

Public Sector Audit

Howden Town Council

Internal Audit Report for the year ended 31 March 2021

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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 2021. 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.

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

	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 council's accounting records are maintained on a computerised system by Realtas Business Systems (RBS) which provides all the information required for the Statutory Annual Governance and Accountability Return (AGAR).</p> <p>The accounting system ensures that it is arithmetically correct and monthly bank reconciliations confirm that the accounting system and bank are in agreement. It is noted that the council's NS & I account is now separately identified in the accounting system and bank reconciliations are automatically produced by the system for this account.</p> <p>A revised Governance and Accountability Guide has been issued by the National Joint Panel this year. In accordance with the revised instructions for Town and Parish Councils the allocation of staff travelling costs is now required to be analysed as "All other payments" and included in box 6 on the year-end Annual Return.</p> <p>For clarification purposes, the 2020 Governance and Accountability Guide states: <i>"Staff costs for the purpose of Line 4 include gross salary of employees, employers' national insurance contributions, employers' pension contributions, gratuities for employees or former employees and severance or termination payments to employees. The following are not staff costs for the purpose of Line 4; mileage and other travelling and subsistence allowances, "Homeworking allowance" that is, an allowance paid to cover the extra costs of working from home, the provision of work related training, the reimbursement of childcare or other carers costs, the reimbursement of a staff members subscription to the Society of Local Council Clerks, the provision of office supplies such as laptop, scanner or stationery and consultants and agency staff. The definition of "staff costs" for the purposes of Line 4 may differ from what is, or is not, treated as taxable earnings by HMRC. In as much as this is a change of reporting basis, corresponding figures from the preceding year must be restated in a similar basis."</i></p>

		The Clerk is aware of this change and has correctly re-allocated the code for staff travelling expenses to box 6 on the accounting statement.
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>At the council meeting held on the 19th May 2020 the council reviewed and approved revised Standing Orders and Financial Regulations. The minutes confirm that these reflect the latest July 2018 NALC Model Standing Orders and the latest July 2019 NALC Financial Regulations.</p> <p>The wording of the council's Financial Regulations, that were adopted at the May 2020 meeting, did not, however, fully reflect the changes that were made to the latest NALC Model. The required amendments have now been made and the revised Financial Regulations were reviewed and approved by RAM Committee on the 13th October 2020 and Full Council on the 17th November 2020.</p> <p>Revised NALC Model Standing Orders, to reflect annual changes in contract values, were announced this month. ERNLLCA has confirmed that it expects yet another change given that the UK is no longer a member of the EU, though the timing of this is not yet known.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● When the council next reviews its Standing Orders it should take account of the revised 2020 NALC Model and enquire whether a further updated Model has been announced to take account of the UK ceasing to be a member of the EU.
3	Are payment controls effective and VAT properly accounted for? Has the council recorded s137 expenditure separately and is it within the statutory limit?	<p><u>Adequate payment controls</u></p> <p>Findings</p> <p>I have tested a large sample of payments throughout the year to ensure that there is a formal invoice and that the expenditure has been reported to council. All payments tested were supported by invoices or receipts and were reported to council. The monthly schedule of payments is reviewed and checked against the invoices by the Vice-chairman prior to the next meeting of the council. The schedule is then provided to all council</p>

	<p>Members prior to the meeting. The schedules of payments, including totals, are now being included in the minutes as evidence for audit purposes of the payments that have been authorised.</p> <p>I have reviewed payments for completeness, accuracy, the correct year of account and compliance with Financial Regulations.</p> <p>I have checked and confirmed that VAT has been correctly identified and recorded in the accounting system for future reclaim from HMRC</p> <p>Financial Regulations confirm, in the instructions for all payments made by BACS, that they should be signed, or otherwise evidenced, by two authorised bank signatories and retained; all payments should be reported to council and authorised by the Chairman and a second authorised signatory. Owing to present restrictions, the Clerk currently issues schedules of payments that are due to be paid to all council Members; these are then authorised by council at the time of the virtual meetings.</p> <p>A code for s.137 expenditure has correctly been included in the accounting system. A total of £3,827 has been allocated to this code during the year. The expenditure is appropriate for this statutory power and well within the statutory limit.</p> <p>The Clerk has confirmed that no cheques were issued during the year.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The monthly schedule of payments should be totalled to agree to the figures provided in the minutes; this will facilitate audit review and verification that all payments have been authorised by council. Individual salary payments, however, should not be identified. ● In accordance with Financial Regulations, when the current Government restrictions have been lifted, a second council Member should sign each invoice/receipt as evidence of authorisation.
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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>Previous audits identified serious shortcomings in relation to the council's Risk Assessments. A considerable amount of work has since been done and continued during the year. The council has appointed a Health and Safety advisor to work with the council to ensure that its Health and Safety Policy and practices are up to date and appropriate measures are taken to protect both the public and the council.</p> <p>A formal Financial Risk Assessment document has been prepared covering financial controls, council owned and maintained assets, legal liabilities and administration. The document was approved by the RAM Committee on the 25th August and adopted by Council on the 15th September 2020. Minute 20-53.1 of the council meeting on the 15th September records that the Financial Risk Assessment would be forwarded to RAM at every Committee meeting as an ongoing working document. This has not yet been done and currently the RAM Committee is not meeting.</p> <p>The Financial Risk Assessment identifies that buildings will be inspected annually and assets inspected regularly. Inspection sheets have been drawn up to record such inspections and any faults found. Provision has been made to record the action taken to remedy such faults.</p> <p>It is noted that 2-weekly detailed inspections are now being carried out by nominated council Members. These cover Derwent Play Park, Howden Marsh Local Nature Reserve, the Cemetery, Howden Minster grounds and Shelford Avenue open space. Inspection sheets are now being completed and returned to the Town Clerk's office for review and action if necessary.</p> <p>The council has also contracted with an independent play inspection company to provide an annual inspection of Derwent Park.</p> <p>The council's insurance policy was renewed on the 1st June 2020. I have reviewed the limits of indemnity and all are considered to be adequate with the exception of Fidelity Guarantee. The Clerk has confirmed that the council does not receive or hold any cash on the premises.</p>
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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 agreed a Precept of £185,600 for 2020/21 at the meeting held on the 21st January 2020. The minute refers to an attachment which detailed the budget requirement for the current year. The attachment has not been found however and could not, therefore, be reviewed for adequacy.</p> <p>Budget monitoring reports were presented to the RAM Committee during May, June and August. A half year monitoring report, to the end of September, was presented to the committee on the 13th October. The out-turn figures up to the end of December 2020, together with forecasted figures for the fourth quarter of 2020/21, were presented to RAM Committee on the 12th January 2021 for the purpose of setting the 2021/22 budget and Precept. Rialtas is now being fully utilised for budget monitoring purposes.</p> <p>The budget setting meeting held by the RAM Committee on the 12th January 2021 agreed the council's</p>

		<p>Precept for 2021/22. Within the budgeted figures for the current financial year, the council approved a general reserve of £32,000 which is closer to Government guidance than has previously been the case.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● When the council next reviews its balances it should consider incrementally increasing its general (contingency) reserve to the level recommended by the Government.
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 2020/21 Precept has been received in two instalments in April and September and these agree to the remittance advices, the accounting system and bank statements.</p> <p>Apart from the Precept, the council also received income from cemetery fees, room hire, a returned grant for Howden Show, the Allotment Association, the return of previous year's fraudulent transactions from the bank and sundry miscellaneous income. The original agreement with the Allotment Association cannot be found but the Chairman has confirmed the correctness of the annual income received.</p> <p>I have agreed the refund of the grant for Howden Show to the original payment by the council. A sample of cemetery fees has been checked and agreed to the current fee structure dated 14th November 2018. As many payments received in respect of the Joint Burial Committee are for the same amounts, it was difficult to check that the income from individual invoices was correctly entered in the cash book and subsequently banked. The Clerk has, from the 1st April 2021, started to cross reference the invoice number to the accounting system to facilitate this audit check. Room rental charges have not been checked owing to insufficient documentary evidence to support the amounts being charged for room hire. The Clerk has confirmed that the charging structure for room hire will be discussed when the RAM Committee next meet.</p>
7	<p>Were petty cash payments appropriate and supported by receipts?</p>	<p><u>Appropriate petty cash controls</u></p> <p>Findings</p> <p>The council does not maintain a petty cash system.</p>

	<p>Was all expenditure approved and reported to members?</p> <p>Has VAT been correctly accounted for?</p>	<p>Small items of sundry expenditure incurred by the Clerk and council Members are reimbursed via the normal payments system. Such payments are correctly included on the schedule of payments presented for authorisation to each meeting of the RAM Committee</p> <p>I have checked a sample of payments that have been reimbursed to council Members and the Clerk. All payments have been correctly coded in the accounting system and VAT has been correctly recorded for reclaim purposes.</p>
8	<p>Do all employees have contracts of employment with 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><u>Adequate payroll controls</u></p> <p>Findings</p> <p>All council employees have contracts of employment with clear terms and conditions of employment. It is noted that revised contracts for the Clerk to the Joint Burial Committee and the Handyman/Road Sweeper have been issued to correctly identify the spinal column point only, for their employment.</p> <p>It is noted that overtime sheets for staff have now been created and these will be authorised by the Clerk in the event of overtime being required.</p> <p>All council employees have been subject to PAYE and NI regulations and, for the sample checked, deductions have been correctly paid to HMRC.</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 in the recommended format.</p> <p>Purchases during the year have been added to the register at the correct valuation of net cost excluding VAT.</p> <p>The total of council assets, per the Asset Register as at the 31st March 2021, agrees to the declaration in box 9 on the Accounting statement on the AGAR.</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>Have all bank reconciliations been reviewed by an appointed member and evidenced as such?</p>	<p><u>Adequate bank reconciliations</u></p> <p>Findings The council maintains two bank accounts: a Current Account with the Co-operative Bank and an NS & I Investment Account.</p> <p>Monthly bank reconciliation statements have been prepared using the council's accounting system. Currently, only the council's current account reconciliations are being provided to council for review and approval. Owing to current restrictions, the reconciliations have not been physically signed as authorised.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● Prior to current restrictions being lifted, the Chairman and one additional council Member should email confirmation to the Clerk that the reconciliations have been reviewed and checked against the relevant bank statements. Such confirmations, in lieu of councillor signatures, is considered to be good practice and forms part of the council's internal control environment. When physical meetings recommence, the monthly bank reconciliation statements and the accompanying original bank statements for both of the council's bank accounts should be signed by the Chairman and a nominated council Member as evidence of verification.
11	<p>Were Accounting statements prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate, were debtors and creditors properly recorded?</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 The year-end statements have been prepared on the correct accounting basis (Receipts and Payments) and debtors and creditors have not, therefore, been taken account of.</p> <p>The statements agree with the cashbook and there is an audit trail from underlying financial records to the year-end statements.</p> <p>The total of council assets declared in box 9 on the Accounting Statement agrees to the total of the Asset Register as at 31/03/21.</p> <p>The 2020/21 Interim Internal Audit Report was presented to and approved by the RAM Committee at the</p>

		meeting held on the 13th October 2020.
12	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</p> <p>The council, correctly, did not complete an Exemption Certificate under Section 9 of the Local Audit (Smaller Authorities) Regulations 2015.</p>
13	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</p> <p>I have confirmed by a review of the council's website that, during the summer of 2020, the council did not provide the proper opportunity for the exercise of public rights in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015. As requested by PKF Littlejohn, the council's new Clerk submitted a Public Rights document to the External Auditor but was unaware of the legal requirement to display the formal notice on the council's website. The Clerk is now aware of this requirement and will ensure that the Notice of Public Rights in respect of 2020/21 is correctly displayed during the Summer of 2021.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● The council should ensure that it publishes the Notice of Public Rights in accordance with the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015.
14	Did the council comply with the publication requirements for the previous year's AGAR?	<p><u>Publication Requirements</u></p> <p>Findings</p> <p>I have reviewed the council's website and confirmed that the council published the correct documents as required by the Accounts and Audit Regulations 2015 (as amended by S.I. 2020/404 - The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020) with the exception of the Notice of public Rights, as noted in section 13 of this report, and the Notice of Conclusion of Audit.</p>

		<p>The Notice of Conclusion of Audit could not be published as the External Auditor, in his report for 2019/20, confirmed: <i>"We are unable to complete our review work on the AGAR and supporting documentation as a result of correspondence received in relation to 2019/20 and/or prior years. Once we have finalised our review and completed any additional work arising from that correspondence, a final report will be provided with the certificate of completion detailing any qualifications and other matters."</i></p> <p>Recommendation</p> <ul style="list-style-type: none"> ● In accordance with the requirements of the Accounts and Audit Regulations 2015, the External Auditor's Notice of Completion of Audit should be published on the council's website when it has been received from the External Auditor.
15	Has the council met its responsibilities as a Trustee?	<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>

Executive Summary

Since the commencement of the council's new Town Clerk, the accounts and governance arrangements of the council have been maintained to a high standard and the assistance of the Clerk of the council in the completion of this audit was much appreciated.

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

The Clerk is to be congratulated on maintaining high standards of governance and financial control whilst operating under very difficult circumstances during the current pandemic.

The Internal Audit has been conducted in accordance with the Governance and Accountability for Local Councils – Practitioners Guide 2020.

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

22nd May 2021

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