

**INTERNAL AUDIT REPORT
STAPELEY AND DISTRICT PARISH COUNCIL
2019/2020**

The internal audit of Stapeley and District Parish Council was carried out by undertaking the following tests in the Annual Return for Local Councils in England:

- Checking that books of account have been properly kept throughout the year
- Checking a sample of payments to ensure that the Council's financial regulations have been met, payments are supported by invoices, expenditure is approved, and VAT is correctly accounted for
- Reviewing the Council's risk assessment and ensuring that adequate arrangements are in place to manage all identified risks
- Verifying that the annual precept request is the result of a proper budgetary process; that budget progress has been regularly monitored and that the council's reserves are appropriate
- Checking income records to ensure that the correct price has been charged, income has been received, recorded and promptly banked and VAT is correctly accounted for
- Reviewing petty cash records to ensure payments are supported by receipts, expenditure is approved and VAT is correctly accounted for
- Checking that salaries to employees have been paid in accordance with Council approvals and that PAYE and NI requirements have been properly applied
- Checking the accuracy of the asset and investments registers
- Testing the accuracy and timeliness of periodic and year-end bank account reconciliation(s)
- Year end testing on the accuracy and completeness of the financial statements

Conclusion

On the basis of the internal audit work carried out, which was limited to the tests indicated above, in our view the council's system of internal controls is in place, adequate for the purpose intended and effective, subject to the recommendations reported in the action plan overleaf.

As part of the internal audit work for the next financial year we will follow up all recommendations included in the action plan.

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JDH Business Services Limited

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	ISSUE	RECOMMENDATION	CLERK'S COMMENTS (RED TEXT)
1	<p>A cleaning contract was let in November 2013 after market testing in accordance with the Financial Regulations. The contract has been rolled over annually since the contract expired with the council last reviewing the contract in March 2015, and there is no further written contract or confirmation of annual contract since that period.</p>	<p><i>The cleaning contract has expired and should be market tested in accordance with the Financial Regulations.</i></p> <p><i>A formal contract should be established for significant contracts with an agreed end date and option for extension if required. Where a contract is to be extended this should be via written notice to the supplier.</i></p> <p><i>The procurement process as specified in the Financial Regulations should be commenced in good time before a contract end date.</i></p>	<p>The contract was reviewed in March 2015 at which time it was agreed to continue for a further 12 months. The review was not carried out and it has continued as an on-going contract; however, Members did recently comment that although the contract was more than satisfactory, the 'water should be tested' at some time, but this was not recorded as a formal proposal.</p> <p>In due course, the Parish Council will need to prepare a specification to enable two other quotations to be sought in addition to the current contractor. The current contract is operated as follows:</p> <ul style="list-style-type: none"> • Caretaking duties (key holder/alarm-opening, closing for private weekend parties and other occasional events) • Full cleaning service throughout (including the car park) • Floor buffing • Legionella testing • PAT testing • 24hr electrician and plumber call-out service • Access to external window cleaning service.

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2	The council did not comply with Regulation 15 of the Account and Audit Regulations 2015 as it failed to make proper provision for the exercise of public rights in Summer 2019 for the 2018/19 accounts as the approval date of the accounts in the AGAR annual return was after the start date of the period for the exercise of public rights.	<i>The council must ensure that it makes proper provision for the exercise of public rights for every financial year</i>	
3	Sample testing of expenditure identified one item of potential capital expenditure as a payment was made for CCTV/installation.	<i>The council needs to review capital expenditure for 2019/20 and update the asset register for capital items purchased which are owned by the council.</i>	This has now been added to the fixed assets register.
4	Although a change in the monthly salary and therefore direct debit was authorised by council, the direct debit was not changed for the entire financial year resulting in an underpayment to the clerk which has now been rectified. There was an underpayment of NIC of £50.04 and PAYE of £171.54 which has also been rectified.	<i>Direct Debit changes should be implemented promptly after council authorisation.</i> <i>Complete and accurate gross and net pay calculations need to be applied monthly to ensure the correct net salary is paid to the clerk and accurate payroll taxes are remitted to HMRC.</i>	
5	Sample testing identified that donations where there is no voucher are evidenced by a handwritten payment slip.	<i>Written confirmation of receipt should be secured for donations.</i>	
6	VAT was not reclaimed or received during the financial year	<i>VAT reclaims should be submitted in a timely basis and at least annually.</i>	The Clerk is currently preparing a VAT reclaim.
2018/19 internal audit			
1	The year end bank reconciliation was out of balance by £17.23. Review of cash book transactions and bank statements identified that this was interest received in the deposit account	<i>Year end procedures should ensure there is a complete set of bank statements and that all interest received has been entered into the cash book.</i>	IMPLEMENTED

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	but not recorded in the cash book as bank statement 291 was missing.		
2	Payroll was overpaid in the financial year by £250.61. Correspondence from HMRC on file indicates that income tax and NIC were underpaid by £255.	<i>Complete and accurate gross and net pay calculations need to be applied monthly to ensure the correct net salary is paid to the clerk and accurate payroll taxes are remitted to HMRC.</i>	RECOMMENDATION OUTSTANDING – see issue 4.) in 2019/20 internal audit above
3	The information provided with the books and records indicates that there are significant reserves earmarked for the hall. However, there is no disclosure of the actual year end split between earmarked reserves for the hall, and general reserves. This is important to ensure the council can evidence that general reserves are not excessive.	<i>The council should disclose the split between earmarked reserves and general reserves at each year end.</i>	RECOMMENDATION OUTSTANDING
4	S137 payments are recorded in the minutes but there is no separate analysis in the cash book so the cumulative level of S.137 can be recorded against statutory limits	<i>A separate analysis of S137 payments should be maintained in the cash book.</i>	RECOMMENDATION OUTSTANDING

IMPORTANT GUIDANCE NOTE

INTERNAL AUDIT CERTIFICATE in the AGAR

There is a new internal control objective (Objective L) in the 2018/19 internal audit certificate that requires internal audit to conclude on whether the Public Rights Notice during the **previous Summer** was compliant with the Regulations. This is pre-filled for 2018/19 but in order to test this and conclude YES or NO for the 2019/20 internal audit we would need to receive with the 2019/20 books and records:

- A copy of the completed 2018/19 Notice of Public Rights and Publication of the Unaudited Annual Governance and Accountability Review
- A dated photograph showing the first day of the Notice of Public Rights on the noticeboard and/or a dated computer screenshot showing the first

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	<p>date of the Notice of Public Rights on the website for 2018/19.</p> <p>-</p> <p>Our approach to this new requirement will be to conclude NO if we have not received the above evidence and explain on the AGAR that we received insufficient evidence to be able to conclude YES; we would also conclude NO if the dates advertised were not compliant with the Regulations.</p> <p>This will be a new ongoing requirement for internal audit, as well as verifying whether certain smaller councils meet the exemption criteria from an external audit. Therefore, for the 2019/20 internal audits there will be additional time charged at a fixed fee of £9 + VAT per local council to complete the new requirements.</p>		
2017/18 internal audit			
1	<p>Bank reconciliation and annual return</p> <p>The bank reconciliation provided for internal audit did not balance. We have carried out a 100% check on all income and expenditure and identified the reasons for the imbalance, and have notified these to the clerk</p>	<p><i>The bank reconciliation should always be balanced to the penny.</i></p> <p><i>The council should amend the Annual Return figures to reflect the adjustments to the income and expenditure in the bank reconciliation we have provided to the clerk</i></p>	See 2018/19 issues
2	<p>Fixed assets</p> <p>Fixed assets have been reduced by £59500 over the 2016/17 value. A note to the fixed asset register states that the Principal Council will take over maintenance and replacement for street lighting and therefore £50400 has been removed from the asset register. However, if the principal council had not legally taken ownership of the street lighting as at March 31st 2018 then the assets must remain in the parish council accounts and asset register until the legal transfer has occurred.</p>	<p><i>The council should review fixed assets and include all the assets that are legally owned as at 31.3.2018 in the fixed asset register and ensure the correct figure is included in the Annual Return. A full reconciliation of any change from the 2016/17 asset figure should be provided to the internal auditor.</i></p>	Implemented

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	The above clarifies only £50400 of the reduction in fixed assets, there is no explanation for the remainder of the reduction in values of £9,100.		
3	<p>Data Protection Law will change significantly on May 25th 2018 due to the 2016 EU Directive General Data Protection Regulation (GDPR) taking effect.</p> <p>GDPR replaces the 1998 Data Protection Act and it will impose new obligations on Data Controllers and Data Processors and provides enhanced rights for individuals. Compliance with GDPR could have resource implications for local councils.</p>	<i>The impact of GDPR on the council should be identified through review of ICO and NALC guidance and the Data Protection policy, risk assessment and internal controls should be updated accordingly</i>	Implemented
2016/17 audit			
1	No issues arising – a robust set of books and records were presented for audit and all internal control objectives were met		
2015/16 audit			
1	Although a comprehensive exercise had been carried out to match receipts from hall hire with invoices issued, this was carried out retrospectively after the year end. During the course of the year invoice numbers for issued invoices were not recorded against the receipt in the analysis of hall hire income to enable the council to ensure	<i>The Council should match receipts promptly with invoices issued and record the invoice number against the receipt in the cash book. An invoice that has been received should then be marked 'PAID'. Every quarter the council should review the unpaid invoices and follow up with customers.</i>	Effective credit control now implemented and invoice number now recorded in the cash book.

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	<p>i.) all hall hire income is completely and accurately recorded in the council ledger</p> <p>ii.) appropriate ongoing credit control can be applied to ensure all invoices issued for hall hire results in a receipt</p> <p>iii.) an adequate audit trail existed between hall hire invoices issued and the cash book</p>		
2	<p>Actual fixed asset purchases in the year included a defibrillator and cabinet costing £1384. However, these are included in the asset register and annual return at replacement value</p>	<p><i>The Practitioners' Guide states that assets should be valued at purchase cost or an insurance proxy if that isn't known (that doesn't change over time), therefore, the only movement in fixed assets each year should be for additions and disposals and all additions should be at purchase price.</i></p> <p><i>The Council need to review the asset register and disclose the correct value in the Annual Return for 2015/16 which should equate to the value for fixed assets disclosed in the 2014/15 annual return plus additions at cost less disposals at cost.</i></p>	Implemented