

**INTERNAL AUDIT REPORT  
KINGSMEAD PARISH COUNCIL  
2019/20**

The internal audit of Kingsmead Parish Council was carried out by undertaking the following tests as specified 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.

**JDH Business Services Limited**

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	<b>ISSUE</b>	<b>RECOMMENDATION</b>	<b>FOLLOW UP</b>
1	The accounts in the AGAR annual return are incorrect and do not agree to RBS ledger. The AGAR accounts cast to £34523, whereas the RBS ledger records net balances carried forward as £34325. The error is due to an misstatement of payments in the AGAR accounts.	<i>The AGAR accounts should be amended for errors to ensure agreement with the RBS ledger.</i>	<b>Clerk provided the correct final version of the AGAR. Issue resolved.</b>
2	The 2018/19 AGAR accounts have been amended.	<i>The word 'RESTATED' should be written at the top of the 2018/19 comparatives in the AGAR accounts.</i>	
3	<p>The updated Financial Regulations refer in section 10.) to a Purchase Order (PO) system (which would also clearly evidence the authority to spend). However, no PO system is currently in place.</p> <p>Section 4.) of the Financial Regulations for Authority to Spend require a Chair and the Clerk to certify expenditure up to £500 and a duly delegated committee of the council for items over £500 and less than £5000. However, it is not clear from our internal audit sample testing that the Authority to Spend requirements are applied to all expenditure.</p>	<i>The council should establish a sequential Purchase Order system as required by the updated Financial Regulations and ensure Purchase Orders for expenditure up to £500 are signed by a Chair and clerk, and expenditure between £500 and £5000 include the minute reference on the PO evidencing the committee authority to spend.</i>	

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4	A payment card is utilised by the council and the Financial Regulations (FRs) authorise this. However, the FRs do not set a transaction limit and a total monthly limit on the use of the card.	<i>The council should set a transaction limit and maximum monthly limit of the payment card in the FRs.</i>	
5	The council received an invoice for a supply with a VAT charge included but no VAT number. No VAT number was forthcoming from the supplier. The council has not claimed the VAT and has reported the issue to HMRC.	<i>In addition to querying the absence of a VAT number on an invoice, the council should also ensure the VAT number of suppliers is validated using the online verification system.</i>	
6	The council has established a significant number of working groups. A working group cannot make a decision or commit the council to expenditure.	<i>The Council should review the terms of reference for all working groups and ensure they stipulate that the group cannot make decisions, cannot commit the council to expenditure, and are advisory only.</i>	
<b>2018/19 internal audit</b>			
1	Strict budgetary control during the year resulted in reserves increasing from £4142 to £12642, which is still a very low level. The council has taken concerted action to increase reserves over the medium term by increasing the precept by £15000 for each	<i>The council need to adhere to the medium term plan to replenish general reserves to adequate levels.</i>	<b>2019/20 follow up – year end balances have increased to £34325 so the council has made progress in replenishing general reserves to satisfactory levels. Sector guidance is that general reserves should be a minimum of 25% of the</b>

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	of the next three financial years to replenish general reserves.		<b>precept level which for 2019/20 is a minimum level of £46250.</b>
2	The AGAR Annual Return internal audit certificate had been completed by the council. This is not appropriate – this certificate has to be completed by the independent internal auditor.	<i>The internal audit certificate should not be provided to the internal auditor pre-completed in future</i>	<b>Implemented</b>
3	The June and December 2018 payment authorisation schedules had been signed by two members, but not dated	<i>Authorisation schedules should be dated when they are signed to evidence the payments were authorised in advance of them being made</i>	<b>Implemented</b>
4	The year end VAT return from the RBS accounting system shows a reclaim amount of -£126.80, primarily due to previous overclaim errors.	<i>VAT should be completely and accurately recorded in the council accounting system</i>	<b>Implemented</b>

**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

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	<p>- 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 date of the Notice of Public Rights on the website for 2018/19</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>		
	<b>2017/18 internal audit</b>		
1	<p>We were unable to identify the following payments on the pre-authorisation lists signed by 2 councillors:</p> <p>April 2018 - £1416 CADDIS, £278.99 to clerk for gate, £60 to clerk for website. We could not identify an invoice for the gate supply.</p> <p>May 2018 - £1752.84 Noticeboard Online</p> <p>July – Payments for £816 and £696 to Caddis. Two payments to Jims Mowing for £475</p> <p>August – We could not identify a signed pre-authorisation list for any of the</p>	<p><i>The internal control that the council has established which is that all payments should be included on pre-authorisation lists and signed by 2 members should be complied with throughout the financial year.</i></p>	<p><b>Payments testing for authorisation signatures satisfactory in 2018/19</b></p>

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	<p>£21316.05 payments</p> <p>September – payments of £60 NALC, £25 CHALC, £25.99 Anti-virus software</p> <p>January – payment of £108 to Bailey Audio Systems</p> <p>The clerk confirmed that July/August payments were approved retrospectively on 16/10/17 following a request to cross reference payments to invoice numbers and that payments can be agreed by the Clerk and Chair up to £500 per the Financial Regulations.</p>		
2	<p>The level of reserves remaining at the year end was very low at £4142 and significant cash management had to be undertaken to ensure reserves remained positive. Review of the minutes identified that a 2018/19 budget was set at £168,604 with a precept of £137, 570 (with an anticipated VAT return of £30k) so no plan was in place to replenish council reserves.</p> <p>The clerk has informed us that the budget has since been revisited and has now been reduced to £145,000 (to be approved by</p>	<p><i>The council should establish a medium term financial plan, including reviewing the adequacy of the precept levels, to replenish general reserves to adequate levels and to reflect the fact that the area of land being maintained is resulting in significant unforeseen expenditure. Sector guidance is that general reserves should be maintained between 3months and 12 months of the precept.</i></p> <p><i>Monthly budgetary control information should show the projected outturn for the</i></p>	<b>See 2018/19 issues</b>

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	<p>full council on 21<sup>st</sup> May 2018).</p> <p>The monthly reported budget information does not state the projected outturn to enable the council to take proactive budgetary control decisions and the clerk has noted that this would be difficult to project due the area of land maintained and the council are regularly dealing with unforeseen events in relation to woodland and amenity land maintenance. However, it is for these precise reasons that the council should have an adequate general reserve to deal with contingencies and unforeseen events. Sector guidance is that general reserves should be between 3 months and 12 months of the precept level.</p> <p>The December minutes discuss the budget and note that projected further costs (and VAT income) for the financial year would result in cash balances on 31<sup>st</sup> March 2018 of £26,228.15 VAT reclaim. The clerk advised council at the time that other than essential works and contract obligations no further expenditure is authorised for the period 1/01/2018 to 31/03/2018. The actual cash balances remaining at the year</p>	<p><i>financial year.</i></p> <p><i>Full account of the levels of reserves should taken when setting the precept and associated budget.</i></p>	

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	end were £4142.		
3	<p>Data Protection Law will change significantly on May 25<sup>th</sup> 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>	<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></p>	<b>Ongoing implementation</b>
<b>2016/17 audit</b>			
1	<p>The fixed assets register additions dated in 2016/17 of £9192 did not agree to movement in the fixed assets figure of £27450 disclosed in the annual return.</p>	<p><i>The Practitioners' Guide recommends 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</i></p>	<b>Implemented</b>



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		<i>the Annual Return for 2016/17 which should equate to the value for fixed assets disclosed in the 2015/16 annual return plus additions dated in 2016/17 in the asset register at cost, less disposals.</i>	
2	The payments schedule for August 2016 has not been approved in the minutes. This is particularly important as the clerk and Chair were given delegated authority to make online payments in August.	<i>The August payments schedule should be retrospectively approved by Council.  All payments made should be approved by Council.</i>	<b>See 2017/18 issues</b>
3	The Council has implemented online banking. The Financial Regulations that applied to 2016/17 contained no access controls or controls to prevent online banking fraud including supplier fraud.	<i>The council should ensure Financial Regulations (FRs) are updated in accordance with the NALC model FRs for access controls, checks of current supplier bank data, new supplier bank data, and procedures to be followed where a current supplier changes bank account.</i>	<b>Implemented</b>
4	The Council awarded the contract for the Land Maintenance tender to WAP Lawton & Son Ltd; there were two other tenders shortlisted. No tender documents were provided for audit.	<i>Please ensure tenders are provided for internal audit for all material contracts  Whilst the Standing Orders of the Council state the Council is not bound to accept the lowest tender, it is good practice for the Council to state the reasons for the awarding of the tender when it has not been awarded to the lowest tender, if this</i>	<b>Implemented</b>

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		<i>was the case with this particular tender process.</i>	
5	The minutes do not record the council receiving regular budgetary control information and reviewing significant variances	<i>Minutes should evidence that there is consideration of regular reports of actual expenditure and income to date against the budget</i>	<b>See 2017/18 issues</b>