

Yaxham Parish Council

Internal Audit Report

For Yaxham Parish Council

Financial Year 2017/18

Including Explanatory Notes for Annual Return
(where a 'no' has been marked)

Prepared by Catherine Moore
23rd June 2018

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I have completed an internal audit of the accounts for Yaxham Parish Council for the year ending 31 March 2018. My findings are detailed below using the tests provided in the Governance and Accountability (England) 2016.

Internal Control	Test	Observations / Recommendations
Proper bookkeeping	Is the cash book maintained and up to date?	Yes
	Is the cash book arithmetically correct?	Yes – minor audit amendments made
	Is the cash book regularly balanced?	Yes
Standing Orders, Financial Regulations, and Payment Controls	Has the Council formally adopted Standing Orders and Financial Regulations?	Yes
	Date Standing Orders last reviewed	March 2018
	Date Financial Regulations last reviewed	January 2018
	Has a Responsible Financial Officer been appointed with specific duties?	Yes - Clerk
	Have items or services above the de minimus amount been competitively purchased?	N/a
	Are payments in the cash book supported by purchase orders, invoices, authorised and minuted?	Yes – see note below
	Has VAT on payments been identified, recorded and reclaimed?	Yes – see recommendation and Appendix 1
	Is S137 expenditure separately recorded and within statutory limits?	N/a
	Have S137 payments been approved and included in the minutes as such?	N/a
Risk Management Arrangements	Does a review of the minutes identify any unusual financial activity?	No
	Do minutes record the Council carrying out an annual risk assessment or review of their risk management scheme?	Yes – March 2018
	Is insurance cover appropriate and adequate?	Yes

Internal Control	Test	Observations / Recommendations
	Are internal financial controls documented and regularly reviewed?	Yes
Budgetary Controls	Has the Council prepared an annual budget in support its precept and has this been minuted as being approved?	Yes
	Has the precept been calculated from the budget and been approved?	Yes
	Does the budget include an actual completed year?	Yes
	Is actual expenditure against budget regularly reported to the Council?	No – see recommendation
	Are there any significant unexplained variances from budget?	No
Income Controls	Is income properly recorded and promptly banked?	Yes
	Does the precept recorded agree to the Council Tax authority's notification?	Yes
	Are security controls over cash and near-cash adequate and effective?	Yes
Petty Cash Procedures	Is all petty cash spent recorded and supported by VAT invoices / receipts?	N/a
	Is petty cash expenditure reported to each Council meeting?	N/a
	Is petty cash reimbursement carried out regularly?	N/a
Payroll Controls	Do all employees have contracts of employment with clear terms and conditions?	Not presented for audit – please present next year
	Do salaries paid agree with those approved by the Council?	Yes
	Are salaries above the National Living Wage / Minimum Wage?	Yes
	Are other payments to employees reasonable and approved by the Council?	Yes

Internal Control	Test	Observations / Recommendations
	Have PAYE/NIC been properly operated by the Council as an employer?	No – see recommendation
Asset Controls	Does the Council maintain a register of all material assets owned or in its care?	Yes – see recommendation
	Are the assets and investments registers up to date? When were these last reviewed?	Yes – March 2018
	Does the asset insurance valuations agree with those in the asset register?	Yes
Bank Reconciliation	Is there a bank reconciliation for each account and is this reported to Council?	Yes
	Is a bank reconciliation carried out regularly and in a timely fashion?	Yes
	Are there any unexplained balancing entries in any reconciliation?	No
Year-End Procedures	Are year-end accounts prepared on the correct accounting basis? (Receipts and Payments or Income and Expenditure)	Yes – Receipts and Payments
	Do accounts agree with the cash book?	Yes
	Has a year-end bank reconciliation been undertaken?	No – see recommendation
	Is there an audit trail from underlying financial records to the accounts?	Yes
	Where appropriate, have debtors and creditors been properly recorded?	N/a
Procedural	Is eligibility for the General Power of Competence properly evidenced?	N/a – not adopted
	Have points raised on the last Internal Audit report been considered by Council and actioned?	Previous internal audit report not presented.
Transparency: For smaller	Are minutes for the whole year on the website?	Yes

Internal Control	Test	Observations / Recommendations
councils with turnover under £25,000	Are agendas for the whole year on the website?	No – see recommendation
	Are payments over £100 detailed on the website?	Yes
	Have electors' rights been advertised on the website?	Yes
	Are councillors' responsibilities detailed on the website?	Yes
	Is the last financial year's Annual Return on the website?	Yes
	Are the land and building asset details on the website?	No – see recommendation
Councils that are Burial Authorities	Are fees levied in accordance with the Council's approved scale of fees and charges?	N/a
	Have fees for the cemetery been reviewed and agreed by the Council?	N/a
	Were comparisons made with other cemeteries prior to setting the fees?	N/a
	Have burial books been kept up to date and are they safely stored?	N/a
Councils with Allotments	Has a list of allotment holders with amounts paid to Council been submitted?	N/a
	Have fees for the allotments been reviewed and agreed by Council?	N/a
Councils with Charities	Have Charities reported and accounted separately?	Yes
	Have Charity accounts been independently audited?	Yes
	Have the Charity accounts and Annual Return been filed within the legal time limit?	Yes
General Data Protection Regulation (*compliance from 25/05/2018)	Has the Council adopted a Data Protection Policy?	Yes
	Has the Council carried out an information audit?	Yes
	Has the Council put in place Privacy Notices?	Yes

Internal Control	Test	Observations / Recommendations
	Has Data Protection been built into the general procedures, processes and policies of the Council?	Yes

Summary of Recommendations:

- I note that the Council has been subject to a Public Interest Test following irregularities with the previous RFO’s claims for expenses. A number of expenses claims by the RFO, and a small number by the previous Clerk, were not supported by invoices. However I note that the new Clerk is now only making claims against invoices, and the Council should ensure that they check these claims before a cheque is raised.
- The Council appears to have incorrectly reclaimed VAT relating to the purchase and siting of the Portacabin. I have explained this further in Appendix 1, and I recommend that the Council either takes advice on the VAT treatment of this purchase, or just repays the £1,627.77 claimed.
- To help strengthen internal controls, the Council should request receipt of a periodic (eg quarterly) budget monitoring report, showing actual income and expenditure against the budget, and noting funds remaining against each budget line.
- The Council is not currently operating PAYE. All Councils are required to employ their Clerk (self-employed clerks are no longer permitted). Even when an employee is paid under the tax thresholds, the Council must still operate PAYE as the employee may have other employment elsewhere. I would recommend that the Council registers as an employer and back-dates their returns to the commencement of the employment of the existing Clerk, which may result in a refund of tax due from the Clerk. I have also not seen a copy of the contract of employment for the Clerk for this audit.
- I have reviewed the asset register and recommend that individual insurance sums are recorded against each line / item to ensure adequate coverage, rather than a lump sum.
- The Clerk should ensure that a bank reconciliation in the template format required by the auditor is presented with the audit documents.
- The Transparency Code requires Councils to publish their agendas on their website – this should be evidenced by ensuring that the audit year’s agendas are present until the audit has been completed. It also required that certain information relating to land and assets should be published – see https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/388541/Transparency_Code_for_Smaller_Authorities.pdf
- Due to missing information which I understand has been lost when the previous employees left, and an inadequate 2016/17 bank reconciliation, I have made a number of assumptions regarding the NS&I account which I have set out in Appendix 2.

I note that the Council has been through a difficult period, and that a great deal of work is underway to improve the standards of the Council, which is an ongoing process.

Signed:..... Date:

VAT Treatment of the Portacabin

I have examined the invoices, receipts and VAT reclaim relating to the purchase of the Portacabin and I believe that the Council may have reclaimed VAT that it was not entitled to.

From the audit, it would appear that the YVAA gave the Council £8,288.18 towards the project. The net cost of purchase and installation was £8,288.88, gross cost £9,946.65, the VAT difference being £1,657.77. The YVAA was then gifted the Portacabin facility.

The reclaim of this VAT is not permitted. The grant money originated from the YVAA, who were also the ultimate beneficiary of the facility, therefore YVAA should have donated the gross amount of £9,946.65. The only time that VAT can be reclaimed and the facility gifted to another organisation, is when the grant funding has originated from an external third party – eg S106/CIL money, or an Awards for All grant – although professional advice should always be taken.

VAT Note 749 outlines the Local Authority rules for reclaiming VAT, and says:

“11.1 Can I recover the VAT incurred on community projects, particularly work to village halls?”

If you are a local authority, you may:

- agree with a voluntary group to set up a project fund into which any funds raised locally and any grants received by the voluntary group will be paid, and
- use this fund to make the purchase or pay for the work on behalf of the voluntary group

However, these funds do not belong to you and so you cannot recover the VAT incurred.”

<https://www.gov.uk/government/publications/vat-notice-749-local-authorities-and-similar-bodies/vat-notice-749-local-authorities-and-similar-bodies#local-authorities-and-community-projects>

The Council is not the Managing Trustee of the Village Hall so para 11.3 does not apply. The Council has not carried out the work using its own funds and gifted this to the Charity, so para 11.4.4 does not apply.

The Council may wish to take professional advice to check whether the VAT treatment is permitted. Alternatively, if professional, indemnified advice was received this could be revisited and reconsidered, as if incorrect the Council may be able to claim against that professional's insurance. However the minutes do not record the result of any professional advice received on this matter.

Disclaimer: The author of this report is not an expert in VAT and writes only from previous experience and training received on VAT for Local Councils.

NS&I Deposit Account and 2016/17 Year End Balance

The 2016/17 Financial Statement presented with the audit papers reports an estimated figure for the audit, which should not have been accepted – a statement should have been obtained from NS&I. The previous RFO estimated £3,307.77 in the account. A later statement dated 16th August showed £3,302.86 in the account. I note that the balances on the Annual Return were adjusted in September 2017.

To prepare the 2017/18 audit, I have taken the balance of the NS&I account on 5th April 2018 as the figure for audit purposes. I note that the account was closed and funds of £3324.25 transferred on that date. Therefore interest of £21.39 has been accounted for in the 2017/18 accounts, and for the purposes of the 2018/19 audit, the account should show in the opening balance but not in the closing bank reconciliation, and no further interest should be recorded.

This situation has arisen because the bank statement has been sent to an address in Hilborough rather than to the Clerk/RFO's address.