

INTERNAL AUDIT REPORT 2019/20
DARNHALL PARISH COUNCIL

The internal audit of Darnhall Parish Council was carried out by undertaking the following tests as specified in the Annual Return for Local Councils in England:

- Checking that books of account have been properly kept throughout the year
- Checking a sample of payments to ensure that the Council's financial regulations have been met, payments are supported by invoices, expenditure is approved, and VAT is correctly accounted for
- Reviewing the Council's risk assessment and ensuring that adequate arrangements are in place to manage all identified risks
- Verifying that the annual precept request is the result of a proper budgetary process; that budget progress has been regularly monitored and that the council's reserves are appropriate
- Checking income records to ensure that the correct price has been charged, income has been received, recorded and promptly banked and VAT is correctly accounted for
- Reviewing petty cash records to ensure payments are supported by receipts, expenditure is approved and VAT is correctly accounted for
- Checking that salaries to employees have been paid in accordance with Council approvals and that PAYE and NI requirements have been properly applied
- Checking the accuracy of the asset and investments registers
- Testing the accuracy and timeliness of periodic and year-end bank account reconciliation(s)
- Year end testing on the accuracy and completeness of the financial statements

Conclusion

On the basis of the internal audit work carried out, which was limited to the tests indicated above, in our view **the council's system of internal controls is NOT in place**, adequate for the purpose intended and effective. The recommendations reported in the action plan overleaf need to be implemented promptly.

As part of the internal audit work for the next financial year we will follow up all recommendations included in the action plan.

J D H Business Services Ltd

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	ISSUE	RECOMMENDATION	FOLLOW UP
1	The risk assessment was not reviewed, updated and approved during 2019/20	<i>Risk assessment should be reviewed and approved each financial year</i>	
2	<p>There is a new internal control objective (Objective L) in the AGAR internal audit certificate that requires internal audit to conclude on whether the Public Rights Notice during the previous Summer (2018/19 financial year) was compliant with the Regulations.</p> <p>The council has not provided evidence of the date the public notice was first displayed which must be at least one day earlier than the commencement date of the notice period. Therefore, we are unable to conclude whether the council complied with the requirements for the Public Rights Notice for 2018/19 and have noted 'Not Covered' in the internal audit certificate.</p>	<i>The council should ensure it provides to internal audit clear evidence of compliance with the legal requirements for the Annual Notice of Public Rights.</i>	
3	<p>Budgets</p> <p>There is no evidence in the minutes of any budgetary control information being reviewed by council during the financial year.</p> <p>Although minutes record the precept increase in January 2020 no evidence was</p>	<p><i>Regular budgetary control reporting needs to be implemented promptly by the council.</i></p> <p><i>A detailed budget must be set to support the precept request including clear</i></p>	

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	provided of the detailed budget used including consideration of opening and closing balances.	<i>consideration of opening and closing balances. All budgetary information should be provided for internal audit in future.</i>	
4	<p>Payroll</p> <ul style="list-style-type: none"> - There is no audit trail from the council approval of the new salary in the April 2019 minutes, to the salary as stated in the contract of employment and the actual gross monthly pay in the monthly payslips. Therefore, it is not possible to conclude whether the clerk has been correctly paid and the associated tax and NIC deductions calculated correctly although the covering letter sent to us with the council books states 'the clerks pay is currently an overpayment of what was agreed'. - The council has not been making RTI submissions for payroll on a timely basis. This has resulted in a number of cumulative £100 fines totalling £400 from HMRC. - Two payments to the caretaker may have been paid gross in year (cheque 510 for £100 and cheque 483 for 	<p><i>The council need to ensure that salaries have been paid in accordance with the authorised amount and that the correct PAYE and NIC have been remitted to HMRC.</i></p> <p><i>RTI payroll submissions must be made on a timely basis</i></p>	

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	<p>£50) as there was no supporting evidence as to whether taxes had been deducted.</p>		
5	<p>Income</p> <p>The covering letter provided for internal audit noted that the clerk does not have access to hall booking diaries and that there are instances of double bookings. There is no system of sequential invoices issued for bookings which are referenced to a bookings diary to ensure the completeness and accuracy of bookings. No price list was provided with the information for internal audit. Income transactions are not referenced from the ledger to income records and the income file, in no particular order, is a mixture of booking forms, receipts or handwritten slips. Therefore, we conclude there is no satisfactory system of internal controls over the completeness and accuracy of hall income and no system to ensure all hall hire bookings are invoiced, collected and recorded in the accounting ledger.</p> <p>The same issues applies to the Darnhall show stall bookings, and all other Darnhall show receipts are handwritten receipt forms for deposits. There are no written internal controls for the cash collection procedures at</p>	<p><i>The council need to urgently establish appropriate systems of internal control over all income types.</i></p> <p><i>For hall hire there should be an audit trail from booking forms to a sequentially referenced invoice and to the transaction in the SCRIBE ledger. Written internal control procedures should be in place for all cash income sources, including the Darnhall show. Vouchers should be retained for expenditure paid out of cash incomes.</i></p> <p><i>In future all available income records need to be provided for internal audit, including hall booking diaries and the hall price lists.</i></p>	

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	<p>the show. Any expenditure paid out of show income is not evidenced by an invoice eg £20 paid for support with car parking.</p> <p>We understand the 200 club will no longer be operated by the council in 2020/21.</p>		
6	<p>FRs state in section 8.1 <i>'To help obtain value for money and best terms it is recommended that three quotes or estimates be obtained from three different suppliers for all goods and services over £500.'</i></p> <p>However, section 9g sets the threshold as between £1000 and £5000 for quotations and above £5000 for tenders.</p>	<p><i>The FRs should be reviewed in 2020/21 to ensure the procurement regulations are consistent</i></p>	
7	<p>No evidence was provided that any of the supplies in excess of the thresholds noted in 6.) above were subject to three quotations.</p>	<p><i>Supplies in excess of the threshold for quotations must be procured in accordance with the contract financial regulations</i></p>	
8	<p>Financial Regulations state in 8.1 <i>'For all work, goods and services Darnhall Parish Council will require an official order or letter unless a formal contract is to be prepared or an official order would be inappropriate. The Clerk will keep all copies of orders or letters.'</i></p> <p>There is no current Purchase Order system in place at the council.</p>	<p><i>If the Purchase Order section of the model FRs is an accepted requirement by council, then the council should establish a sequential Purchase Order system.</i></p>	

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9	<p>Petty cash has only been used once in the year. As a result, significant expenditure has been incurred directly by councillors and then reclaimed from the council but there is no Authority to Spend for individual councillors in the Financial Regulations (FRs).</p>	<p><i>The council need to either reinstate the petty cash system that FRs refer to and/or also consider establishing a Debit Card/Credit Card with FRs updated accordingly. The council should ensure in future that councillors are not incurring sundry expenditures and then reclaiming from the council as FRs do not authorise this.</i></p>	
10	<p>Invoices</p> <p>We could not identify the invoices/vouchers for the following supplies:</p> <p>Cheque 607 £500 Darnhall PC Fundraising Cheque 489 £20 Cheshire Community Action Cheque 478 £25 Sailing Club Cheque 530 £25 Office Supplies Cheque 539 £274.42 Room hire</p> <p>Cheque 532 appears to be a duplicate payment of the supplies covered by Cheques 528 and 529.</p> <p>Invoices were not always filed in cheque number order making it difficult to identify invoices.</p>	<p><i>Invoices should be retained for all expenditure and filed in cheque number order.</i></p> <p><i>The council should review whether a duplicate payment has occurred as noted.</i></p>	
11	<p>General reserves are in excess of 430% of the precept level but there are no disclosed earmarked reserves.</p>	<p><i>The council should review the level of reserves at the next precept setting with reference to sector guidance, and</i></p>	

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	Sector guidance is that general reserves (ie non earmarked reserves) should be between 25% and 100% of the precept.	<i>disclose earmarked reserves separately.</i>	
12	No VAT reclaims have been submitted in respect of 2019/20.	<i>VAT should be reclaimed on a timely basis.</i>	
13	The initial accounts presented for internal audit were incorrect and this was reported to the clerk on May 27 th . The correct versions of the SCRIBE accounts were not then provided by an interim clerk until August 17 th , close to the deadline for submissions to the external auditor.	<i>Information for internal audit should be provided on a timely basis and well in advance of AGAR submission deadlines</i>	
2018/19 internal audit			
1	<p>The accounts presented for internal audit were incorrect as follows:</p> <ul style="list-style-type: none"> - internal transfers between the hall accounts and the council general accounts had been included as actual receipts and payments - the groundworks repayment has incorrectly been netted down. - Rounded figures were used for brought forward balances <p>We have provided the council with a</p>	<p><i>Internal transfers should not be included in the receipt and payments accounts of the council.</i></p> <p><i>Transactions should not be netted down in the accounts – they should always be recorded gross.</i></p> <p><i>Figures in the bank reconciliation should always be included to nearest penny.</i></p>	Implemented

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	spreadsheet that identifies the errors and the correcting adjustments for the accounts for the AGAR annual return		
2	Not all expenditure incurred for the hall is being reported to council for approval.	<i>The village hall forms a part of the council and therefore all payments should be reported to council for approval and recorded in the minutes</i>	
3	The previous clerk has taken advice regarding the VAT status of the works to the town hall, but the detailed advice and the conclusion is not presented in the minutes. Therefore, it is not clear on what basis the council has concluded it can reclaim VAT on the works to the town hall.	<i>The independent VAT advice and conclusion regarding the recoverability of VAT in respect of the village hall works should be reviewed and actioned by council.</i>	Recommendation outstanding
4	Although there are fixed prices for the hires at the village hall a number of groups are offered lower rates and some groups are offered discounts based on regular bookings. However, the minutes do not record the council agreeing the pricing policy for the village hall.	<i>The council should approve a pricing policy for the village hall annually.</i>	Recommendation outstanding – no evidence provided for the 2019/20 internal audit
5	The petty cash book is not reviewed and signed as approved by the Chair.	<i>At the end of each financial year the Chair should review and approve the petty cash transactions for the year. The petty cash book should be made available for review by council.</i>	Only one petty cash item in 2019/20
6	The council is a data controller but has not	<i>The council should ensure updated</i>	Recommendation

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	<p>taken effective action to ensure compliance with the GDPR as prescribed in the Data Protection Act 2018. For instance:</p> <ul style="list-style-type: none"> - There is no up to date published data protection policy - No internal privacy policy - No information security policy - GDPR compliant data breach and SAR procedures not adopted 	<p><i>GDPR compliant policies and procedures are adopted and published.</i></p>	<p>outstanding – a general privacy notice has been published on the website but no evidence was provided of any other actions taken re. GDPR compliance</p>
7	<p>The previous clerk confirmed that the working group managed the village hall. However, a working group is not able to take decisions or commit the council to expenditure as they are not a committee or sub-committee of the council</p>	<p><i>The council should review the status and terms of reference of the village hall working group.</i></p>	<p>Implemented</p>

IMPORTANT GUIDANCE NOTE

INTERNAL AUDIT CERTIFICATE in the AGAR

There is a new internal control objective (Objective L) in the 2018/19 internal audit certificate that requires internal audit to conclude on whether the Public Rights Notice during the **previous Summer** was compliant with the Regulations. This is pre-filled for 2018/19 but in order to test this and conclude YES or NO for the 2019/20 internal audit we would need to receive with the 2019/20 books and records:

- A copy of the completed 2018/19 Notice of Public Rights and Publication of the Unaudited Annual Governance and Accountability Review
- A dated photograph showing the first day of the Notice of Public Rights on the noticeboard and/or a dated computer screenshot showing the first date of the Notice of Public Rights on the website for 2018/19

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<p>Our approach to this new requirement will be to conclude NO if we have not received the above evidence and explain on the AGAR that we received insufficient evidence to be able to conclude YES; we would also conclude NO if the dates advertised were not compliant with the Regulations.</p>			
<p>This will be a new ongoing requirement for internal audit, as well as verifying whether certain smaller councils meet the exemption criteria from an external audit. Therefore, for the 2019/20 internal audits there will be additional time charged at a fixed fee of £9 + VAT per local council to complete the new requirements.</p>			
<p>2017/18 internal audit</p>			
1	<p>The council have had to make material adjustments to prior years and restate the 2015/16 brought forward balances and the 2016/17 accounts. This was required to ensure the village hall and 200 club transactions had been included. The same accounting treatment had been applied to the 2017/18 accounts.</p> <p>However, review of the amended accounts identified that internal transactions had been included. These were the donations from the parish council account and the 200 account to the village hall account. We have provided adjustments to the clerk to correct these errors.</p>	<p><i>Internal transactions should not be included in the year end accounts for the Annual Return.</i></p>	<p>Recommendation outstanding – see 2018/19</p> <p>2019/20 follow up - implemented</p>
2	<p>No receipts and payments accounts and vouchers were provided for the 200 Club accounts.</p>	<p><i>A record must be maintained of all 200 club transactions and the associated receipts and payment vouchers retained. If any payment vouchers contain</i></p>	<p>Implemented</p>

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		<i>standard rated VAT this should be reclaimed as part of the annual VAT claim.</i>	
3	It is not clear from the records provided how much cash is held at any one time by the 200 Club. The money cover insurance should be assessed for adequacy with reference to the maximum cash held at any one time in the financial year	<i>The adequacy of money cover insurance should be reviewed annually</i>	Implemented
4	Data Protection Law changed significantly on May 25 th 2018 due to the 2016 EU Directive General Data Protection Regulation (GDPR) taking effect. GDPR replaces the 1998 Data Protection Act and it will impose new obligations on Data Controllers and Data Processors and provides enhanced rights for individuals. Compliance with GDPR could have resource implications for local councils.	<i>The impact of GDPR on the council should be identified through review of ICO guidance and the Data Protection policy, risk assessment and internal controls should be updated accordingly.</i>	See 2018/19 issues