

**INTERNAL AUDIT REPORT
SHAVINGTON-CUM-GRESTY PARISH COUNCIL
2019/20**

The internal audit was carried out by undertaking the following tests 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 included in the action plan need to be implemented promptly.

JDH Business Services Limited

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| | ISSUE | RECOMMENDATION | PARISH COUNCIL COMMENTS |
|---|--|---|---|
| 1 | The initial budget setting process for 2019/20 failed to take account of the full year projected PCSO costs resulting in a shortfall in the initial budget of £13,000. | <i>The budgeting process that underpins the setting of the precept must be improved to take account of all known expenditure.</i> | This was subsequently corrected at a special meeting held on 14 January 2019 to address the Clerk's oversight and the correct amount was included in the budget. |
| 2 | A £3,000 transfer between bank accounts had incorrectly been included in payments in the AGAR annual return accounts. Therefore, the year end balances and other payments were incorrectly stated. | <i>The Other Payments figure in the Annual Return should be reduced by £3,000 and the year end balances. The year end balances should equate to £58,977 (rounded).</i> | The Clerk acknowledged the error. |
| 3 | The council did not comply with Regulation 15 of the Account and Audit Regulations 2015 as it failed to make proper provision for the exercise of public rights in Summer 2019 for the 2018/19 accounts as the approval date of the accounts in the AGAR annual return was after the start date of the period for the exercise of public rights. | <i>The council must ensure that it makes proper provision for the exercise of public rights for every financial year</i> | <p>Noted. This was commented on by the External Auditor in respect of the accounts for 2018/2019, but the Clerk failed to submit its report to the Council.</p> <p>The report was not received until December 2019 but should have been submitted to the January 2020 meeting, but was not. It was eventually submitted to the 15 July 2020 meeting.</p> <p>The main reason that there was no compliance is that under a new requirement, there should have been a dated photograph taken of the notice in the notice-board. The Clerk was, therefore, unable to offer evidence that the notice was displayed as the Clerk was not made aware of the requirement until after the notices had been displayed. She provided an explanation of this to the IA.</p> |
| 4 | We reported in 2018/19 that Minute 289 of the March 2019 meeting appeared to delegate various authorities relating to the village hall to a single member, which includes the ability to commit the council to expenditure and to make decisions for the council. It is clear from the 2019/20 records that councillors have undertaken roles and committed the council to expenditure for the hall. | RECURRING RECOMMENDATION <i>The council need to resolve this situation urgently and ensure functions are delegated only to a committee, sub-committee or an officer and that no councillor commits to council to orders or contracts for expenditure</i> | <p>This was partially dealt with at the meeting held on 10 July 2019 (Minute 57) when the delegation to a Councillor was rescinded and it was agreed that <i>decisions in respect of spend for the Village Hall be delegated to the Clerk, with immediate effect.</i></p> <p>The other issues regarding councillors having committed the Council to expenditure for the Village Hall was reviewed, and in the absence of more detail, the Council is not aware that there were any actions taken by individual councillors had committed the Council to any expenditure.</p> |

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|---|--|--|--|
| | <p>Under s101 (1), (5) and (6) of the Local Government Act 1972 a parish council may arrange for any of its functions to be discharged by a committee, sub-committee or officer. S101 does not permit the council to delegate its functions to a single member. Therefore, the council may be currently operating in breach of the Local Government Act 1972.</p> | | |
| 5 | <p>Income systems for the village hall could not be tested as no supporting documentation such as diaries/booking forms/invoices and receipts were provided. The Clerk had requested the items from the councillor managing the bookings system but these had not been received at the date of the internal audit. It is likely that the pandemic and subsequent lockdown has impacted on the Clerk's ability to secure all the income information required.</p> | <p><i>The council needs to urgently re-establish effective internal controls over hall hire and ensure all hall hire documentation is retained and made available for internal audit.</i></p> | <p>During 2020-2021 there have been very few hall bookings owing to the pandemic.</p> |
| 6 | <p>The fixed asset register value is incorrect as it does not cast correctly. An asset purchased in 2019/20 has been added, but the register is maintained as a WORD document rather than a spreadsheet so the total has not changed. In addition, there is a statement on the asset register about a recommendation from internal audit from 2017/18 that was never actually made. Finally, the clerk having corrected the final 2018/19 asset register disclosure on the AGAR annual return, has this year made the same error again and included a recent valuation figure(s) for assets.</p> | <p><i>The fixed asset register should equate to last year's figure from the AGAR annual return plus the one addition in the year. Therefore, the register needs to be amended and the Annual Return disclosure.</i></p> <p><i>The invalid statement about internal audit recommendations from 2017/18 must be removed from the asset register.</i></p> <p><i>The asset register should be maintained as an excel spreadsheet.</i></p> <p><i>The Practitioners' Guide requires that assets should be valued at purchase cost or an insurance proxy if that isn't known (that doesn't change over time), therefore, the only</i></p> | <p>The Register has now been revised.</p> <p>The statement referenced by the IA that the comment was not actually made is correct. The comment was made during the 2016-2017 audit and <u>not</u> the 2017-2018 audit. His recommendation was that Council should set up a Task and Finish Group to identify all assets owned by the Council and record them in a formal asset register with details of date of purchase, location, value, method of valuation and custodian. The note which the Clerk added this year was the sentence which had been on the IA report in 2016-2017, viz. "During the audit of the accounts in 2017-2018, the internal auditor commented that the assets did not reconcile with sums insured. An Assets Task Group was set up, but for various reasons failed to meet</p> |

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| | | <p><i>movement in fixed assets each year should be for additions and disposals and all additions should be at purchase price.</i></p> <p><i>The Council needs to review the asset register and disclose the correct value in the AGAR Annual Return which should equate to the value for fixed assets disclosed in the 2018/19 AGAR annual return plus additions at cost less disposals at cost.</i></p> | <p><i>during that financial year and was not re-constituted during 2019-2020.”</i></p> <p>The Task Group did meet during 2019-2020 and has produced a revised assets list which is now enclosed.</p> <p>Although an amendment was made to the list of assets in 2019-20 and an explanation was provided to both the IA and the external auditor, PKF Littlejohn did not make any observations.</p> |
| 7 | The information provided for internal audit indicated that VAT had not been reclaimed on Direct Debits. The material VAT issue raised in 2018/19 has still not been addressed. | <p><i>VAT on Direct Debits should be separately analysed and reclaimed</i></p> <p><i>Issue 4 of the 2018/19 report relating to VAT and partial exemption must be addressed.</i></p> | <p>The material issue referenced is the extensive VAT incurred as a result of the building works in the Village Hall.</p> <p>The Parish Council sought the advice of a VAT specialist and the Clerk’s report to the Council on 5 May 2021 is now enclosed.</p> |
| 8 | Sample testing identified an expenses claim for £189.97 from a councillor with no receipts provided. | <i>Expenditure invoices/vouchers must be provided for all expense claims. VAT cannot be reclaimed on standard rated expenditure that is not supported by a VAT invoice.</i> | This relates to social media advertisements for the Village Hall. A claim was submitted by the Councillor but appears to have been omitted from the papers supplied to the IA. |
| 9 | We raised a number of important issues last year, but most have not been addressed and there is no record in the council minutes of our report, or the external auditor report, being reviewed by council. | <i>The council should urgently review all issues from 2018/19 internal audit and the 2019/20 internal audit and take prompt action to implement the recommendations.</i> | <p>This is not accurate. The Parish Council considered the IA report at its meeting on 10 July 2019 (Minute No. 57).</p> <p>The issue regarding the External Auditor is accurate, and the Clerk acknowledged this to the IA. The External Auditor’s report formed part of the agenda for 15 July 2020.</p> <p>As noted in (3) above, the report was not received until December 2019 but should have been submitted to the January 2020 meeting, but was not.</p> |

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|-------------------------------|--|---|--|
| 2018/19 internal audit | | | |
| 1 | <p>A budget of £180,595 has been set for 2019/20 to be financed by £129,000 precept and the remainder from the entirety of forecast general reserves at the end of 2018/19. This approach to the 2019/20 budget would potentially either level the council with a critically low level of reserves, or no reserves so that any overspend could mean the council running at a deficit in funds.</p> <p>Therefore, the budget set for the 2019/20 financial year does not take into account of 'an amount that the council estimates will be appropriate to meet future estimated expenditure' (ie to hold in reserves). This is a requirement of the Local Government Finance Act 1992.</p> | <p><i>The council should urgently improve budgetary control and budget setting:</i></p> <ul style="list-style-type: none"> • <i>The Council should review its budget analysis and ensure that it can balance the budget for 2019/20. The items in particular that need to be reviewed are the £10000 unallocated sum and the £20,000 budget for a purchase of parcel of land. These two budgets may be needed instead to ensure general cash reserves are in place at the year end.</i> • <i>The council must ensure that they are carrying an adequate general reserve. Sector guidance is that this should be between 3 and 12 months of the precept level</i> • <i>Budgetary control reports detailing spend to date against budget should be regularly reported during 2019/20</i> | See 2019/20 issues |
| 2 | <p>Minute 289 of the March 2019 meeting appears to delegate various authorities relating to the village hall to a single member, which includes the ability to commit the council to expenditure and to make decisions for the council. Under s101 (1), (5) and (6) of the Local Government Act 1972 a parish council may arrange for any of its functions to be discharged by a committee, sub-committee or officer. S101 does not permit the council to delegate its functions to a single member.</p> <p>Therefore, the council may be currently operating in breach of the Local Government Act 1972.</p> | <p><i>The council need to resolve this situation urgently and ensure the functions listed in minute 289 are delegated only to a committee, sub- committee or an officer.</i></p> | <p>Recommendation outstanding – see 2019/20 issues</p> <p>Already addressed (Minute No. 57 (A) 10 July 2019).</p> |

**INTERNAL AUDIT REPORT
SHAVINGTON-CUM-GRESTY PARISH COUNCIL
2019/20**

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|---|---|--|---|
| 3 | <p>Income systems for the village hall could not be tested as there was no audit trail from diaries to booking forms to invoices and to bankings. We could identify no booking forms, invoices, booking diaries or price lists. We understand that bookings were maintained on a personal computer by a councillor but that this information is not now available. The clerk has carried out an exercise to record all entries in the receipt books (total £3740) and to match with actual deposits into the bank (£3,425), but this differs by £315.</p> | <p><i>The council need to urgently re-establish effective internal controls over hall hire and ensure all hall hire documentation is retained and made available for internal audit.</i></p> <p><i>The council should investigate the shortfall in hall hire bankings of £315.</i></p> | <p>Recommendation outstanding – see 2019/20 issues</p> |
| 4 | <p>We previously recommended that the council should secure VAT advice on the impacts of the significant works to the town hall on the amount of VAT that can be reclaimed, due to the £7500 partial exemption threshold.</p> <p>No VAT specialist advice has been secured and no VAT reclaim has been submitted for 2018/19 nor any received during 2018/19 relating to previous periods.</p> | <p><i>The council need to urgently secure guidance from the SLCC VAT advice function to determine to what extent the VAT incurred on the village hall can be reclaimed. A VAT reclaim then need to be submitted promptly as the VAT will be needed to contribute to the cash reserves in 2019/20.</i></p> | <p>Recommendation outstanding – see 2019/20 issues</p> <p>The Parish Council sought the advice of a VAT specialist at Afford Bond Ltd, Nantwich and the Clerk's report to the Council is enclosed.</p> |
| 5 | <p>The council have revalued the village hall and reflected the new value in the fixed asset register.</p> | <p><i>The Practitioners' Guide requires that assets should be valued at purchase cost or an insurance proxy if that isn't known (that doesn't change over time), therefore, the only movement in fixed assets each year should be for additions and disposals and all additions should be at purchase price.</i></p> <p><i>The Council need to review the asset register and disclose the correct value in the AGAR Annual Return which should equate to the value for fixed assets disclosed in the 2018/19 AGAR annual return plus additions at cost less disposals at cost.</i></p> | <p>See 2019/20 issues</p> |

**INTERNAL AUDIT REPORT
SHAVINGTON-CUM-GRESTY PARISH COUNCIL
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|---|--|--|---|
| 6 | S137 payments are recorded in the minutes but there is no separate analysis in the cash book so the cumulative level of S137 can be recorded against statutory limits. | <i>A separate analysis of S137 payments should be maintained in the cash book.</i> | Recommendation outstanding Acknowledged that there should be a separate column for S.137 payments, but there have been no such payments in 2019-2020. |

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

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.

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.

2017/18 internal audit

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| 1 | The risk assessment was not reviewed, updated and approved during 2017/18. | <i>Risk assessment should be reviewed and approved each financial year</i> | Implemented |
| 2 | Reserves are in excess of 100% of the precept. The clerk has noted that £39,500 is required for disabled toilet works to the village hall. | <i>The council needs to formally identify earmarked reserves in the minutes and in the year-end accounts</i> | See 2018/19 issues |

**INTERNAL AUDIT REPORT
SHAVINGTON-CUM-GRESTY PARISH COUNCIL
2019/20**

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| 3 | <p>We note that there is still no fixed asset register to support the brought forward fixed asset values in the accounts and that the council is now unlikely to secure a copy of the previous asset register.</p> | <p><i>The council should equate the inventory of fixed assets to the brought forward total fixed asset values and ensure additions to this are recorded at cost.</i></p> | See 2018/19 issues |
| 4 | <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> | <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></p> | Ongoing implementation |
| 2016/17 audit | | | |
| 1 | <p>A number of errors were identified in the year end accounts, cash book and bank reconciliation:</p> <ul style="list-style-type: none"> - Petty cash deposited had been incorrectly included in the receipts and payments cash book - The difference between petty cash per the petty cash book in 2015/16 and the actual amount deposited had not been correctly accounted for - 2 Cheques totaling £950 that had been reissued and therefore the originals cancelled were included twice in the cash book - Cheque 500754 was entered incorrectly in the cash book (difference 50p) - A balancing figure had been included in the payments cash book for £7.52 | <p><i>The accounts and the bank reconciliation have been balanced, and the correct annual return figures provided to the clerk</i></p> | Implemented |

**INTERNAL AUDIT REPORT
SHAVINGTON-CUM-GRESTY PARISH COUNCIL
2019/20**

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| 2 | <p>Fixed assets in the annual return have increased from £636775 in 2015/16 to £824225 in 2016/17 which is the insurance value. No fixed assets have been purchased in the year according to the asset register.</p> <p>The previous fixed asset register has been mislaid by the previous clerk., therefore the council are using the assets recorded on the insurance schedule.</p> | <p><i>Fixed assets in 2014/15 and 2015/16 were recorded and accepted by external audit as £636775. As no additions or disposals are recorded in the asset register for 2016/17 the figure should remain as £636775.</i></p> <p><i>Therefore, the council should amend the annual return figure to £636775 for 2016/17.</i></p> <p><i>The council need to set up a task and finish group to identify all assets owned by the council and record them in a formal asset register including description, date purchase, location, value, method of valuation, and custodian</i></p> | Implemented |
| 3 | <p>The March 2017 minutes indicate a significant programme of renovations are to be carried out to the hall. There is no mention of cost or of potential VAT implications.</p> | <p><i>The council need to ensure they are aware of the VAT notice 749 and the partial exemption rules. If the level of VAT reclaimed relating to exempt activity (and hall hire is exempt activity) exceeds £7500 in any one year then none of the VAT relating to the exempt activity (eg VAT on hall renovations) can be reclaimed. There are actions the council can take such as opting to tax but these would need to be discussed with a VAT specialist.</i></p> <p><i>If the contract is going to result in VAT on exempt activity exceeding £7500 the council will need to assess the VAT implications.</i></p> | See 2018/19 issues |
| 4 | <p>The year end bank statement was not provided for the hall bank account. The accounts were balanced to an earlier date as a phone call confirmation was received from the bank that no other transactions had occurred in the bank account after the date of the last statement.</p> | <p><i>In future, year end bank statements should be secured BEFORE producing the year end accounts and bank reconciliation</i></p> | Implemented |