

**Internal Audit Report**  
**Year ending: 31<sup>st</sup> March 2020**

<b>Name of Council:</b>	ORFORD AND GEDGRAVE PARISH COUNCIL
<b>Income:</b>	£31,631.32
<b>Expenditure:</b>	£24,383.87
<b>Precept Figure:</b>	£28,000.00
<b>General Reserve:</b>	£12,797.44
<b>Earmarked Reserves:</b>	£28,000.00

## **Internal Audit Objectives and Responsibilities**

The primary objective of Internal Audit is to review, appraise and report upon the adequacy of internal control systems operating throughout the council, and to achieve this will adopt a predominantly systems-based approach to audit.

The council's internal control system comprises the whole network of systems established within the council to provide reasonable assurance that the council's objectives will be achieved, with reference to:

- The effectiveness of operations
- The economic and efficient use of resources
- Compliance with applicable policies, procedures, laws and regulations
- The safeguarding of assets and interests from losses of all kinds, including those arising from fraud, irregularity and corruption
- The integrity and reliability of information, accounts and data

Accordingly, in the conduct of planned audits Internal Audit may:

- Carry out a selective assessment of compliance with relevant procedures and controls expected to be in operation during the financial year in order to be able to complete the Annual Internal Audit Report 2019/20 of the Annual Governance and Accountability Return (AGAR)
- Review the reliability and integrity of financial information and the means used to identify, measure, classify and report such information
- Review the means of safeguarding assets and, as appropriate, verify the existence of such assets
- Appraise the economy and efficiency with which resources are employed, identify opportunities to improve performance and recommend solutions to problems
- Review the established systems to ensure compliance with those policies, procedures, laws and regulations which could have a significant impact on operations, and determine whether the council complies
- Review the operations and activities to ascertain whether results are consistent with objectives and whether they are being carried out as planned

Subject	Requirements	Comments/Recommendations
<b>1. Proper Book-keeping</b>	Type of cash book or ledger used	The council uses an excel spreadsheet as the basis for the Council's accounting system.
	Cash book kept up to date and regularly verified against bank statement	The Cashbook is kept up to date and referenced with dates as to when expenditure was incurred and income received.
	Correct arithmetic and balancing	Spot checks were made and following advice from the RFO, a late receipt for interest accrued was omitted from the bank balances reported on the AGAR. <b>Note: the income figures for 2019-2020 on the AGAR are to be amended - see Section 11 below.</b>
<b>2. Financial Regulations &amp; Standing Orders</b>	Evidence that standing orders have been adopted and reviewed regularly	The Council's Standing Orders as seen on the website were reviewed at a meeting of 13 <sup>th</sup> November 2019 and are based on the Model Standing Orders produced by NALC in 2018 which take into account changes in legislation since those produced in 2013.
	Evidence that Financial Regulations (FRs) have been adopted and reviewed regularly	The Council's Financial Regulations were reviewed at a meeting of 15 <sup>th</sup> January 2020 and are based on the 2019 model and were deemed to be fit for the Council's purposes.
	Evidence that a Responsible Financial Officer (RFO) has been appointed with specific duties	In accordance with Section 151 of the Local Government Act 1972(d) (financial administration), the Council has appointed a Treasurer to be the person responsible for the administration of the financial affairs of the relevant authority.
	Evidence that Financial Regulations have been tailored to the Council	The financial regulations have been tailored to the parish council.
<b>3. Payment controls</b>	Supporting paperwork for payments, and appropriate authorisation	At each full Council Meeting a list of all payments authorised the previous month(s) is presented to the meeting with formal approval of such expenditure being recorded. The files submitted for internal audit show evidence as to which two Councillors authorised the invoices along with evidence of those who authorised the payment. All transactions are dual authorised in accordance with FRs 4.1.  <i>Comment: in accordance with FR5.2 Council should ensure that a detailed list of all payments be disclosed within or as an attachment to the minutes of the meeting at which payment was authorised. Personal payments (including salaries, wages, expenses and any payment made in relation to the termination of a contract</i>

		<i>of employment) may be summarised to remove public access to any personal information. Council should also consider ensuring that the payments made for the March 2020 meeting are also brought back to the Council for authorisation at the earliest opportunity.</i>
	Internet Banking transactions properly recorded/approved	The Treasurer has confirmed that Council, in using internet banking for the settlement of its accounts, has retained evidence that all payments are made in accordance with Council's FR 6.9, and that evidence is retained showing which members approved the payment.
	VAT correctly identified and reclaimed within time limits	VAT is identified in the cash book and a separate column is shown on the cashbook for recoverable VAT. VAT recoverable at year-end is stated as £544.46 and treated as a debt within the Council's income and expenditure account. VAT is reclaimed on a quarterly basis.
	Has Council adopted the General Power of Competence and is it being correctly applied?	The Parish Council adopted the General Power of Competence at its meeting of 15 <sup>th</sup> May 2019.  <i>Comment: in accordance with the Localism Act 2011, Ch 1 Part1, Sections 1-8, Council should be mindful that it should resolve at a meeting that it meets the criteria relating to the electoral mandate and relevant training of the Clerk and that having confirmed that it meets the criteria, it can then resolve to adopt the General Power of Competence.</i>
	S137 separately recorded, minuted and within statutory limits	There were no payments made under this power for the year under review.
	Payments of interest and principal sums in respect of loans, are paid in accordance with agreements	The council had no such loans.
<b>4. Risk Management</b>	Is there evidence of risk assessment documentation?	The Risk Assessment Document for the period 1 <sup>st</sup> April 2019 to 31 <sup>st</sup> March 2020 was seen for the year under review and adopted at the meeting of 15 <sup>th</sup> January 2020.  <i>Comment: Overall within its Risk Assessment Document, Council has identified a number of risks to property; finances and personnel and has taken steps to control the risk - all of which are clearly identified within the document as approved by Full Council.</i>

	Evidence that risks are being identified and managed.	<p>Council has carried out detailed further risk assessments which have been reported to the Council throughout the year.</p> <p><i>Comment: council's documents identify the risks associated with ensuring that public finances are adequately protected and managed and has taken steps to mitigate such risks. The documentation of the specific control procedures that have been adopted by the council for payments not only protects the RFO but also fulfils an internal control objective.</i></p>
	Appropriate Insurance cover in place for employment, public liability and fidelity guarantee.	<p>General Insurance is under a Council Commercial Combined Protect Policy for the period from 1<sup>st</sup> June 2019 to 31<sup>st</sup> May 2020 shows core cover: Business Interruption; Public &amp; Products Liability; Employer's Liability; Office Contents; Libel &amp; Slander; Officials Indemnity; Personal Accident and Legal Expenses. Fidelity Guarantee Cover is £150,000, which given the current balances held by the Council is within recommended guidelines.</p>
	Evidence that insurance is adequate and has been reviewed on an annual basis	<p>The minutes of 15<sup>th</sup> May 2019 record that a review of the insurance held was undertaken.</p> <p><i>Comment: in accordance with Proper Practices, Council has identified its key risks and taken steps to manage them in a way which it can justify to a level which is tolerable by transferring the risk and taking out insurance. It has also ensured that the review of the insurance cover is reported back to the Council and minuted to show that appropriate insurance is in place to help manage the potential consequences of a risk occurring.</i></p>
	Evidence that internal controls are documented and regularly reviewed	<p>In accordance with the Accounts and Audit Regulations 2015, Council carried out a review of the effectiveness of the system of internal control which was formally signed off by the Council at its meeting of 10<sup>th</sup> July 2020. However, the internal control document and the risk assessment still make reference to payments being made by cheques with two signatories signing the cheque stubs. There are no details on payments made by direct bank transfer.</p> <p><b>Recommendation: as outlined in the Internal Audit Report for 2018-2019, the council should consider incorporating the written</b></p>

	<p>Evidence that a review of the effectiveness of internal audit has been carried out during the year</p>	<p>control procedures for payments by bank transfer or other electronic into the Internal Control Statement and Risk Assessment. Such controls should also include establishing a full audit trail with the authorisation of the necessary supporting documentation and/or approval with respect to each expense incurred.</p> <p>The effectiveness of internal audit was also covered in the review of Council's internal control statement and signed off at the above meeting.</p> <p><i>Comment: in accordance with the Accounts and Audit Regulations 2015, Council has ensured that it carried out a review of the effectiveness of internal audit which includes the consideration that standards are being met and that the work of internal audit is effective.</i></p>
<p><b>5. Budgetary controls</b></p>	<p>Verifying that the budget has been properly prepared, and agreed</p>	<p>The Budget for the year 2019-2020 in the sum of £30,035 was once again adopted by full Council during an 'in camera' session at the meeting of 14<sup>th</sup> November 2018.</p> <p><b>Recommendation: as stated in the Internal Audit Report for 2018-19, Council should be aware that all meetings of the council must be open to the public, except in limited defined circumstances. Councils can only decide, by resolution, to meet in private when discussing confidential business or for other special reasons where publicity would be prejudicial to the public interest. Generally this is to cover matters such as discussing the conduct of employees, negotiations of contracts or terms of tender and the early stages of a legal dispute. The national rules (Open and accountable local government - A guide for the press and public on attending and reporting meetings of local government – August 2014) requires that parish and town councils make a copy of the minutes available for inspection after a public meeting. Council has therefore failed to show good practice by following the recommended key stages as to the budgetary process to be followed for the year:</b></p> <ul style="list-style-type: none"> <li>• <b>decide the form and level of detail of the budget;</b></li> </ul>

		<ul style="list-style-type: none"> <li>• review the current year budget and spending;</li> <li>• assess levels of income;</li> <li>• provide for contingencies and consider the need for reserves;</li> <li>• approve the budget.</li> </ul>
	Verifying that the Precept amount has been agreed in full Council and clearly minuted	The Precept in the sum of £28,000 was also agreed at the same meeting in the 'in camera' session.  <b>See comments above.</b>
	Regular reporting of expenditure and variances from budget	Comparisons between budgeted and actual income and expenditure are reported to Council in the quarterly reports submitted in accordance with Councils SO 17c. Evidence was seen that Council has reviewed progress against the budget regularly throughout the year by publishing reports submitted to Council on its website.
	Reserves held  General and Earmarked.	The reserves allocated at year-end were £12,797.44 as General Reserves and £28,000 as Earmarked Reserves.  <i>Comment: the generally accepted recommendation with regard to the appropriate minimum level of a Smaller Authority's General Reserve is that this should be maintained at between three (3) and twelve (12) months Net Revenue Expenditure. At the current level, council's general reserves are considered to be just within this level.</i>
<b>6. Income controls</b>	Is income properly recorded and promptly banked?	A number of items of income were cross checked against cash book and bank statement and found to be in order. In accordance with Proper Practices, the Responsible Financial Officer ensures that the accounting records contain entries from day to day of all sums of money received.
	Is income reported to full Council?	Council has ensured that in accordance with its own Standing Order 17c, all income received by the parish council is reported as part of the quarterly Financial Reports submitted by the RFO.
	Does the Precept recorded agree to the Council Tax Authority's notification?	The council received precept of £28,000 during the year.  <i>Comment: Evidence was provided showing a full audit trail from Precept being discussed and approved at the meeting of 8<sup>th</sup> January 2019, served on the Charging Authority to receipt of same in the Council's Bank Account.</i>

	If appropriate, are CIL Reporting Schedules in accordance with the Community Infrastructure Levy Regulations 2010?	Council received CIL funds in the year under review totalling £2,491.27. In accordance with the 2010 Regulations, the Council having received a proportion of CIL funds has ensured that retained balances are transferred into the Earmarked Reserve specifically allocated. Council has complied with its duty to produce an annual report that details the amount of CIL funds received and spent and is aware that the report should be uploaded onto its website by 31 <sup>st</sup> December.
<b>7. Petty Cash</b>	Is a petty cash in operation?	A petty cash system is not operated by the parish council.
	If so, is there an adequate control system in place.	All expenses claimed are approved by full council with supporting paperwork in place.
<b>8. Payroll controls</b>	Do all employees have contracts of employment?	Council had 4 employees on its payroll at the period end of 31 <sup>st</sup> March 2020. Employment contracts were not reviewed during the internal audit.
	Are arrangements in place for authorising of the payroll and payments by the Council?  Verifying the process for agreeing rates of pay to be applied.	All salary payments are authorised by full council  <i>Comment: in accordance with Proper Practices, Council has ensured that the remuneration payable to all employees has been approved in advance by the Council.</i>
	Do salary payments include deductions for PAYE/NIC?  Is PAYE/NIC paid promptly to HMRC?	The payroll function is operated in accordance with HM Revenue and Customs guidelines.  <i>Comment: there are suitable payroll arrangements in place which ensures the accuracy and legitimacy of payments of salaries and wages, and associated liabilities and as such the Council has complied with its duties under employment legislation.</i>
	Is there evidence that the Council is aware of its pension responsibilities? Are pension payments in operation?	Council is aware of its pension responsibilities and has set up a NEST Pension Scheme. There are currently no members in that scheme and as such no pension contributions were due for the year under review.  <i>Comment: Council has shown awareness of its duties under the duties under employment legislation and has met its pension obligations.</i>

<b>9. Asset control</b>	Verifying the Council maintains an Asset Register in accordance with proper practises	The Asset Register as approved by full Council at which the Annual Governance and Accountability Return (AGAR) was signed is stated at £72,086.29.  <i>Comment: Council is mindful of the guidance within the Governance and Accountability for Smaller Authorities in England March 2019 on the valuation of its assets and has ensured that where the acquisition value of the asset at the time of first recording is used, that method of valuation is consistently applied and if/where amended, it will need to publish and provide explanations in changes in value to any previously recorded assets.</i>
	Verifying that the Asset Register is reviewed annually	The Asset Register value has been stated on the AGAR which was signed off by the Council at a meeting of 13 <sup>th</sup> May 2020.
	Cross checking of Insurance cover	A number of items as listed under the Asset Register were reviewed against items under insurance and cover was deemed to be appropriate. Content Items (other property) are generic under the All Risks Category and have been given an insurance value in accordance with the policy operated by the insurance company.
<b>10. Bank reconciliation</b>	Regularly completed and reconciled with cash book	Bank reconciliations are completed on a regular basis and reconcile with the cash sheets.  <i>Comment: the Council, as evidence of good financial practice, has appointed the Chair to verify the bank reconciliations as carried out by the RFO. This not only safeguards the Responsible Financial Officer but also fulfils an internal control objective.</i>
	Confirm bank balances agree with bank statements	Bank balances agree with period end statements and as at 31 <sup>st</sup> March 2020 stand at: £40,797.44 across all accounts held by the council.  <b>Recommendation: following a last minute adjustment to the final accounts to account for bank interest, the bank balances on the AGAR will need to be restated to read 40797 (40785 currently) - see 11 below.</b>
	Regular reporting of bank balances at council meetings	Overall, there is regular reporting of bank balances within the reports submitted to Council. The RFO has ensured that the bank reconciliation is part of the key tools for management as it assists

		with the regular monitoring of cash flows which aids decision-making, particularly when there are competing priorities.
<b>11. Year-end procedures</b>	Appropriate accounting procedures used	Accounts are produced on an income and expenditure basis. All were found to be in order.
	Financial trail from records to presented accounts	There is an underlying financial trail from financial records to the accounts produced. Debtors and creditors have been correctly recorded. Council has debtors due of £544.46 which is the recoverable VAT at year-end.
	Has the appropriate end of year AGAR documents been completed?	As Council is a smaller authority with gross income and expenditure exceeding £25,000 it has completed Part 3 of the AGAR which was signed at the time of internal audit.  <b>Recommendations: it is suggested that the Accounting Statements are revisited prior to submission to the external auditors as the income at Box 3 is incorrectly stated and should read 3631. This will therefore mean that Box 7 should be amended to read 41341. As stated above the bank balance for the year ending 31<sup>st</sup> March 2020 equals 40797 and Box 8 should be amended to reflect this figure. These amendments, for the year 2019-2020, must be reported back to full Council for formal approval and resigned prior to submission to the External Auditor.</b>
	Where an authority certified itself exempt in 2018/19, did it met the exemption criteria and correctly declared itself exempt?	As the Parish Council had gross income and expenditure exceeding £25,000 it was not able to declare itself exempt from a limited assurance review.
	During the Summer 2019 did the smaller authority demonstrate that it correctly provided for the exercise of public right as required by the Accounts and Audit Regulations?	It was confirmed to the internal auditor that the exercise of public rights for the period ending 31 <sup>st</sup> March 2019 were 01.0.19 - 09.08.19 and that these were advertised on the Council's noticeboards but not on the public website used by the Council.  <i>Comment: to have been able to answer in the affirmative to Assertion 4 of the Annual Governance Statement Council should ensure that it follows the instructions on Page 1 of the AGAR which states that information relating to the Notice of the period for the exercise of public rights must be published on a publicly accessible website (Accounts and Audit Regulations 2015).</i>

	Have the publication requirements been met in accordance with the Audit & Accounts Regulations of 2015	<p>The Council has partially complied with the requirements of the Accounts and Audit Regulations 2015 for smaller authorities with income and expenditure exceeding £25,000 but not exceeding £6.5 million for the year ending 31<sup>st</sup> March 2019 and published the following on a public website:</p> <p>Section 1 – Annual Governance Statement of the AGAR  Section 2 – Annual Accounting Statements of the AGAR  Section 3 – External Audit Report and Certificate.  The Annual Internal Audit Report (written)</p> <p><i>Comment: the following were not published on the Council's website: Notice of the period for the exercise of public rights. Council should also note that the comment on Page 1 of the AGAR with regards to best practice and the publishing of the Annual Internal Audit Report from the AGAR, page 3.</i></p>
<b>12. Internal audit for year ending 31 March 2019</b>	Verifying that the previous internal audit reports have been considered by the Council	The Internal Auditor's Report for the year ending 31 <sup>st</sup> March 2019 was received and noted at the meeting of 10 <sup>th</sup> July 2019.
	Verifying that appropriate action has been taken regarding recommendations raised in reports from Internal Audit	<p>The following recommendations were raised in the report from the internal audit for the year ending 31.03.19:</p> <ol style="list-style-type: none"> <li>1. Review Standing Orders with reference to the 2018 Model produced by NALC - completed</li> <li>2. Retain evidence as to who authorised on-line payments - completed</li> <li>3. Adopt internal controls for on-line payments - <b>outstanding</b></li> <li>4. Budget and precept setting to be held in a public meeting - <b>outstanding</b></li> <li>5. As per Proper Practices review the holding of general reserves - completed</li> </ol>
	Confirmation of appointment of Internal Auditor	The appointment of SALC to act as the Parish Council's Internal Auditors was discussed at a meeting of 15 <sup>th</sup> January 2020.
<b>13. External audit for the year ending 31 March 2019</b>	Verifying that the external audit report has been considered by the Council	Council considered and accepted the External Audit Report and Certificate at its meeting of 9 <sup>th</sup> October 2019 following the limited assurance review undertaken by the External Auditors.
	Verifying that appropriate action has been taken regarding recommendations raised in reports from External Audit	The following matters were brought to the attention of the Council: In the completion of the Annual Internal Audit Report, and

		<p>their detailed report, the internal auditor has drawn attention to weaknesses in relation to internal controls including electronic payments and has made a number of recommendations in different areas. The smaller authority must ensure that action is taken to address these in a timely manner. She has also drawn attention to the fact that the budget and precept are set 'in camera' and we note that the AGAR was approved 'in camera'; this is a most unusual practice for which no explanation has been given.</p> <p><i>Comment: Council should note that in accordance with the Accounts and Audit Regulations 2015, as a smaller authority with either income or expenditure exceeding £25,000 but not exceeding £6.5 million, it should not only publish on a public website Sections 1, 2 and 3 from the AGAR but it should also publish the Notice of the Conclusion of the Audit.</i></p>
<b>14. Additional Comments</b>	Annual meeting - held in accordance with legislation	The Annual Meeting of the Parish Council was held on 15 <sup>th</sup> May 2019 with the first item on the agenda being the election of the Chairman in accordance with the Local Government Act of 1972 15(1).
	Correct identification of trustee responsibilities	The Parish Council act as sole trustee for the New Orford Town Trust (Registered Charity 10537290) and is Custodian Trustee for the Orford Recreation Trust (304804).
	Verification that the applicable Transparency Code has been correctly applied and information is published in accordance with current legislation	<p>Councils with income over £25,000 but under £200,000 will be expected (but are not legally required to do so) to follow the Local Government Transparency Code 2015 (turnover exceeding £200,000).</p> <p><i>Comment: To ensure compliance with the requirements of the Local Government Transparency Code 2015 (turnover exceeding £200,000), the following information should be:</i></p> <p><i>Publish quarterly:</i></p> <p><i>Individual items of expenditure that exceed £500</i></p> <p><i>Government Procurement Card transactions</i></p> <p><i>Invitations to tender for contracts over £5,000</i></p> <p><i>Details of contracts that exceed £5,000</i></p>

		<i>Publish annually: Details of all land and building assets Grants to Voluntary, Community and Social Enterprise Organisations</i>
	Verifying that the council is registered with the ICO	The Council is correctly registered with the Information Commissioner's Office (ICO) as a Data Controller in accordance with the Data Protection Legislation. Registration No. ZA255291 refers.
	Verifying that the Council is compliant with the General Data Protection Regulation requirements	Council has taken steps to ensure compliancy with the GDPR requirements and has produced a suite of policies to provide evidence of compliance with and understanding of the legislation.

Signed: *T S Waples*

Date of Internal Audit: 28.06.2020

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On behalf of Suffolk Association of Local Councils