

Handforth Parish Council

2020/21 Interim Internal Audit Report

The internal audit of Handforth 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

The interim internal audit provides evidence to support the annual internal audit conclusion on the Annual Return for local councils.

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 in place, adequate for the purpose intended and effective. The recommendations reported overleaf should be implemented. As part of the internal audit work for the next financial year we will follow up all recommendations.

JDH Business Services Limited

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ACTION PLAN

| | ISSUE | RECOMMENDATION | FOLLOW UP |
|---|--|---|-----------|
| 1 | <p>There is currently an investigation by the Monitoring Officer of the unitary council into councillor conduct at the parish council. The final report of this investigation will be reviewed as part of our year end internal audit and if any evidence of non-compliance with laws, regulations and proper practice is identified, including whether individual meetings were compliant with requirements, we will reflect these findings in our annual internal audit certificate and qualify the 2020/21 internal audit certificate accordingly.</p> | | |
| 2 | <p>The plant bedding contract ended in July 2020 and is in excess of the level in the Financial Regulations (FRs) that requires market testing. However, there is no evidence that the council carried out any process to secure three quotations for the contract. In addition, there is no formal signed contract extension in place from when the previous contract ended.</p> | <p><i>The council must comply with the procurement requirements of the Financial Regulations.</i></p> | |
| 3 | <p>There was a lack regular budgetary control review by the council during the financial year. Section 3.3 of the Financial Regulations require the following :</p> | <p><i>Regular budgetary control information should be reviewed by council during the financial year in accordance with the Financial Regulations.</i></p> | |

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| | <p><i>'The RFO shall regularly provide the Full Council with a statement of receipts and payments to date under each head of the budgets, comparing actual expenditure to the appropriate date against that planned as shown in the budget. These statements are to be prepared at least at the end of each financial quarter.'</i></p> | | |
| 4 | <p>There is ambiguity as to whether the LITE contract was extended for 5 years with the supplier using prices relevant to a 5 year contract, or whether the contract resolution in the minutes for 2018 extended the three year contract by a further two years to the end of 2020. In any event, we are informed the contract was ended in early 2021.</p> | <p><i>The council should ensure the lighting contract is subject to market testing as required by the Financial Regulations in 2021/22.</i></p> <p><i>Signed contracts should be in place for all significant contracts and for any agreed contract extensions.</i></p> | |
| 5 | <p>Petty cash is recorded in the SCRIBE ledger as £564.92 on February 19th, 2021 which exceeds the maximum level of petty cash authorised in the Financial Regulations of £500.</p> | <p><i>Recurring Issue</i></p> <p><i>Petty cash should be strictly maintained at the levels specified in the council Financial Regulations.</i></p> | |

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| 6 | Donations were made by petty cash for £100 to Handforth Scarecrows and £250 to Hope Central Foodbank. The FRs authorise petty cash to be used only for the purpose of defraying operational and other expenses, not for providing donations. | <p><i>Recurring Issue</i></p> <p><i>Donations should not be made by petty cash. All donations should be made by cheque or other bank payment mechanism</i></p> | |
| 7 | The risk assessment does not address the risks of supplier (procurement) fraud. | <p><i>The risk assessment should be updated to include supplier (procurement) fraud including the adequacy of supplier onboarding controls.</i></p> | |
| 2019/20 year end internal audit | | | |
| 1 | Petty cash at the year-end is recorded as £732.85 in the SCRIBE ledger which materially exceeds the maximum level of petty cash authorised in the Financial Regulations of £500. | <p><i>Petty cash should be strictly maintained at the levels specified in the council Financial Regulations.</i></p> | <p><i>See 2020/21 issues</i></p> |
| 2 | There is a general capital reserve of £25,000 which the clerk has noted concerns the potential devolution of the Handforth Youth Centre. | <p><i>If the general capital reserves of £25000 are intended to be an earmarked reserves, there should be a clear description of the reserve as an earmarked reserve in the analysis of</i></p> | <p><i>To be followed up at 2020/21 year end internal audit</i></p> |

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| | | <i>council reserves.</i> | |
| 3 | There are material underspends for Social Support, Parish Council costs, and Youth expenditure budgets. These budgets were reduced in November 2019 with a portion reallocated to general reserves. | <i>The council should aim to set a precept underpinned by budgets that reflect realistic and deliverable expenditure plans in the financial year including identified projects and schemes.</i> | <i>To be followed up at 2020/21 year end internal audit</i> |
| 4 | <p>Contracts:</p> <ul style="list-style-type: none"> - The current maintenance Service Level Agreement ends in July 2021. - The current plant bedding contract ends in July 2020. - The Christmas lighting contract was initially a three year contract which was then extended for another two years by council | <p><i>The council is increasing in size and scope and therefore a contracts register should be established which should be regularly reviewed to identify those contracts where the upcoming end date signifies that a tender or quotation process is required.</i></p> <p><i>The maintenance SLA ends in July 2021, and the plant bedding contract ends in July 2020. Both contracts should be procured in accordance with FRs.</i></p> <p><i>The council should note that the Christmas lighting contract has been extended once, but that continued extension of the contract should not occur as this would mean the contract would not be subject to the requirements of FRs</i></p> | <i>See 2020/21 issues</i> |

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| 5 | <p>The council should uses model Financial Regulations (FRs) which refer in section 10.) to a Purchase Order (PO) system. However, no PO system is currently in place.</p> <p>NALC have recently issued updated model Financial Regulations, that also cover online banking in detail.</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> <p><i>The council should align the updated 2019 NALC model Financial Regulations to the council scope and activity and adopt them.</i></p> | <i>To be followed up at 2020/21 year end internal audit</i> |
| 6 | Material purchases invoiced via the HomeAssist contract can also include assets eg office blind. | <i>The council should review the maintenance SLA material purchases to identify items that are capital and update the fixed asset register accordingly. The office blind should be added to the fixed asset register.</i> | <i>Implemented</i> |
| <i>2019/20 interim internal audit</i> | | | |
| 1 | The 2017/18 risk assessment is the latest risk assessment published on the council website | <i>The website should be populated with up to date information. For the risk assessment this should be the 2019/20 version</i> | <i>Implemented</i> |
| 2 | The July, August and April 2019 minutes had not been signed by the Chair | <i>The council minutes should be reviewed and signed by the Chair to confirm they are a complete and accurate reflection of the meetings</i> | <i>To be followed up at 2020/21 year end internal audit</i> |

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| 3 | A donation was made by petty cash for £100 to Transition Wilmslow | <i>Donations should not be made by petty cash. All donations should be made by cheque or other bank payment mechanism</i> | <i>See 2020/21 issues</i> |
| 2018/19 year end internal audit | | | |
| 1 | <p>The reserves analysis provided for internal audit indicates that £154k of total reserves of £177k are earmarked for specific schemes. Therefore, the remaining reserves of £23k represent general reserves.</p> <p>Sector guidance is that general reserves should be between 3 and 12 months of the precept which indicates a minimum level of £21250.</p> | <i>The council should continue to monitor reserve levels to ensure a reasonable level of general reserves is maintained.</i> | <i>Implemented, however, it should be noted that the Access for All £30k earmarked reserve is no longer required and so will need reallocation or transfer to general reserves. Also see 2019/20 year end issues.</i> |
| <p>IMPORTANT GUIDANCE NOTE</p> <p>INTERNAL AUDIT CERTIFICATE in the AGAR</p> <p>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:</p> <p style="text-align: center;">- A copy of the completed 2018/19 Notice of Public Rights and Publication of the Unaudited Annual Governance and Accountability Review</p> | | | |

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| | <p>- 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</p> <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><i>2018/19 interim audit</i></p> | | |
| 1 | <p>Members can use private email addresses or the emails provided by the council to conduct council business. This creates data protection risks as follows:</p> <p>1.) The clerk will be unable to apply the limits set in the retention policy to private emails and any attachments in the emails. Therefore, the council will be unable to comply with the adopted retention policy</p> <p>2.) If a Subject Access Request is received, the clerk may be unable to search all the private email</p> | <p><i>To reduce data protection risks and enable full compliance with data protection policies and procedures members should only use council email addresses to conduct council business.</i></p> | <p><i>2019/20 interim audit follow up: Implementation in progress</i></p> |

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| | <p>accounts to ensure all personal data in respect of a data subject is completely and accurately captured</p> <p>3.) The risk of a data breach is increased as the council security envelope does not extend to private email accounts</p> | | |
| 2 | The insurance provided by Zurich is an 'all risks' policy, however, we could not identify data protection insurance in the schedule | <i>The council should query with Zurich whether Data protection risks including breaches are covered in the insurance policy</i> | <i>The Insurance provider has confirmed data protection insurance was already in place</i> |
| 3 | <p>Budgetary control</p> <p>There is a depreciation section in the revenue budget, however, no such expense is permissible under the capital accounting regime for local councils. If council needs to repair or replace an asset there is a ledger code for repairs and renewals. There is also a sinking fund in earmarked reserves for replacement of assets.</p> | <i>The council should rationalise the number of codes/reserves for repair and replacement of assets by removing the ledger code for depreciation, particularly as a depreciation charge is not permitted under the capital accounting rules for local councils.</i> | <i>Implemented – repairs and renewals accounts have been rationalised</i> |
| 4 | The council is planning a substantial | <i>The council should ensure the empowering</i> | <i>No longer applicable as entire scheme</i> |

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| | contribution to provide a disabled access to the railway station. | <i>legislation to incur this expenditure is clearly stated in the minutes.</i> | <i>financed by central government grant.</i> |
| <i>2017/18 year end audit</i> | | | |
| 1 | <p>Data Protection Law will change significantly on May 25th 2018 due to the 2016 EU Directive General Data Protection Regulation (GDPR) taking effect.</p> <p>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.</p> | <i>The impact of GDPR on the council should be identified through review of ICO and NALC guidance and the Data Protection policy, risk assessment and internal controls should be updated accordingly</i> | <i>Implemented - Data Protection officer appointed and data protection policies and procedures in place.</i> |
| <i>2017/18 interim audit</i> | | | |
| 1 | The Home Assist total contract payments for the financial year will exceed the £5000 threshold in the Financial Regulations. | <i>The council should establish a medium-term period for this contract and secure three quotations, in accordance with Financial Regulations, at the end of each medium contract term.</i> | <i>SLA Implemented</i> |

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| 2 | The council now maintains receipts and payments transactions using accounting software. | <i>The current software version only allows receipts and payments accounts. The council should ensure the software can be upgraded in the future to produce income and expenditure accounts with an extended trial balance and balance sheet as this will be a requirement when income or expenditure exceed £200,000 per annum.</i> | <i>Implemented – Scribe software can be upgraded when required</i> |