INTERNAL AUDITOR'S SUMMARY AND RECOMMENDATIONS FOR CLYST HONITON PC resulting from Internal Audit Year Ending 31st March 2021

INTERNAL CONTROL OBJECTIVE (A) Appropriate Accounting Records have been properly kept throughout the financial year – *I have answered* ***YES*** *for the following reasons*

- The accounting records contain entries from day to day of all sums of money received and expended by the council and the matters to which its receipts and payments relate (Assertion 1)
- The accounting records contain measures to enable the prevention and detection of inaccuracies, fraud and reconstruction of lost records (Assertion1)
- The accounting system is regularly verified against a bank statement and agrees with the supporting invoices or receipts (Assertion 1)
- The cash book is maintained and up to date, and arithmetic is correct
- Purchases are supported by invoices but due to pandemic restrictions, have not been signed by Councillors. The Clerk has arrangements in place for the paperwork to be signed off at year-end.
- The power to approve council actions or a financial expenditure to be incurred by the Council throughout the financial year is still not being recorded and evidenced in the Minutes on the financial schedule resolved by Cllrs
- Payments are correctly allocated to the appropriate budget head in the cash book and the budget provisions identified in the financial schedule resolved by Cllrs
- The Annual Budget setting is recorded in the Minutes, however the budget document referred to is not annexed to the minutes on the website so the document is not evidenced.
- The setting of the precept amount following approval of the budget is correctly minuted.
- Regular bank reconciliations are produced for review by the council but are not annexed to the Minutes on the website

RECOMMENDATION

- **Outstanding recommendations from internal audit 2019/20 – item 9 - authorities power to act/incur expenditure and the approved budget provision to be minuted so that the council can evidence they were aware of their powers to act and the expenditure was within budgeted requirements.**
- **All documents referenced to in the Minutes are uploaded to the website or attached to the published Minutes on the website. In particular the financial statement and bank reconciliation should form an annex to the Minutes themselves.**

INTERNAL CONTROL OBJECTIVE (B) This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for – *I have answered* ***YES*** *for the following reasons*

- The council have robust arrangements in place for handling its responsibilities with regards to VAT with evidence of VAT recording and reclaims throughout the year (Assertion 2)
- The council carried out a review of the effectiveness of the system of internal control during the financial year prior to approval of the Annual Governance Statement (Assertion 2)
- All payments were processed in accordance with the councils Financial Regulations (Assertion 2)
- The council **have not** evidenced in the Minutes or on any relevant paperwork/cashbook, that any activities undertaken fall within the councils' powers to act and the decisions of the council were made **after the members understood** the power(s) they were exercising in the context of their decision making (Assertion 3)

- It would be unreasonable for a council to make a decision when it does not understand what legal power they are exercising or whether the power is current, applicable and correct (Assertion 3). **I am satisfied that whilst the Power to act is not Minuted or recorded, the Council have acted within their powers for all activities and the RFO has verified the lawful nature of all activities in accordance with Financial Regulations. Recommendations have been made**
- The General Power of Competence is correctly adopted and understood and exercised in accordance with The Parish Councils (General Power of competence) (Prescribed Conditions) Order 2012 (Assertion 3)
- The Councils policies have been reviewed to ensure compliance with statutory regulations and applicable proper practices and that new requirements or changes to existing ones are reported to members and applied (Assertion 3)
- The Council have not taken any decision during the year, or authorised any action that exceeds its powers or contravenes any law, regulations or proper practices (Assertion 3)
- All expenditure is in accordance with Standing Orders and Financial Regulations.

RECOMMENDATION

- **Outstanding recommendations from internal audit 2019/20 – item 9 - authorities power to act/incur expenditure and the approved budget provision is not minuted. When Councillors are asked to consider and approve incurring an expenditure, the agenda and the Minutes should record the Statutory Power and budget provision as part of the considerations/decision making process/resolution.**
  Financial Regulations 5.3 *requires that no expenditure may be 'authorised' that will exceed the amount provided in the budget for that class of expenditure*, (therefore, in order to satisfy this regulation, the budget provision should be identified and considered prior to the resolution to approve the council to incur the expenditure)
  Financial Regulations 7.5 – *RFO shall verify the lawful nature of any single purchase and ensure that the authorising minutes report the legal power being used [for items not forming a regular payment mandate authorised at the annual parish council meeting]*
- **Clyst Honiton PC Financial Regulations 10.9 currently state that "no cash float" will be maintained. The Council commenced using petty cash during the financial year. Financial Regulations should be updated to include provision and policy for the permitted use of petty cash, incorporating the method of recording expenditure and reimbursement, the requirement for receipts, accounting for VAT, responsibilities for reconciliations, safe storage of petty cash, and Minuting of all petty cash payments and reimbursements.**

INTERNAL CONTROL OBJECTIVE (C) This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these – *I have answered **YES** for the following reasons*

- The Council have in placed Standing Orders and Financial Regulations governing how it operates (Assertion 2)
- Financial Regulations incorporate provisions for securing competition and regulating the manner in which tenders are invited (Assertion 2)
- Practical and resilient arrangements are in place covering how the council orders good and services, incurs liabilities, manages debtors, makes payments and handles receipts (Assertion 2)
- The Council have appointed an RFO to oversee its financial affairs (Assertion 2)
- Controls over money are embedded in Standing Orders and Financial Regulations (Assertion 2)
- The Council have reviewed and approved every bank mandate/amendment and list of authorised signatories for each account (Assertion 2) (carried out in accounting statement produced by Clerk year end 2020)
- The council carried out a review of the effectiveness of the system of internal control during the financial year prior to approval of the Annual Governance Statement (Assertion 2), during October 2020

- The council identified, assessed and recorded risks associated with actions and decisions it has taken or considered taking during the year that could have financial or reputational consequences (Assertion 5). The council reviewed is risk management policy in November 2020, and I saw no evidence of any contravention of the risk policy or any council decisions that affected the risk policy.
- The council have addressed the identified risks by ensuring that appropriate measures are in place to mitigate and manage risk (Internal Controls/insurance) (Assertion 5)
- A review of the effectiveness of internal audit was carried out in November 2020
- The council have put in place mandatory policies and schemes to ensure they are complying with all required Legislation as an employer and local authority

RECOMMENDATION

- **The Councils Risk Assessment should be updated to include provision and policy for the permitted use of petty cash**

INTERNAL CONTROL OBJECTIVE (D) The precept or rates requirements resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate - *I have answered **YES** for the following reasons*

- The Annual Budget setting is recorded in the Minutes and within timescales of Financial Regulations, however the total budget figure and approved budget document is not referenced or attached to or within the minutes published on the website for verification. (Assertion 1)
- The council have monitored actual performance against its budget during the year (Assertion 1), however, the actual comparison reports are not attached to or included in the minutes published on the website
- Accounting records and supporting documents are in place by RFO (Assertion 1)
- The RFO has maintained up to date accounting records throughout the year, together will ALL necessary supporting information (Assertion 1)
  Clyst Honiton Parish Council **do not** have a General Reserves policy (Assertion 1). This is an outstanding item from Internal Audit Recommendations 2019/20, item 12
- In December 2020, the council reviewed the level and purpose of all Earmarked Reserves as part of its budget setting (Assertion 1)
- General Reserves are within the appropriate minimum level of between 3- and 12-months net revenue expenditure, sitting at just short of 100% of precept at 31/3/21 (Assertion 1)
- A ratified copy of the approved budget proposal document was produced for validity and cross reference and validating that the budget the council are working to is the budget approved.
- Budget monitoring reports have been produced to the council and Minuted as approved, however, this report is not included in or attached to the Minutes published on the website for reference

RECOMMENDATION

- **The budget comparison, year-to-date reports, approved in the Minutes throughout the year be published within or attached to the Minutes on the website**
- **Outstanding internal audit recommendation 12 from 2019/20, the council adopt a general reserves policy to enable the reserves of the council to be justified and transparent**

INTERNAL CONTROL OBJECTIVE (E) Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT appropriated accounted for - *I have answered **YES** for the following reasons*

- All income is supported by a receipt and a full audit trail is provided;

- Receipts are being reported to the Council as part of the financial schedule
- income is reported on the meeting financial schedule resolved by members
- VAT is correctly accounted for and reclaimed

INTERNAL CONTROL OBJECTIVE (F) – Petty cash payments were properly supported by receipts; all petty cash expenditure was approved and VAT appropriately accounted for - *I have answered **YES** for the following reasons*

- The councils insurance fidelity guarantee cover is adequate for petty cash arrangements (Assertion 2)
- Petty cash is not used when an official order is more appropriate (Assertion 2)
- The float of £100.00 is adequate in size to meet small items of expenditure and does require reimbursement more than once per month (Assertion 2)
- The council approved the initial use of £100.00 petty cash October 2020, however the review of Financial Regulations to accompany the newly agreed use of petty cash was not carried out in the financial year and the Council do not have an approved petty cash procedure.
- A £70 reimbursement to petty cash is minuted in December 2020 but no prior petty cash receipts have been Minuted to support the expenditure and subsequent reimbursement
- Invoices incurred for petty cash expenditure do not form part of the financial schedule presented at the next available meeting of the Council in accordance with Financial Regulation 6.7 – Clerks financial delegations - All authority to procure will be documented either through council Minutes or by the Clerk under delegated actions with the monthly report to council meetings
- Petty cash receipts dated 15/9/20 x2 have been provided to the internal auditor totalling £68.60, which do not support the £70.00 petty cash reimbursement in December 2020 resulting in a petty cash balance of £101.40 which is above that agreed by the Council
- Adequate records of receipts and payments are maintained for the cash float, including a VAT analysis and regular reconciliation performed with such regularity that successful reconciliation can be reported to each meeting (Assertion 2)

RECOMMENDATION

- **Financial Regulations and the Councils Risk Assessment should be updated to include provision and policy for the permitted use of petty cash, incorporating the method of recording expenditure and reimbursement, the requirement for receipts, accounting for VAT, RFO and members responsibilities for reconciliations, safe storage of petty cash, and Minuting of all petty cash payments and reimbursements at the next available council meeting.**

INTERNAL CONTROL OBJECTIVE (G) Salaries to employees and allowances to members were paid in accordance with this authority’s approvals, and PAYE and NI requirements were properly applied - *I have answered **YES** for the following reasons*

- Renumeration payable to the clerk is approved in advance by the council and presented on the financial schedule as ‘paid’ (Assertion 2)
- Robust payroll arrangements cover the accuracy and legitimacy of payments of salaries and wages and associated IT/NIC liabilities (Assertion 2)
- The council has complied with its duties under employment legislation and has met its pension obligations (Assertion 2)
- Employers Liability insurance cover is adequate (Assertion 2)
- Payroll is outsourced

- Overtime and expenses are correctly presented to the council for approval prior to payment

RECOMMENDATION

- **The Clerks payslip is currently used as an invoice. This is contrary Financial Regulations 11.4. An employee's payslip is confidential as it contains personal data and is not open to inspection or review. A separate payment 'slip' should be used with the basic details of the amount and purpose of the payment.**

INTERNAL CONTROL OBJECTIVE (H) Asset and investments registers were complete and accurate and properly maintained - *I have answered **YES** for the following reasons*

- The councils assets are secured, properly maintained and efficiently managed with a report presented at each full council meeting. (Assertion 2)
- The council has appropriate procedures to be followed for any asset disposal and for the use of any resulting capital receipt (Assertion 2)
- The council has an asset register containing the appropriate information (Assertion 2)
- The total value of the councils assets recorded on the asset register as at 31 March is as reported on Line 9 of the AGAR (Assertion 2)
- The Asset register was approved by full council
- The Council have an adequate Asset maintenance budget

INTERNAL CONTROL OBJECTIVE (I) Periodic bank account reconciliations were properly carried out during the year - *I have answered **YES** for the following reasons*

- The RFO produces a bank reconciliation for every meeting which is Minuted (Assertion 1), however, the bank reconciliation itself is not included in or attached to the Minutes published on the website for transparency and reference
- Bank reconciliation produced by RFO is scrutinised by members (Assertion 1)
- The year-end bank reconciliation has been checked against the yearend bank statement and is accurate

RECOMMENDATION

- **The bank reconciliation approved in the Minutes throughout the year be published within or attached to the Minutes on the website**

INTERNAL CONTROL OBJECTIVE (J) Accounting statements prepared during the year were prepared on the correct accounting basis, agreed to the cash book, supported by an adequate audit trail from underlying records – *I have answered **YES** for the following reasons*

- Arrangements are in place to enable preparation of an accurate and timely statement of accounts in compliance with statutory obligations and proper practices (Assertion 1)
- All invoices were supported with a full audit trail and cross referenced with the cash book, financial schedule presented to meetings and bank statements
- Payments and receipts basis is being correctly applied for the turnover of the council.
- The cashbook reconciled with the audit reports presented throughout the year
- The Council have adopted an internal control policy, and this was reviewed prior to year-end

INTERNAL CONTROL OBJECTIVE (K) If the authority certified itself as exempt from a limited assurance review in 2019/20, it met the exemption criteria and correctly declared itself exempt - *I have answered* **NOT APPLICABLE** *for the following reasons*

- The Councils turnover was in excess of £25,000 for 2020/21 and a limited assurance review was required

INTERNAL CONTROL OBJECTIVE (L) The authority publishes information on a website/webpage, up to date at the time of the internal audit, in accordance with the Transparency Code for smaller authorities - *I have answered **NOT APPLICABLE** for the following reasons*

- Turnover exceeds £25,000 therefore Clyst Honiton do not need to comply with the Transparency Code for Smaller Authorities

INTERNAL CONTROL OBJECTIVE (M) The authority, during the previous year (2019-20) correctly provided for the exercise of public rights as required by the Accounts and Audit Regulations – *I have answered **YES** for the following reasons*

- The council provided for the exercise of public rights (Assertion 4)
- The RFO published on the website, sections 1 and 2 of AGAR (Assertion 4)
- The RFO published on the website a declaration that the statements of accounts is unaudited and statement including period for the exercise of public rights (Assertion 4)
- The statement of Accounts have been signed by the RFO and approved by the council with Minutes reference (Assertion 4)
- A notice of the conclusion of the external auditors review of the AGAR and relevant accompanying information published on the website (Assertion 4)

INTERNAL CONTROL OBJECTIVE (N) The authority has complied with the publication requirements for 2019/20 AGAR – *I have answered **YES** for the following reasons*

- The internal audit report was completed, signed and dated by the internal auditor by 1 September 2020
- The Annual Governance Statement was completed with an explanation of any 'No' responses and a description of how the authority will address the weaknesses identified, formally approved by the council, with the Minute reference and required dates and signatures of the Chair and Clerk
- The Accounting statements were completed, signed and dated by the RFO and subsequently approved at a Council meeting and the minute reference and chair signature inserted as required
- The date for the exercise of public rights commencement was correctly dated and published along with the declaration that the accounts are as yet unaudited
- The annual governance statement, accounting statements, bank reconciliation, explanation of significant variances in the accounting statements and annual internal audit report have all been sent to the External Auditor and published on the councils website
- The completed annual governance
- The external auditors report/conclusion of audit is published

INTERNAL CONTROL OBJECTIVE (O) Trust funds (including charitable) the council met its responsibilities as a trustee *I have answered* ***NOT APPLICABLE*** *for the following reason*
• The Parish Council do not hold any Trust funds or act as a trustee
ADDITONAL COMMENTS
• Assertion 7 – the council have considered all matters brought to its attention by its external auditor and internal audit and taken corrective action as appropriate with the exception of items 9 (Council aware of its powers to act) and item 12 (adoption of a general reserves policy) • Due to Social Distancing restrictions (COVID19), invoices, financial schedules, bank reconciliations, Minutes, budget reports and payroll have not been signed following approval at the respective council meeting, which is correctly recorded in the Minutes. Once social distancing allows, this paperwork will be checked and signed by the appropriate nominated Councillors. • **I would support Clyst Honiton Parish Council answering positively to each Assertion of the 2020/21 AGAR and commend them and the Clerk for an excellent audit and work carried out during the financial year to work through the internal audit recommendations for 2019/20.**

	(Signed)	(Print)
Audit Carried Out By	Melanie Bickell	MELANIE BICKELL
Audit Type (delete as appropriate)	~~INTERIM~~	ANNUAL
Date		29th April 2021