



Internal Audit Report
Year ending: 31st March 2019

Name of Council:	Red Lodge Parish Council
Income:	£167,213
Expenditure:	£213,184
Precept Figure:	£110,881
General Reserve:	£12,786
Earmarked Reserves:	£365,717



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 2017/18 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 is in compliance
- 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
1. Proper Book-keeping	Type of cash book or ledger used	The council uses the Rialtas Accounting/Booking Accounting Package which produces reports on an Income and Expenditure basis. Council follows Proper Practices in ensuring that its accounting procedure gives a more accurate presentation of an authority's true financial position by focusing on the balance of economic benefits that it has under its control, rather than just its bank balance.
	Cash book kept up to date and regularly verified against bank statement	Cash books are reconciled on a monthly basis and the Parish Council is registered for VAT, both sales and purchase ledgers are implemented via the Omega Accounting system.
	Correct arithmetic and balancing	Spot checks were made and were found to be correct. The Responsible Financial Officer ensures that the cash book is the focus for day-to-day accounting and balancing off and reconciliation to the bank statement and remains the most important control over the accounting system.
2. Financial Regulations & Standing Orders	Evidence that standing orders have been adopted and reviewed regularly	At the meeting of 26 th February 2019, Council carried out an annual review of its own Standing Orders and adopted 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 have been adopted and reviewed regularly	The Council's Financial Regulations, reviewed at a meeting of 26 th February 2019 are based on the Model Financial Regulations produced by NALC and have been adapted to reflect recent changes in legislation concerning Procurement.
	Evidence that a Responsible Financial Officer has been appointed with specific duties	In March 2018, it was agreed that the Clerk would take over the role of Responsible Financial Officer. <i>Comment: In accordance with Section 151 of the Local Government Act 1972(d) (financial administration), the Council has appointed a person to be responsible for the administration of the financial affairs of the relevant authority.</i>
	Evidence that Financial Regulations have been tailored to the Council	Financial Regulations are tailored to the Parish Council.

<p>3. Payment controls</p>	<p>Supporting paperwork for payments, and appropriate authorisation</p>	<p>At each full Council Meeting a list of all payments – retrospective and future - is presented to the meeting with formal approval of such expenditure being minuted and copies attached to the minutes as a formal record.</p> <p><i>Comment : Council continues to show good practice of ensuring, in accordance with its own FR 5.6, that a schedule of due and retrospective payments which arise on a regular basis of a continuing contract, is submitted to full Council for approval at each meeting.</i></p> <p>Upon analysis of the Council’s invoice folder, it is noted that a purchase order is issued for all work, goods and services unless a formal contract is to be prepared or an official order would be inappropriate. Council further shows good practise by understanding that official orders both commit a supplier to a price and help prevent unauthorised credit being granted in the authority’s name. In accordance with proper practises, on receipt of invoices, verification that the relevant goods or services have been received is obtained and invoices checked to ensure that the arithmetic is correct, agreed discounts have been deducted and everything is acceptable regarding reclaiming the VAT. The Purchase Order file is numerically held and controlled by the Town Clerk.</p> <p>A spot check of items paid via the BACS / Direct Debit system from the Council's Accounts were cross checked against cashbook, bank statements, invoices and order books. All were found to be in order.</p>
	<p>Internet Banking transactions properly recorded/approved</p>	<p>It is noted that the majority of payments, other than those relating to staff, are affected by electronic bank payments in accordance with a resolution of the council and that a member has on-line banking access to verify such payments are made in accordance with Council’s own Financial Regulations.</p> <p><i>Comment: In accordance with Council’s Financial Regulation 6.4 for payments settled by internet banking transfer, evidence is retained showing which members approved the payment and all payments made on the bank account are in accordance with the schedule as presented to council and signed by the two members who witness / authorise the payments being made. This not only protects the RFO but fulfils an internal control objective to ensure the safeguarding of public money.</i></p>
	<p>VAT correctly identified and reclaimed within time limits</p>	<p>During the previous year, Council decided to opt to tax (for VAT) purposes on Council's land and buildings.</p>

		VAT is identified in both sales and purchase ledger cash books and is reclaimed in accordance with HM Revenue and Customs agreed timescales. Certificate of Registration for Value Added Tax (dated 06.09.2017) seen - Council's VAT Registration Number is stated as 288 839 135. The reclaiming of VAT and settlement by HM Revenue and Customs is reported to full Council as and when applicable.
	Has Council adopted the General Power of Competence and is it being correctly applied?	The Council is not using the General Power of Competence.
	S137 separately recorded, minuted and within statutory limits	<p>Payments made under this power for the year under review totalled £2,250 and were in accordance with legislation and limits. S137 payments are clearly identified within the cashbook.</p> <p><i>Comment: Council might wish to minute the use of S137 of the LGA 1972 (as amended by the Local Government and Housing Act 1989 s36) in granting donations noting that it is a capped expenditure and which gives the Council the power to incur expenditure which in their opinion is in the interests of and will bring direct benefit to their area or any part of it or all or some of its inhabitants. The benefit obtained must be commensurate with the expenditure incurred and the annual expenditure must not exceed the total electorate multiplied by the annual statutory limit per elector.</i></p>
	Payments of interest and principal sums in respect of loans, are paid in accordance with agreements	The Council has no Public Works Loan and as such incurred no interest payments for the period under review.
4. Risk Management	Is there evidence of risk assessment documentation.	<p>The Risk Assessment and Financial Management Document for the period 1st April 2018 to 31st March 2019 was considered at a meeting of the Parish Council on 5th February 2019 and covers in general terms the matters which could possibly prevent a smaller relevant body from functioning.</p> <p><i>Comment: Overall within its Risk Management Document 2019, 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></p> <p><i>With particular reference to the recommendation made during the internal audit visit for the year ending 31st March 2018, Council has established a Credit Card Usage Policy and Fuel Card Misuse policy which explains the responsibility of the user employees, the expenses they can incur using the cards and the necessary supporting documentation and/or approval they need to provide with respect to each expense.</i></p>

		<p>Recommendation: Council should consider expanding the Financial Risk Assessment and Management (Financial) Report by documenting that the Council has identified the risk associated with internet payments and has taken steps to mitigate such risks. The documentation of the specific control procedures that have been adopted by the council for payments by bank transfer not only protects the RFO but will also fulfil an internal control objective.</p>
	Appropriate Insurance cover in place for employment, public liability and fidelity guarantee.	<p>General Insurance from Zurich for the period from 1st October 2018 to 30th September 2019. Core cover shows the following: Public Liability £10,000,000; Employer's Liability £10,000,000; Public Liability for Playground Equipment is £10,000,000 & Fidelity Guarantee Cover is £750,000. The Pavilion is under Insurance with Contents Cover. All Risks cover is in place for the Council's Assets with cover non-location specific. Council's long-term agreement expires 30th September 2020.</p> <p>Council further approved additional insurance cover for Comprehensive Cover for any driver approved by the parish council for 2 vehicles owned by the Parish Council at its meeting of 5th February 2019.</p>
	Evidence that insurance is adequate and has been reviewed on an annual basis	<p>Council reviewed its current insurance cover at the meeting of 25th September 2018 with a further review to cover additional items at the meeting of 30th October 2018.</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 buying in services from specialist external bodies and taking out insurance.</i></p>
	Evidence that internal controls are documented and regularly reviewed	<p>The Internal Control Statement for the year 2018/19, as carried out by a specified Councillor was presented to full Council at a meeting of 26th March 2019. There were no matters arising from the review undertaken.</p> <p><i>Comment: with reference to the Accounts and Audit Regulations 2015, Council has understood the requirement to have in place safe and efficient arrangements to safeguard public money. Within the Internal Control Statement for the Financial Year 2018-2019, as reviewed and adopted by Full Council in March 2019, Council has reviewed its arrangements to protect public money.</i></p>
5. Budgetary controls	Verifying that the budget has been properly prepared, and agreed	<p>The budget for the year 2018/19 in the sum of £110,881.48 was discussed by full Council at a meeting of 28th November 2017 and finalised at a meeting of 30th January 2018.</p>

	<p>Regular reporting of expenditure and variances from budget</p>	<p>Detailed Income and Expenditure by Budget Heading and Account Code Reports are presented and discussed by Council on a quarterly basis. The minutes reflect that they have been received and noted.</p> <p><i>Comment: Council shows good practice by following the recommended key stages as to the budgetary process to be followed for the year:</i></p> <ul style="list-style-type: none"> • <i>decide the form and level of detail of the budget;</i> • <i>review the current year budget and spending;</i> • <i>determine the cost of spending plans;</i> • <i>assess levels of income;</i> • <i>bring together spending and income plans;</i> • <i>provide for contingencies and consider the need for reserves;</i> • <i>approve the budget;</i> • <i>confirm the precept or rates and special levies; and</i> • <i>review progress against the budget regularly throughout the year.</i>
	<p>Verifying that the Precept amount has been agreed in full Council and clearly minuted</p>	<p>The precept was set at £110,881 against a budget of £110,881.48 and formally approved at a meeting of 11th January 2018.</p>
	<p>Reserves held</p> <p>General and Earmarked.</p>	<p>Council's final accounts show general reserves in the sum of £12,786 with earmarked reserves in the sum of £365,717.</p> <p>It is regarded as acceptable for a council's general (non-earmarked revenue) reserves to be equal to 3 to 6 six months of contractual expenditure and at £12,786, council's general reserves are considered to be below this level. Council might wish to review the level of general reserves during the coming year ensuring that it has sufficient reserves and contingency sums in order to meet, within reason, any unforeseen items of expense that may occur. It is also noted that there are no earmarked reserves for staff costs.</p> <p>Recommendation: to ensure that current staffing levels are able to be maintained, Council should consider earmarking funds for staff costs which would include cover for redundancy, long term sickness, maternity cover etc. Given that Staffing Costs equates to almost 52% of the expenditure incurred by the Council it would be prudent for the Council to ensure that it had sufficient reserves to meet any unforeseen expenditure in this area.</p>

<p>6. Income controls</p>	<p>Is income properly recorded and promptly banked?</p>	<p>A number of items of income were cross checked against cash book, paying-in book, bank statement and invoices. All were found to be in order and 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.</p> <p>Spot checks on further items paid under BACS / Direct Credit into the Council's Accounts were cross checked against cashbook, bank statements and invoices raised by the Parish Council. All were found to be in order with an underlying audit trail.</p> <p>The Parish Council noted that a review of the fees for the hire of the Sports Pavilion Facilities had been undertaken by the Sports Pavilion Working Party during the year under review at its meeting of 24th April 2018.</p>
	<p>Is income reported to full Council?</p>	<p>Other income received by the Parish Council in the main relates to Bank Interest & S106 Income. Pavilion income in the main relates to Bar Income; Pitch and Sports Pavilion Hire; MUGA Hire & Activity Room Hire.</p> <p>Income is reported as part of the Financial Reports submitted by the RFO.</p>
	<p>Does the Precept recorded agree to the Council Tax Authority's notification?</p>	<p>The council received precept of £110,881 during the year under review. The 1st instalment of £55,441 was received on 27th April 2018 and reported to full Council on 29th May 2018; 2nd instalment of £16,632 was received on 31st July 2018 and reported to full Council on 25th September 2018 with the balance of £38,808 being received on 28th September 2018 and reported to full Council on 30th October 2018.</p> <p><i>Comment: Evidence was provided showing a full audit trail from Precept being discussed and approved at the meeting of 11th January 2018, served on the Charging Authority to remittance advices showing the Precept to be paid and receipt of same in the Council's Bank Account.</i></p>
	<p>Outstanding Debts</p>	<p>The outstanding sales ledger invoices for the period ending 31st March 2019 was seen and verified. Analysis of the ledger records that none of the debts were regarded as of significant concern.</p> <p><i>Comment: in accordance with guidance, and essential as part of proper financial management, the Town Council maintains an effective debt collection by ensuring that invoices raised are paid promptly or that appropriate recovery action has been taken.</i></p>
<p>7. Petty Cash</p>	<p>Is a petty cash in operation?</p>	<p>Petty cash system in place with a receipt required for all purchases. Petty cash tin is kept in a secure location. Petty cash reconciliations are carried out on a monthly basis and reported to full Council on a quarterly basis.</p>

	If so, is there an adequate control system in place.	Year end balances: Pavilion Petty Cash: £81.05 Parish Council Petty Cash: £43.30
8. Payroll controls	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.	The council's payroll system is outsourced to Suffolk Association of Local Councils. Council had 5 employees on its payroll at the period end of 31 st March 2019. There are robust 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 and has met its pension obligations. <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?	Cross-checks were completed on a selection of payments covering salary, PAYE and pension contributions and these were all found to be in order. In accordance with Proper Practices, PAYE taxes and employee and employer National Insurance contributions (NIC) are calculated and recorded for every employee. Deductions are paid to HM Revenue and Customs and Suffolk County Council on or before the dates prescribed.
	Is there evidence that the Council is aware of its pension responsibilities? Are pension payments in operation?	Declaration of compliance seen dated 10 th August 2017. 1 member of staff is a member of the Local Government Pensions Scheme as operated by Suffolk County Council. Deductions and payments to the scheme are made in accordance with the prescribed timescales.
9. Asset control	Verifying the Council maintains an Asset Register in accordance with proper practises	The Asset Register was reviewed during the Internal Audit Visit for year-end and accurately reflects those items listed under insurance and within the Parish Council's remit for maintenance and ownership. It is noted that the declared value for all assets at year-end (31.03.2019) was £273,407 (Insurance Value) and includes the Millennium Centre Land and Millennium Centre Fixture and Fittings. All other assets have been stated as at the acquisition value and where assets have been gifted or where there is no known value have been given the proxy value of £1.
	Verifying that the Asset Register is reviewed annually	The Asset Register was reviewed by full Council at a meeting on 26 th March 2019 and the value, as approved, has been stated on the Annual Governance and Accountability Return. The Asset Register shows overall movement of £23,720 when compared to the previous year with acquisitions and disposals being clearly identified in the register.

	Cross checking of Insurance cover	<p>A number of items as listed under the Asset Register were reviewed against items under insurance and cover was deemed to be appropriate.</p> <p><i>Comment: the RFO, in accordance with Proper Practices has ensured that there is evidence that a review of the insurance cover was completed, and appropriate insurance is in place to help manage the potential consequences of a risk occurring.</i></p> <p><i>Council is also mindful of the guidance within the Governance and Accountability for Smaller Authorities in England March 2018 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 has been consistently applied and if/where amended, it will need to publish and provide explanations in changes in value to any previously recorded assets.</i></p>
10. Bank reconciliation	Regularly completed and reconciled with cash book	<p>Bank reconciliations are completed on a monthly basis and reconcile with the cash sheets.</p> <p><i>Comment: Council is aware that, in accordance with Proper Practices, the bank reconciliation is a key tool for management as it assists with the regular monitoring of cash flows which aids decision-making, particularly when there are competing priorities.</i></p>
	Confirm bank balances agree with bank statements	<p>Bank balances agree with period end statements and as at 31st March 2019 stand at: £372,778.46</p> <p>Broken down as follows:</p> <p>Parish Council Current Account: £138,091.05</p> <p>Pavilion Current Account: £127,303.47</p> <p>Parish Council Deposit Account: £106,788.88</p> <p>Petty Cash – Pavilion £81.56</p> <p>Petty Cash - Parish Council £43.30</p> <p>Pavilion Bar Float £350.00</p> <p>Unpresented cheques: £0.0</p> <p>Receipts not on bank statement: £120.20</p> <p>Credit Card Balance: £0.00</p>
	Regular reporting of bank balances at council meetings	<p>Overall there is regular reporting of bank balances within the financial reports submitted to the Parish Council at each Town Council Meeting.</p> <p>Recommendation: To minimise the Council's exposure to risk it might want to consider diversifying its reserves between highly rated UK banks and building societies with the objective of prudently investing some of its balances. Council should ensure that it uses only specified investments as defined by DCLG guidance. Such investments should have regard to security of reserves and liquidity of investments.</p>

		Council should also consider adopting a Loans & Investment Policy ensuring that it covers Section 15(1) of the Local Government Act 2013 and has regard to such guidance as may be issued by the DCLG and that such a policy is reviewed on an annual basis and all investments take regard of the policy.
11. Year-end procedures	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	<p>There is an underlying financial trail from financial records to the accounts produced. Where appropriate debtors and creditors have been properly recorded. The End-of-Year Accounts and supporting documentation were extremely well presented for the Internal Audit review.</p> <p>Period-end balances agree with cash book and bank reconciliations: Reserves: £378,503.30 Total Debtors: £1,140 Vat Control Account: £5,425.91 Bar Stock at Year End: £2,604.07 Total Creditors: £134.98 Accruals: £3,280.16</p> <p>Represented by: Total Cash and Bank Accounts: £372,778.46</p>
	Has the appropriate end of year AGAR documents been completed?	<p>As Council is a smaller authority with gross income and expenditure exceeding £25,000 but not exceeding £6.5million it has completed Part 3 of the AGAR.</p> <p>The smaller authority has completed Section 2 Accounting Statements of the AGAR which is unsigned at the time of Internal Audit.</p>
	Was there the opportunity provided for the exercise of electors' rights?	The Internal Auditor was able to confirm that the details of the arrangements for the exercise of public rights for the period ending 31st March 2018 were on the public website used by the Council.
	Have the publication requirements been met in accordance with the Audit & Accounts Regulations of 2015	<p>The Council has 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 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</p>

12. Internal audit for the year ending 31 March 2018	Verifying that the previous internal audit reports have been considered by the Council	The Internal Auditor's Report for the year ending 31 st March 2018 was considered and accepted Meeting of the Parish Council on 29 th May 2018.
	Verifying that appropriate action has been taken regarding recommendations raised in reports from Internal Audit	In accordance with Proper Practices, the recommendations were considered by the Parish Council and in clarification to the external auditors, it was noted that the Council had considered the budget twice during the year and were satisfied with such a process and that the new Clerk/RFO would address any further recommendations made as an essential part of their role. Recommendations made: 1. Introduction of control procedures for any payments by bank transfer, or other electronic means.
	Evidence that a review of the effectiveness of internal audit has been carried out during the year	The effectiveness of internal audit was discussed by full Council within the Internal Control Statement submitted and approved at a meeting of 26 th March 2019. <i>Comment: by reviewing the terms of reference for internal audit, Council has followed guidance with the Governance and Accountability Guide and recognises that the internal audit's function is to test and report to the authority on whether its specific system of internal control is adequate and working satisfactorily.</i>
	Confirmation of appointment of Internal Auditor	SALC was appointed to act as the Parish Council's Internal Auditors at a meeting of full Council of 27 th November 2018 for the year ending 31 st March 2019.
13. External audit for the year ending 31 March 2018	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 25 th September 2018 following the intermediate review undertaken by the External Auditors.
	Verifying that appropriate action has been taken regarding recommendations raised in reports from External Audit	There were no matters which necessitated the issuing of a separate report. 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, Council has published on a public website Sections 1, 2 and 3 from the 2017/18 AGAR as well as the Notice of the Conclusion of the Audit.
14. Additional Comments	Annual meeting - held in accordance with legislation	The Annual Meeting of the Parish Council was held on 29 th May 2018 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 council does not act as the sole trustee for any trusts.

	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. ZA322497 refers.
	Verifying that the Council is compliant with the General Data Protection Regulation requirements	<p>Council has taken steps to ensure compliancy with the GDPR requirements and has appointed an external body to act as the Data Protection Officer. The Council has carried out a GDPR Risk Assessment which has provided a description of the processing and the purpose of the processing and identified any risks to the personal data, the rights and freedoms of individuals, and the measures and safeguards implemented to mitigate these risks.</p> <p>Council has completed and adopted the following documents which provide evidence of the Council's work towards compliance with legislation:</p> <ul style="list-style-type: none"> Retention of Documents and Records Information Protection Policy Information Security Incident Policy Data Protection Policy CCTV Policy Removable Media Policy Social Media and Electronic Communication Policy <p>And has in place:</p> <ul style="list-style-type: none"> General Data Protection Awareness Checklist for Councillors Privacy Notices for Staff, Councillors; Residents/Members of the Public; Hirers Consent Logs
		The Internal Auditor offers her appreciation for the assistance given by the Parish Clerk in completing this audit.

Signed: *V^oS Waples*

Date of Internal Audit Visit: 16.05.2019

Date of Internal Audit Report: 16.05.19

On behalf of Suffolk Association of Local Councils