

End-of-Year Report to Hemsby Parish Council

The Internal Audit of the Accounts for the year ending 31 March 2018

1. Introduction and Summary

1.1 The Internal Auditor attended the Parish Council's office on Friday 27 April 2018 to undertake the End-of-Year Internal Audit. Mrs Elaine Galer, the Parish Clerk and Responsible Financial Officer (RFO) was in attendance. The Internal Audit Plan and Terms of Reference had been agreed with the Council.

1.2 At the time of the previous Interim Internal Audit review, on 23 February 2018, a significant amount of the Council's financial and other records had still to be released by Mrs Shirley Weymouth, the former Clerk/RFO, who left the Council as at 31 December 2017. As a result, the new Clerk/RFO, Mrs Elaine Galer, who took up her duties from 1 January 2018, had been unable to carry out some key financial duties and fully meet the financial responsibilities placed upon her by the Council.

1.3 A significant amount of documentation was later provided to Mrs Galer, who was then able to make progress in completing the key tasks required to be undertaken before the End-of-Year, 31 March 2018.

1.4 Since 1 January 2018, Mrs Galer, as Clerk/RFO, has worked energetically to ensure that the Council can achieve a platform from which it can deliver and maintain strong governance and effective financial management and control.

1.5 From the financial information and documentation constructed by the Clerk/RFO it was possible to arrive at the following accounting information for the 2017/18 year ending 31 March 2018:

1.6 The Accounts for the year confirm the following:

	£
<i>Balance brought forward as at 1 April 2017:</i>	41,027.71
<i>Plus Total Receipts for the year 2017/18:</i>	51,988.05
<i>Less Total Payments in the year:</i>	54,520.95
<i>Balance carried forward as at 31 March 2018:</i>	38,494.81

The Account balance of £38,494.81 as at 31 March 2018 was reconciled to the bank account statements as follows:

	£
<i>Current Account</i>	<i>4,000.00</i>
<i>Deposit Account</i>	<i>31,665.50</i>
<i>Petty Cash</i>	<i>0.45 (unchanged from 31 March 2017 - see note 1)</i>
<i>Playing Field A/C</i>	<i><u>2,828.86</u> (unchanged from 31 March 2017 – see note 2)</i>
<i>Bank/Cash Total:</i>	<i>38,494.81</i>

Note 1. The End-of-Year Accounts for the previous year (as at 31 March 2017) included a minor Petty Cash Balance of £0.45. If the Petty Cash Account is not to be used in future it is recommended that the Account should be closed during the year 2018/19 and the £0.45 paid back into the Accounts as a Receipt.

Note 2. The End-of-Year Accounts for the previous year (as at 31 March 2017) included an amount of £2,828,86 held in a Hemsby Playing Field Bank Account. No documentary evidence for this amount or any bank statements relating to the Playing Field Account was available for inspection by Internal Audit. Accordingly, the amount at the end of the previous year could not be verified. The sum held in the Playing Field Account as at 31 March 2018 should be included in the Statements above (to replace the £2,828.86 in the event of the balance having changed).

1.7 Figures to be entered into the Annual Governance and Accountability Return (AGAR) to the External Auditors were examined and the following **draft** figures agreed with the Clerk/RFO for inclusion in Section 2 Accounting Statements 2017/18 (rounded for purposes of the Return):

<i>Balances at beginning of year (1 April 2017):</i>	<i>Box 1: £41,027</i>
<i>Annual Precept 2017/18:</i>	<i>Box 2: £16,669</i>
<i>Total Other Receipts:</i>	<i>Box 3: £35,319</i>
<i>Staff Costs:</i>	<i>Box 4: £8,921</i>
<i>Loan interest/capital repayments:</i>	<i>Box 5: £0</i>
<i>All Other payments:</i>	<i>Box 6: £45,600</i>
<i>Balances carried forward (31 March 2018):</i>	<i>Box 7: £38,494</i>
<i>Total cash/short-term investments:</i>	<i>Box 8: £38,494</i>
<i>Total fixed assets:</i>	<i>Box 9: £793,063</i>
<i>Total borrowings:</i>	<i>Box 10: £0</i>

1.8 In view of the uncertainty about the bank balance/cash holdings of the Playing Field Account the above figures must be viewed as draft only until the Clerk/RFO is able to confirm the amount held in the Playing Field Account as at 31 March 2018. **The Playing Field Account Bank Statements and all other relevant documentation relating to the Playing Field Account to establish bank/cash balances as at 31 March 2018 must be provided to the Clerk/RFO as a matter of urgency.**

1.9 Sections One and Two of the AGAR should be approved and signed at the May 2018 meeting of the Council. The Internal Auditor will complete the Annual Internal Audit Report 2017/18 within the AGAR as soon as the Clerk/RFO is able to confirm the final figures to be entered into the above statement in the AGAR.

1.10 The following Internal Audit work was also carried out on the adequacy of systems of internal control in accordance with the Audit Plan. The Interim Internal Audit Review undertaken on 23 February 2018 has supported and informed this End-of-Year Audit Review. Comments and any recommendations arising from the Review are made below.

2. Proper book-keeping (examination of entries in the Cash Book, regular reconciliation of books and bank statements and supporting vouchers, invoices and receipts).

2.1 The current Clerk/RFO is maintaining a Cashbook Spreadsheet detailing payments made and income received. As no structured accounts prior to 1 January 2018 had been made available to her, it had not been possible for the present Clerk/RFO to confirm that the Cashbook up to and including 31 December 2017 had been adequately maintained and reconciled correctly to the bank statements. Accordingly, the Clerk/RFO re-constructed the Cashbook from April 2017 through to December 2017 by examining the record of receipts and payments from the bank account statements and relating each to the relevant invoices/vouchers and cheque book counterfoils. In this way the Clerk/RFO arrived at detailed Lists of Receipts and Payments and confirmed the validity of the accounting information.

2.2 Details of receipts and payments under individual subject headings were also produced in Spreadsheet format, which assisted in the comparison with budget figures and the completion of the End-of-Year Accounts. The Clerk/RFO should be commended in undertaking these tasks because such re-constructions tend to be highly challenging in terms of time and expertise required to complete successfully in a user-friendly spreadsheet format.

2.3 The Minutes of the Council meeting on 26 March 2018 noted that the new format for the Financial Statement was well received by Councillors who considered it to be much easier to understand (Minute 14 refers).

2.4 The Cashbook Spreadsheet constructed by the Clerk/RFO was found to be in good order and well presented. VAT payments are tracked and identified within the Cashbook by means of an indicator to assist future re-claims to HMRC. The Spreadsheet (which acts as a Receipts and Payments Account for the 2017/18 year) is referenced and provides a good audit trail to the Bank Statements and Cheque Book counterfoils.

2.5 The Payments system was tested through examination of a sample of transactions to verify that there is a clear audit trail from the underlying financial records to the accounts. The transactions tested had supporting invoices and vouchers in place.

2.6 The sample of Payments examined by Internal Audit included the payment of £5,437.66 to Mr Mark Witheridge on 18 December 2017 (cheque 102474) for Beach Cleaning. It is understood that the payment related to the £5,000 grant the Parish Council received from Gt. Yarmouth Borough Council for beach cleaning. At Internal Audit's request the Clerk/RFO agreed to examine the transaction to ascertain why the payment was made in one lump-sum as opposed to monthly amounts paid whilst the work was in progress.

2.7 Any donations/payments made under the Local Government Act 1972 (Section 137) should be separately identified in the Cashbook Spreadsheet as there is a limit on the total amount that is payable under this Section of the Act.

2.8 An area of concern to Internal Audit is the financial relationship between the Council and the Hemsby Playing Field Management Committee. The Constitution of the Management Committee was originally aimed to provide a good working relationship in financial terms with the Parish Council. However, the financial reporting mechanisms detailed within the Constitution appear to have lapsed. The reporting of financial information to the Council should be re-instated as a matter of urgency in order that the Council and the Clerk/RFO are able to meet their financial responsibilities in respect of the Playing Field. This includes the provision of all relevant Playing Field financial information to enable the Council to finalise its End-of-Year Accounts. Importantly, the Council is registered for VAT purposes and is responsible for accounting for both VAT inputs and VAT outputs to HMRC, including any VAT charged on relevant Playing Field activities. **It is essential that the Hemsby Playing Field Management Committee provides the Clerk/RFO with all necessary financial information and data to enable her to complete the End-of-Year Accounts for 2017/18 and for her to submit correct and complete VAT information at regular intervals to HMRC on behalf of the Council to avoid financial penalties being incurred.**

2.9 Re-claims for VAT paid have been submitted to HMRC by the Council (as a VAT Registered authority) during the year of account. The most recent claim of £1,023.58 for the VAT paid in the period 1 October 2017 to 31 December 2017 was received at bank on 7 March 2018. It should be noted that Output VAT was declared as nil because the VAT calculated and charged on Playing Field sales of goods and services had not been provided to the Clerk/RFO, a situation which may place the Council in a vulnerable position in the event of HMRC querying the details of the claim.

3. Financial regulations and Standing Orders (*examination of Financial Regulations and Standing Orders, Tenders where relevant, appropriate payment controls including acting within the legal framework with reference to Council Minutes. Identifying VAT payments and re-claims. Cheque books, paying in books and other relevant documents*).

3.1 The Council's Standing Orders and Financial Regulations were reviewed by the Council at its meeting on 19 March 2018 (Minute 15 refers). The NALC model Standing Orders and Financial Regulations are now in place, as recommended in the Interim Internal Audit Review undertaken in February 2018.

3.2 The Council is now correctly registered with the Information Commissioner's Office (ICO) as a Data Controller for the provision of council services under Data Protection legislation (Registration ZA338178, expiring 22 April 2019 refers). Data Protection assumes even greater significance this year due to the introduction of the General Data Protection Regulations (GDPR) with effect from 25 May 2018. It is likely that the GDPR will affect the way in which the Council handles its data. It is advised that the new Data Protection Regulations should form part of the Council's Risk Assessment procedures and documentation.

3.3 The Council has a Code of Conduct in place; the copy on file was dated 16 July 2012. An up-dated Code of Conduct has been published since that date. The Clerk/RFO has confirmed to the Internal Auditor that a review will take place during 2018/19 to ensure that the Code of Conduct currently being used is the most up-to-date version and, if necessary, the Council will consider and formally approve the most recent model Code.

3.4 The Council demonstrates good practice by having a number of formal policies and procedures in place, including a Child Protection Policy and a Policy regarding the Burial Ground Car Park. However, it is unclear when these policies and procedures were last reviewed. The Clerk/RFO has confirmed to the Internal Auditor that during the year 2018/19 the Council will programme a review of all its Policies and Procedures currently in force in order that they are brought up-to-date and to ensure that they fully comply with the latest legislation and regulations in force.

4. Internal Control, Governance & the Management of Risk (Review by Council of the effectiveness of internal controls, including risk assessment, and minuted accordingly)

4.1 The files held by the Clerk/RFO (together with the Council's Minutes available) revealed that the Council has a number of risk assessment documents in place and reports are provided to meetings of the Council. At its meeting on 26 March 2018 the Council noted that Risk Assessments had been received by Councillors and a one-off assessment had been completed at the Playing Field in conjunction with the Clerk. It was also noted that the Clerk had requested a copy of the RoSPA report on the play areas from Gt Yarmouth Borough Council.

4.2 The Council accordingly complied with the Accounts and Audit Regulations 2015 which require a review by the full Council at least once a year of the effectiveness of the Council's system of internal control, including the arrangements for management of risk, with the review suitably Minuted.

4.3 Whilst the Council has Risk Assessment documents in place, these should be supplemented in two areas:

- a) **The Council should ensure that a formal, detailed risk assessment in respect of Children's Play Equipment is in place and regularly reviewed. The Council should ensure that all necessary action is taken in terms of regular and frequent reviews of the equipment to identify any potential hazards, faults or failures.**
- b) **A separate Statement of Internal Controls should be constructed and approved by the Council to formalise all the internal controls in place within the Council to demonstrate that a high standard of financial administration is in operation. In this respect the Internal Auditor has provided the Clerk/RFO with a model document that can be tailored to reflect the controls in place at the Council.**

4.4 The Council's Insurance Policy with Zurich Municipal for the year ending 31 May 2018 is held on the Council's files and was discussed with the Clerk/RFO. Significant sums have been paid in the year for insurance cover for the Council's operations and

the Pavilion. A long-term agreement is in force, a 5-year Agreement which runs until 1 June 2021. The Clerk/RFO is currently examining details of the cover with Zurich in order that the Council can be satisfied that it is not paying excessive insurance premium costs and that cover is appropriate for the Council's needs. The Clerk/RFO confirmed that the review will include a comparison between the items listed in the Asset Register and those included within the schedules of the Council's Insurance Policy, alongside current valuations for insurance purposes.

4.5 The Public Liability cover stands at £10m and the Fidelity Guarantee insurance cover stands at £100,000, which meets the current recommended guidelines which provide that the cover should be at least the sum of the year-end balances plus 50% of the precept/grants.

5. Budgetary controls *(Verification of the budgetary process with reference to Council Minutes and supporting documents)*

5.1 The Council's Minutes confirm that the following Precepts were agreed:

Precept 2017/18: £16,999

Precept 2018/19: £17,000

5.2 The Minutes of the Council meeting on 20 November 2017 confirmed that the Council considered and approved a Precept of £17,000 for the year 2018/19. It was not clear from the Minutes of that meeting whether a detailed Budget Paper was presented to Council for consideration. In the absence of any budget details for 2018/19 being available, the Clerk/RFO constructed a detailed budget in accordance with good practice to assist the Council maintain effective financial and budgetary control during 2018/19. With a detailed Budget document in place, the estimated amounts can be used effectively by the Council for budgetary control purposes.

5.3 It is good financial practice for a Council to receive regular reports of the income and expenditure in the year compared against the budget. In this way, all Councillors will have the opportunity to receive sufficient information to make informed decisions and, specifically, the Council will be in a position to identify any significant variations from budget and promptly take any remedial action as necessary.

6. Income controls *(Regarding Precept and other income, including credit control mechanisms)*

6.1 The Income system employed by the present Clerk/RFO was tested through examination of a sample of transactions to verify that there is a clear audit trail from the underlying financial records to the accounts. The receipts tested were found to be in order, with supporting paperwork in place.

6.2 Some documentation and data relating to income received during the period 1 April 2017 to 31 December 2017 is held by the current Clerk/RFO but there was insufficient information available to confirm that all income was correctly received, properly recorded in the accounts and promptly banked during that period of time. Similarly, the lack of supporting documentation during that period prevented the

Internal Auditor from verifying that any invoices for debts owed to the Council were being promptly issued and followed up as necessary. The current Clerk/RFO has constructed a List of Receipts from entries in bank statements and this provides the Council and Internal Audit with a measure of assurance in terms of adequate recording of receipts in that period. The List cannot provide complete assurance that all income expected/due was fully received during the period 1 April 2017 to 31 December 2017.

7. Petty Cash *(Associated books and established system in place)*

7.1 The Clerk/RFO advised the Internal Auditor that the Petty Cash system is no longer in use. In this situation the £0.45 balance on the account should be paid back into the bank and an appropriate entry placed under Receipts to clear the Petty Cash Account.

8. Payroll controls *(PAYE and NIC in place; Compliance with Inland Revenue procedures; Records relating to contracts of employment)*

8.1 The Council is registered with HMRC. A copy of the End of Year Return P60 for the current Clerk, Mrs Elaine Galer, was made available for inspection by Internal Audit.

8.2 A Contract of Employment for the current Clerk/RFO has been agreed and was signed by the Chairman and Clerk/RFO on 16 April 2018. The agreement of the Contract of Employment should be reported to the May meeting of the Council.

8.3 With regard to the legislative requirements relating to workplace pension schemes, the Council is registered with the Pensions Regulator. The Clerk/RFO is enrolled into the NEST pension scheme as part of the Contract of Employment.

8.4 An area of concern to Internal Audit is the employment status of the Street/Beach Cleaners whose employment position needs to be clarified and, if necessary, regularised. It is understood that the Cleaners have no formal contract of employment but, in certain circumstances, could be deemed as employees or representatives of the Council. It is understood that high-vis jackets purchased for the Cleaners display the name of the Council and other equipment is purchased by the Council for their use. **It is recommended that the Council should ensure that the employment status of the Street/Beach Cleaners is promptly confirmed (viz. as employees or self-employed) in order that any legal (including insurance) responsibilities that may fall upon the Council as a possible Employer will have been identified and addressed.**

9. Asset control & valuation *(Inspection of asset register and checks on existence of assets; recording of fixed asset valuations; cross checking on insurance cover).*

9.1 A detailed Asset Register is in place and was reviewed by the Council at its meeting on 19 March 2018. The Register displays a total value of £793,063 as at 31 March 2018, an increase of £4 over the value of £793,059 at the end of the previous

year, 31 March 2017, and reflects the addition of 4 seats placed in the Register at a nominal (community) value of £1 each. The Register complies with current requirements which provide that each asset should be recorded on a consistent basis, year-on-year. The Clerk has made enquiries with the Land Registry to confirm the Council's ownership of land (it was noted that some documents now require amendments to be made to register them under the Council's official address).

9.2 The value of assets as at 31 March 2018 can be recorded in Box 9 in Section 2 of the Annual Governance and Accountability Return for 2017/18.

10. Bank Reconciliation (*Regularly completed and cash books reconcile with bank statements*)

10.1 A draft Bank Reconciliation undertaken as at 31 March 2018 is displayed at item 1.6 above. The final Bank Reconciliation will need to be up-dated by the Bank/Cash balances held by the Hemsby Playing Field Management Committee as at 31 March 2018 and evidenced by the Committee's bank statements as at that date.

11. Year End procedures (*Regarding accounting procedures used and can be followed through from working papers to final documents. Verifying sample payments and income. Checking creditors and debtors where appropriate*).

11.1 End-of-Year Accounts are prepared on a Receipts and Payments basis. The List of Receipts and List of Payments were in good order. Sample audit trails were undertaken and were found to be in order.

12. Internal Audit Procedures (*That the Council has satisfactory internal financial controls in place and any previous recommendations implemented*).

12.1 The Internal Auditor will formally complete and sign the Annual Internal Audit Report 2017/18 which forms part of the Annual Governance and Accountability Return (AGAR). This will be undertaken following confirmation by the Clerk/RFO that final figures are available for entry into Sections 1 and 2 of the AGAR (Part 3).

13. External Audit (*Recommendations put forward or comments made following the annual review*)

13.1 On 30 November 2016 the Smaller Authorities' Audit Appointments (SAAA) announced the conclusion of its procurement process and the award of limited assurance review contracts for five years to the successful external audit firms. The SAAA appointed PKF Littlejohn LLP as the External Auditor for Hemsby Parish Council for the five financial years from 2017/18 to 2021/22. The Clerk/RFO confirmed that PKF Littlejohn LLP has been made aware of the change of name and contact details.

13.2 No issues of concern were raised by the External Auditors, Mazars LLP, following their review of the previous year, 2016/17.

14. Immediate Priorities for the Council and the Clerk/RFO

14.1 The immediate priority for the Council is to ensure that all necessary financial information is provided by the Hemsby Playing Field Management Committee to the Clerk/RFO as a matter of urgency in order she can fully and correctly complete the relevant parts of the Annual Governance and Accountability Return (AGAR). Similarly, the Committee must provide all necessary financial information to the Clerk/RFO in order that correct and complete VAT Returns are submitted to HMRC in future.

14.2 Following the confirmation by the Clerk/RFO of the final figures to be placed in Section 2 of the AGAR (Part 3), arrangements will be made for the Internal Auditor to complete and sign the required Annual Internal Audit Report in the AGAR for 2017/18. This should be completed before the Council's meeting in May 2018 in order that the Internal Audit Report can support and inform the Council's completion of Sections 1 and 2 of the AGAR.

14.3 Sections 1 and 2 of the AGAR (Part 3) should be approved by the Council at its meeting in May 2018 and signed by the Chairman and Clerk/RFO. This will enable the document to be submitted to PKF Littlejohn LLP by the due date of 11 June 2018.

15. Additional Comments.

15.1 I would like to record my appreciation to the Mrs Elaine Galer, the Clerk/RFO, for her assistance during the course of this audit work.

15.2 In the event of the Council or the Clerk/RFO requiring further details or explanation regarding any of the issues raised above please do not hesitate to contact me.

Trevor Brown

Trevor Brown, CPFA

Internal Auditor

30 April 2018