's insurance policy and the levels of indemnity are considered to be adequate. The level of Fidelity Guarantee cover is slightly low as at the 31st March 2020. The indemnity limit is 96% of the level calculated to fully protect the council's interests at the 31st March 2020.

I have reviewed the security of cash on the premises and in transit and confirmed that the sums insured are adequate.

The council's principal financial controls and procedures are identified within Financial Regulations which are reviewed for continuing relevance and approved annually. It is acknowledged that the regulations are currently being updated.

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>Recommendations</p> <ul style="list-style-type: none"> ● The council should keep the indemnity limit for Fidelity Guarantee under review to ensure that it adequately protects the council's interests. ● The council should consider documenting key office, financial and governance procedures. Such a record would be invaluable in the event of the unforeseen absence of key members of staff.
5	<p>Has the annual precept requirement resulted from an adequate budgetary process?</p> <p>Has progress against budget been regularly monitored and reported and were reserves appropriate?</p>	<p><u>Adequate budgetary process</u></p> <p>Findings</p> <p>The council prepared an annual budget in support of its 2019/20 Precept. The budget setting document does not, however, fully comply with the Government guidance.</p> <p>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. Year-end balances as at the 31st March 2020 totalled £791,296. 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 Cohesion, Enterprise, Sustainability and Development, and to allocate £85,000 to each of these categories. At the Interim Audit it was noted that 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. Reserves were discussed at the council meeting held on the 24th February 2020 and it was noted that reserves would be discussed by the Policy Committee. The Town Clerk has confirmed that the funds held in these four broad categories have now been allocated between a capital building fund and other revenue purposes.</p>

		<p>Recommendation</p> <ul style="list-style-type: none"> ● The budget setting document should be reviewed to ensure that it complies with Government guidance.
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 up to December 2019 identified that no trust fund income has been received. Owing to current Government restrictions the final quarter's statements could not be reviewed.</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 Festival 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. At the time of the last audit visit the charges for hanging baskets and stall hire had not been reviewed. I was advised that they were due to be reviewed during February and the prices for these would 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 of bank interest.</p>

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 The council maintains a separate petty cash system. The petty cash float is topped up when required to an imprest of £300.</p> <p>The petty cash payments are separately recorded in the councils accounting system and reported monthly 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; these schedules include the periodic reimbursement of the petty cash float.</p> <p>I have checked a sample of petty cash payments up to December 2019 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. Owing to Government restrictions I have not been able to check a sample of payments for the last quarter of the year.</p> <p>I 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	<p>Do all employees have contracts of employment with clear terms and conditions?</p> <p>Are salaries to employees and all</p>	<p><u>Adequate payroll controls</u></p> <p>Findings All council's employees have contracts of employment which contain clear terms and conditions.</p> <p>Each month's gross pay calculation for each member of staff has been checked to confirm that all payments</p>

	<p>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>made agree to the original contracts of employment, 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. Owing to Government restrictions, overtime hours have not been checked to timesheets for the final quarter of the year.</p> <p>All employees have been subject to PAYE and NI regulations; 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 were temporarily suspended during the year. The Town Clerk has confirmed that the problem was solved prior to the year-end.</p>
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. 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>Owing to current restrictions a detailed review of the Asset Register could not be undertaken at the final year-end audit. New purchases during the year have, however, been added and the total value of assets per the register at the 31st March 2020 has correctly been declared in box 9 on the year-end Annual Return.</p>
10	<p>Were bank reconciliations performed on a regular and timely basis?</p> <p>Has a year-end reconciliation been performed and balanced?</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</p>

	<p>Have all bank reconciliations been reviewed by an appointed member and evidenced as such?</p>	<p>fundraising events for the Mayor's chosen charity(s).</p> <p>The year-end bank balances are reflected in the council's accounting system and agree to the Annual Return produced by RBS.</p>
11	<p>Were year-end accounts prepared on the correct accounting basis and supported by adequate working papers and adjustments, transfers, contra entries etc. which are fully explained and justified? Is there an adequate audit trail from underlying records and where appropriate have debtors and creditors have been properly accounted for?</p> <p>Has the previous Internal Audit Report been submitted to council and actioned as necessary?</p>	<p><u>Correct accounting basis and previous Internal Audit Report actioned</u></p> <p>Findings</p> <p>The year-end statements have been prepared on the correct accounting basis (Income and Expenditure) and, therefore, debtors and creditors have been included.</p> <p>The RBS accounting system ensures that there is there an audit trail from underlying financial records to the year-end statements. As noted in section 1 of the report, staff travel costs should be allocated to box 4, staff costs, on the year-end Accounting Statement and not box 6, all other payments.</p> <p>The total of the year-end Asset Register agrees to box 9, Fixed Assets, on the AGAR. I have agreed the Accounting Statement produced by the RBS system but the Accounting Statement that forms part of the AGAR was not presented to audit for review and verification. It is noted that the figures brought forward in boxes 4 and 6 have been restated from those provided to the External Auditor for 2018/19.</p> <p>The Interim Internal Audit Report was presented to and approved by council on the 24th February 2020.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● In accordance with section 4 of PKF Littlejohn's detailed instructions for 2019/20 a copy of this audit report should be forwarded to the External Auditor. ● In accordance with the External Auditor's instructions the word "RESTATED" should be inserted in boxes 4 and 6 in respect of the comparative figures brought forward from 2018/19.

12	Has the council met its responsibilities as a Trustee?	<p><u>Trustee responsibilities</u></p> <p>Findings I have seen no evidence that the council has responsibility for Trust Funds and the Administrative Assistant has confirmed that this is the case.</p>
13	If the council certified itself as exempt from an External Audit Limited Assurance Review last year, has it met the exemption criteria and correctly declared itself exempt?	<p><u>Exemption Certificate</u></p> <p>Findings The council, correctly, did not complete an Exemption Certificate under Section 9 of the Local Audit (Smaller Authorities) Regulations 2015.</p>
14	Did the council correctly provide, during the summer, the proper opportunity for the exercise of public rights in accordance with the requirements of the Accounts and Audit Regulations 2015?	<p><u>Exercise of Public Rights</u></p> <p>Findings The Council's Administrative Assistant has confirmed that the Notice of Public Rights was published on the council's website in accordance with the requirements of the 2015 Accounts and Audit Regulations. The Notice of Public Rights was removed from the website when the Conclusion of Audit from the External Auditor was added to the site.</p>
15	Are the council's minutes maintained in accordance with legislative requirements?	<p><u>Correct maintenance of council minutes</u></p> <p>Findings I have reviewed the minutes of the Council and its Committees and working parties for 2019/20 to the end of December 2019. Owing to Government restrictions I was not able to review the minutes for January to March 2020.</p> <p>The minutes have been signed as a correct record by the Chairman and each page of the minutes has been 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>

Executive Summary

During the year the council commissioned a wider independent review of its financial and governance arrangements to identify whether they are operating in line with legislative requirements and guidance. The details of the council's concerns were not provided to audit, however; this meant that the issues raised could not be included, had the council so wished, in the current Internal Audit programme of work for 2019/20.

The review and adoption of the recommendations contained in this report will serve to enhance and strengthen the systems, procedures and governance arrangements currently in place.

Paragraph 5.106 of the NALC/SLCC 2019 Governance and accountability Guide identifies that:

“Authorities should note that it is not part of internal audit's responsibility to review or 'sign off' the completed Annual Governance and Accountability Return. Internal audit report(s) should inform the authority's responses to assertions 2 and 6 in the annual governance statement. Internal audit reports should therefore be made available to support and inform members considering the authority's approval of the annual governance statement.”

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

Richard Dixon

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8th July 2020

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