

Public Sector Audit

Hedon Town Council

Internal Audit Report for the year ended 31 March 2022

Public Sector Audit

UKCS

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Reg. No.: 284714616

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Introduction

Part 2, paragraph 5 (1) of the Accounts and Audit Regulations 2015 imposes a duty on Local Councils to “undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

Internal audit is a key component of the system of internal control. The purpose of internal audit is to review whether the systems of financial and other controls over a council's activities and operating procedures are effective.

At the request of the council I have conducted an Internal Audit review of the council's accounting records in respect of the financial year ended 31 March 2022. I have acted independently and, on the basis of an assessment of risk, carried out a selective assessment of compliance with relevant procedures and controls expected to be in place during the financial year.

The audit has been carried out in accordance with the council's needs and planned coverage. On the basis of the findings in the areas examined, the internal audit conclusions and recommendations have been recorded in the table below.

Prioritisation of recommendations

In accordance with good internal audit reporting practice and the Governance and Accountability for Local Councils Practitioners Guide, the recommendations contained in this report have been prioritised. The following 'traffic light' system for the prioritisation of recommendations has been adopted: Page | 3

- Significant weakness in internal control requiring urgent attention.
- Moderate weakness in internal control requiring attention within the current year.
- Minor weakness in internal control, or matters of good practice the council may wish to consider, to be addressed within the current year.

Distribution List

Chairman of the Council

All Members of the Council

Clerk to the Council

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The findings of the audit are summarised below

	Test	Findings and Recommendations
1	Have appropriate books of account been properly maintained throughout the year?	<p><u>Appropriate accounting records</u></p> <p>Findings</p> <p>The accounting system is maintained on a computerised software package by Rialtas Business Systems (RBS) which has been specifically designed for local councils.</p> <p>It is sufficiently well analysed to provide all the information required for the completion of the Annual Governance and Accountability Return.</p> <p>The accounting records presented to audit were reconciled and complete up to the 31st March 2022</p> <p>The accounting system has been well maintained and formal bank reconciliations for the council's Current Account, High Interest Account and Petty Cash Account have been undertaken throughout the year.</p>
2	Have the council's Financial Regulations and Standing Orders been formally adopted and complied with?	<p><u>Adherence to Financial Regulations and Standing Orders</u></p> <p>Findings</p> <p>The council's Standing Orders were reviewed and approved at the Finance and General Purposes Committee held on the 25th November 2021. They reflect the latest NALC Model which was released during May 2021.</p> <p>The Government has announced revised thresholds in respect of tendering for public contracts, which came into effect on the 1st January 2022; the NALC Model, however, has not yet been updated. The Clerk is aware of this and will update Standing Orders to take account of the revisions in the coming months.</p> <p>The council's Financial Regulations, which reflect the latest NALC Model dated July 2019, were approved by F & GP Committee on the 24th February 2022.</p>

		Recommendation <ul style="list-style-type: none"> ● Standing Orders should be amended in the current financial year to take account of the Government's revised procurement thresholds.
3	<p>Are payment controls effective and VAT properly accounted for?</p> <p>Has the council recorded s137 expenditure separately and is it within the statutory limit?</p>	<p><u>Adequate payment controls</u></p> <p>Findings</p> <p>I have tested a large sample of payments from April 2021 to March 2022.</p> <p>The payments have been reviewed for completeness, accuracy, correct year of account, authorisation by two Members, reporting to council, classification within the council's accounts and compliance with Financial Regulations. All invoices tested have been correctly reported to council for authorisation and accurately recorded in the council's accounting system.</p> <p>I have tested and confirmed that VAT has been identified and correctly recorded in the accounting system for inclusion in the VAT reclaim from HMRC. The reclaim for 2021/22 was sent to HMRC on the 20th April 2022.</p> <p>A separate code has correctly been established for s.137 expenditure and a total of £222.50 has been coded to this statutory power during the year. All expenditure is appropriate for the statutory power and the total is well within the statutory limit.</p> <p>The council's cheque stubs have been examined to confirm that the 2-signature rule has been followed. A small number of cheques have been issued up to the time of the audit and all have been correctly countersigned with the exception of one cheque in July 2021 when only one signatory initialled the cheque. The Clerk is aware of this and has confirmed that she will remind Councillors of the need to initial cheques to confirm agreement with the cheque and the documentation provided at the time of signing.</p> <p>Invoices paid online via the BACS system are supported by two initials on the invoices and monthly finance schedules. Some invoices are paid after the agendas and finance schedules have been prepared, however, and these payments are included on the RBS schedules of payments which are initialled by the Chairman of F & GP Committee.</p>

4	<p>Has the council assessed the significant risks in delivering its activities and services and regularly reviewed the adequacy of these assessments?</p> <p>Is insurance cover appropriate and adequate?</p> <p>Are financial controls documented and regularly reviewed?</p>	<p><u>Assessment of significant risks</u></p> <p>Findings</p> <p>The council maintains a set of Risk Assessments which are subject to a rolling review by F & GP Committee. The F&GP meeting held on the 24th March 2022 noted the rolling review and the full Risk Assessment Report was approved. The council also maintains specific risk assessments covering the types of work that seasonal workers perform. At the time of the audit these have not yet been issued and signed by the seasonal workers.</p> <p>A Health & Safety Review Working Group was established during 2020; the Council's Health & Safety Policy was reviewed and updated and approved by the F & GP Committee held on the 26th November 2020.</p> <p>The council's Fire Risk Assessment was due to be reviewed last year but owing to Covid restrictions this was not possible. This matter was discussed at F & GP Committee on the 24th February 2022. An external company has been appointed for the assessment and this is due to be carried out on the 5th May 2022.</p> <p>It is noted that Marshals employed by the council for events have been issued with detailed Risk Assessments, which have been signed by the employees and returned to the council.</p> <p>The council carries out regular inspections of the play area and skate park which are recorded on weekly inspection sheets. The inspection sheets are signed off by either the Town Clerk or Assistant Town Clerk and filed in the Town Hall office. The sheets record any issues arising and the subsequent corrective action taken to remedy any faults found.</p> <p>The council also uses the Play Inspection Company to undertake an annual safety inspection of the play area and skate park.</p> <p>Following a discussion at F&GP on the 26th November 2020, on the council's banking arrangements, it was agreed that in the short-term funds have been transferred out of the High Interest account into the Current account to reduce the total in that account. This evens out the amount of funds carried in each of the bank accounts and gives the Council some protection under the Financial Services Compensation Scheme against a</p>
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	<p>future banking crisis. It was also agreed that following the May 2021 by-elections the council will conduct a full review of its banking procedures. It was noted that, as the interest rates are so low, this will have a negligible effect on bank interest income.</p> <p>The Clerk has continued to work on a document which identifies the key financial tasks needing to be undertaken on a weekly, monthly and quarterly basis. This will be handed over to the council's new Clerk when she commences her duties. Such documentation provides essential information in respect of the routine financial and governance processes to be undertaken by the council in the event of unexpected staff absences.</p> <p>I have reviewed the council's current insurance policy and confirm that the indemnity limits are adequate.</p> <p>I have reviewed the council's back up arrangements for its electronic records and the Deputy Clerk has confirmed that all electronic data is backed up at least monthly and weekly if possible onto an external hard drive and stored in a fire proof safe. The council's computers and the external hard drive are password protected.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● In accordance with minute 9 of F&GP Committee on the 26th November 2020, the council should review its overall banking arrangements with the regard to a potential risk for funds in excess of £85,000 in the event of another banking crisis. ● The seasonal workers Risk Assessments should be issued to these staff, signed and returned to the Town Council's offices.
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5	<p>Has the annual precept requirement resulted from an adequate budgetary process?</p> <p>Has progress against budget been regularly monitored and reported and were reserves appropriate?</p>	<p><u>Adequate budgetary process</u></p> <p>Findings</p> <p>The Clerk prepared a detailed budget for setting the Precept for 2021/22, and a Precept of £215,730 was approved by Full Council on 21st January 2021. The council agreed reductions to several budget headings to reflect the slight reduction in the current year's Precept.</p> <p>Actual income and expenditure against budget is monitored and reported to F&GP monthly.</p> <p>As at the 1st April 2022 the council's balances totalled £205,139. This comprised earmarked reserves of £57,520 for specific projects and liabilities and a general reserve of £147,619. The general reserve represents 68% of the current year's Precept and is considered to be prudent for the size of the council and its potential liabilities.</p>
6	<p>Was all expected income fully received in accordance with the current scale of charges, properly accounted for and promptly banked?</p> <p>Were security controls over cash and cash equivalents effective?</p>	<p><u>Adequate income controls</u></p> <p>Findings</p> <p>The council's Precept for 2021/22 is £215,730 which agrees to the two instalments of £107,865 received from ERYC on 30/04/21 and 01/09/21.</p> <p>The council maintains two lists of charges; one in respect of the Cemetery and another covering Town Hall lettings, Allotments, leases, ground rent and wayleaves. All charges were reviewed by F & GP Committee on the 22nd April 2021. The Events Working Group held on the 7th May 2021 agreed the £25 donation for advertising in the calendar. This was agreed by the F&GP Committee on the 27th May 2021.</p> <p>It is noted that the monthly charge for the Police Station broadband is not recorded in the council's list of charges. The Clerk has confirmed that this will be added at the next review of the list of charges.</p> <p>In addition to the council's charges for the services it provides, the council also received a VAT refund, an ERYC local paths grant, the refund of a duplicate payment, bank interest, wayleaves, Police Station</p>

		<p>Broadband, calendar sales and calendar advertising donations, a water charges refund, market rent and Christmas stall fees.</p> <p>I have sampled cemetery income from April 2021 to March 2022 to the list of charges to verify that the correct charges have been raised in respect of resident and non-resident fees. All fees checked were found to have been correctly charged.</p> <p>I have checked that all allotments have been charged in accordance with the approved scale of charges and for the sample checked they have been correctly banked.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● The charges the council makes for the Police Station broadband should be added to the list of charges when it is next reviewed.
7	<p>Were petty cash payments appropriate and supported by receipts?</p> <p>Was all expenditure approved and reported to members?</p> <p>Has VAT been correctly accounted for?</p>	<p><u>Appropriate petty cash controls</u></p> <p>Findings</p> <p>The Town Council maintains a petty cash float of approximately £200. The float is reconciled periodically by the Clerk and the accounting system automatically produces a monthly petty cash account reconciliation.</p> <p>I have checked that expenditure is appropriate and VAT has been correctly identified, recorded, and reported to council. For the sample checked all VAT had been correctly recorded in the accounting system and reported to the F & GP Committee together with all other payments.</p>
8	<p>Do all employees have contracts of employment with clear terms and conditions?</p>	<p><u>Adequate payroll controls</u></p> <p>Findings</p> <p>All employees, except for the re-appointment this year of the Hanging Basket Watering Operative, have received formal contracts of employment, or a Letter of Understanding. All contracts of employment have</p>

	<p>Are salaries to employees and all other payments and allowances paid in accordance with council approvals?</p> <p>Has PAYE and NI been correctly deducted and paid to HMRC?</p>	<p>been signed by both the employee and the council. All contracts contain clear terms and conditions of employment.</p> <p>I have agreed all salaries paid during the year to the original contracts of employment, any subsequent authorised changes to the terms of the contracts and the previous and revised 2021/22 NJC pay scales.</p> <p>For the sample checked, the hours paid to employees agree to supporting timesheets.</p> <p>It is noted that no opening up payments for the council offices have been paid for 2021/22. This was mentioned to the Clerk during the audit, and she confirmed that she would check whether any such payments were due.</p> <p>Employees have been subject to NI and PAYE regulations and, for the sample checked, all statutory deductions have been correctly paid to HMRC.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The council's Hanging Basket Watering Operative should be issued with a Letter of Understanding upon his re-appointment this Summer. ● Opening up payments should be paid for 2021/22 if applicable and for the current year when appropriate.
9	Is the Asset and Investment Register complete and accurate and reviewed on a regular basis?	<p><u>Appropriate recording of assets</u></p> <p>Findings</p> <p>The council's Asset Register is maintained on spread sheets in the recommended format and is updated annually. It was presented to the F & GP on the 24th March 2022 and the Members reviewed and approved the changes to the register during 2021/22.</p> <p>The council does not hold any investments.</p>

		Purchases during the year have been added to the register using the correct valuation method.
10	<p>Were bank reconciliations performed on a regular and timely basis?</p> <p>Has a year-end reconciliation been performed and balanced?</p> <p>Have all bank reconciliations been reviewed by an appointed member and evidenced as such?</p>	<p><u>Adequate bank reconciliations</u></p> <p>Findings</p> <p>Monthly bank reconciliations are automatically produced by the council's accounting system for each of the council's bank accounts and the petty cash imprest.</p> <p>In accordance with best practice and as part of the council's internal financial control processes, the monthly bank reconciliations and the respective month-end balances on the bank statements have been initialled by the Chairman to signify that both are in agreement.</p> <p>A review of the reconciliations confirms that they contain no unusual or balancing entries.</p>
11	<p>Were Accounting statements prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate, were debtors and creditors properly recorded?</p> <p>Has the previous Internal Audit Report been submitted to council and actioned as necessary?</p>	<p><u>Correct accounting basis and previous Internal Audit Report actioned</u></p> <p>Findings</p> <p>The year-end statements have been prepared on the correct accounting basis (Income and Expenditure) and, therefore, debtors and creditors have been included.</p> <p>The statements agree with the cash book and there is an audit trail from underlying financial records to the year-end statements.</p> <p>The total value of assets on the Asset Register at the 31st March 2022 agrees to box 9, fixed assets, on the Accounting Statement on the AGAR.</p> <p>The Interim Internal Audit Report in respect of 2021/22 was presented to and approved at the F & GP Committee meeting held on the 24th February 2022.</p>

12	If the council certified itself as exempt from an External Audit Limited Assurance Review last year, has it met the exemption criteria and correctly declared itself exempt?	<u>Exemption Certificate</u> Findings The council, correctly, did not complete an Exemption Certificate under Section 9 of the Local Audit (Smaller Authorities) Regulations 2015.
13	Did the council correctly provide, during the summer, the proper opportunity for the exercise of public rights in accordance with the requirements of the Accounts and Audit Regulations 2015?	<u>Exercise of Public Rights</u> Findings I have confirmed by a review of the council's website that, during the summer of 2021, the council correctly provided the proper opportunity for the exercise of public rights in accordance with the requirements of the 2015 Accounts and Audit Regulations.
14	Did the council comply with the publication requirements for the previous year's AGAR?	<u>Publication Requirements</u> Findings I have reviewed the council's website and confirmed that the council published the correct documents as required by the Accounts and Audit Regulations 2015.
15	Has the council met its responsibilities as a Trustee?	<u>Trustee responsibilities</u> Findings During the year the council assumed joint responsibility for the parcel of land in Elsiegate. The council is the managing Trustee of the Trust and is currently reviewing the Trust's constitution. This may take some time as the second Trustee is currently unwell. When finally resolved, however, this will then be passed to the council's solicitors for review. The change of Trustees has been notified to the Charities Commission and a search on the Commission's website identifies that charity number 516118 is called The Hedon Preservation Society. The website also identifies:

	<p><u>The Charity address:</u> Hedon Town Council, 36 St. Augustines Gate, Hedon, Hull, HU12 8EX</p> <p><u>Email address:</u> townclerk@hedon.gov.uk</p> <p><u>Last Recorded Financial Year:</u> 05/04/2021</p> <p><u>Last Recorded Income:</u> Nil</p> <p><u>Last Recorded Expenditure:</u> Nil</p> <p><u>How the charity helps:</u> Acts as an Umbrella or Resource Body</p> <p><u>What the charity does:</u> Environment/conservation/heritage</p> <p><u>Who the charity helps:</u> The General Public/mankind</p> <p><u>Activities:</u> To promote high standards of planning and architecture.</p> <p><u>Charity Objects:</u> To promote high standards of planning and architecture in or affecting the area of benefit. To educate the public in the geography, history, natural history and architecture of the area of benefit. To secure the preservation, protection, development and improvement of features of historic or public interest in the area of benefit.</p> <p>The parcel of land is currently maintained by the council as the Trust does not have any funds. The External Auditor has advised that if, the council wishes, in these circumstances to continue to incur expenditure on behalf of the Trust it should, for transparency purposes, record in the council's minutes that <i>"Because there are no Trust Fund monies available, the council has spent its own funds on the maintenance and upkeep of this</i></p>
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		<p><i>asset and area for the good of the community as a whole". This resolution was made by the council at the F&GP Committee meeting held on the 24th February 2022.</i></p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The council, as managing Trustee, will need to comply with the annual reporting requirements of registered Charities to the Charity Commission. ● The following are extracts from the 2022 NALC Governance and Accountability Guide for Local Councils and must be followed by the council: <ul style="list-style-type: none"> ➤ Meetings of the authority when it is acting as charity trustee must take place separately from those of the authority acting as the authority. Separate minutes must be kept. In order to avoid confusion, trust business should always be minuted separately from authority business. ➤ The Clerk should take responsibility for guiding the authority regarding the capacity, either as the authority or as trustees for a charity, in which members are meeting. The chairman should make clear to the meeting, at the outset and throughout, the capacity in which it is meeting, particularly if authority and trust meetings are held one after the other or where confusion around capacity is possible. ➤ The value of trust property must not be shown in the authority's books of account and on the Annual Governance and Accountability Return as authority property. Trust assets held by the authority as custodian or managing trustee should, however, be recorded in the authority's asset register and identified there as 'charity assets held by the authority as trustee' with their value excluded from the total.
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The accounts and governance arrangements of the council have continued to be maintained to a very high standard and the assistance of the Clerk and Deputy Clerk of the council in the completion of this audit was much appreciated.

The internal financial control environment within the council is excellent and the consideration and adoption of the above recommendations will serve to further enhance and strengthen the systems, procedures and governance arrangements already in place.

The Internal Audit has been conducted in accordance with the Governance and Accountability for Local Councils – Practitioners Guide 2021.

I confirm that I have no relationship or interest, financial or otherwise, with any member or officer of the council.

Richard Dixon

Public Sector Audit

29th April 2022

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