

# *Public Sector Audit*

## Messingham Parish Council

### *Internal Audit Report for the year ended 31 March 2023*

*Public Sector Audit*

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### **Internal Audit Report for the year ended 31 March 2023**

#### Introduction

Part 2, paragraph 5 (1) of the Accounts and Audit Regulations 2015 imposes a duty on Local Councils to “undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

Internal audit is a key component of the system of internal control. The purpose of internal audit is to review whether the systems of financial and other controls over a council's activities and operating procedures are effective.

At the request of the council I have conducted an Internal Audit review of the council's accounting records in respect of the financial year ended 31 March 2023. I have acted independently and, on the basis of an assessment of risk, carried out a selective assessment of compliance with relevant procedures and controls expected to be in place during the financial year.

The audit has been carried out in accordance with the council's needs and planned coverage. On the basis of the findings in the areas examined, the internal audit conclusions and recommendations have been recorded in the table below.

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## Prioritisation of recommendations

In accordance with good internal audit reporting practice and the Governance and Accountability for Local Councils Practitioners Guide, the recommendations contained in this report have been prioritised. The following 'traffic light' system for the prioritisation of recommendations has been adopted: Page | 3

- Significant weakness in internal control requiring urgent attention.
- Moderate weakness in internal control requiring attention within the current year.
- Minor weakness in internal control, or matters of good practice the council may wish to consider, to be addressed within the current year.

### Distribution List

Chairman of the Council

All Members of the Council

Clerk to the Council

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The findings of the audit are summarised below

	<b>Test</b>	<b>Findings and Recommendations</b>
1	Have appropriate books of account been properly maintained throughout the year?	<p><u>Appropriate accounting records</u></p> <p><b>Findings</b></p> <p>The cash book has been maintained on a combined receipts and payments spread sheet. Both income and payments have been numbered and cross referenced to supporting evidence and the method of payment is noted.</p> <p>It is comprehensively analysed to provide the information required for the Annual Governance and Accountability Return (AGAR).</p> <p>A year-end bank reconciliation and four interim reconciliations, which include both of the council's bank accounts, have been undertaken during the year.</p>
2	Have the council's Financial Regulations and Standing Orders been formally adopted and complied with?	<p><u>Adherence to Financial Regulations and Standing Orders</u></p> <p><b>Findings</b></p> <p>The council reviewed and approved its Standing Orders and Financial Regulations at the meeting held on the 13th June 2022. On the 14th November 2022 the council resolved to adopt the revised NALC wording of Standing Order 18 regarding procurement thresholds.</p> <p>On the 21st December 2022, the Government increased the £25,000 threshold, under the Public Contracts Regulations, to £30,000. NALC has not yet amended its Model Standing Orders and Financial Regulations to take account of this legislative change. It is understood that ERNLLCA has advised councils to wait until NALC has updated its Standing Orders (18.c) and Financial Regulations (11.b) before amending these documents.</p>

		<p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● For clarity and transparency purposes the council may wish to update Standing Orders (18.a.c) and Financial Regulations (11.1.b). to reflect the increase in the Government's procurement threshold under the Public Contracts Regulations.</li> </ul>
3	<p>Are payment controls effective and VAT properly accounted for?</p> <p>Has the council recorded s137 expenditure separately and is it within the statutory limit?</p>	<p><u>Adequate payment controls</u></p> <p><b>Findings</b></p> <p>I have tested a large sample of payments made by the council including all high value invoices. All of the invoices tested have been authorised and agree to the minutes and cash book.</p> <p>I have reviewed the payments for completeness, accuracy, the correct year of account and classification within the accounts. All accounts tested have been accurately accounted for.</p> <p>The Clerk maintains a register of quotations sought and awarded for high-value goods and services and it is noted that tenders have been invited in accordance with Financial Regulations.</p> <p>I have checked that VAT has been correctly identified and recorded in the cash book. The spreadsheet of the VAT incurred during 2022/23 prepared by the Clerk for the reclaim from HMRC, agrees to the VAT recorded in the cash book.</p> <ul style="list-style-type: none"> <li>➤ It is noted that the purchase of sundry items (Ref. 34) by a Council Member included VAT. The VAT element was not, however, identified in the cash book for reclaim from HMRC. The VAT element of such purchases, even though the amount of VAT is not recorded on the receipt, can be reclaimed from HMRC under the simplified invoice/receipt rules.</li> </ul> <p>A separate account has been established for s.137 and the total expenditure in the year is £9,772.50. The expenditure is appropriate for this statutory power and is well within the statutory limit.</p> <ul style="list-style-type: none"> <li>➤ It is noted in section 6 of this report that the net proceeds from the Horticultural Show were gifted to Lindsey Lodge Hospice. As the Hospice is a registered Charity, the payment should have been recorded in the cash book as s.137 expenditure.</li> </ul>

		<p>Two Council Members have authorised all payments on the invoices and payment schedules, thus satisfying the principle that two councillors should be involved in all payments made by the council.</p> <p>Two cheques have been issued during the year and the cheque stubs have been initialled by one signatory to signify the agreement of the stub with the details on the cheque and the documentary evidence seen in support of the cheque at the time of signature. Both payments, however, have been authorised by two Council Members on the monthly payment schedule.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● All VAT incurred by the council, when it is in possession of a valid VAT receipt/invoice, should be identified in the cash book for reclaim from HMRC.</li> <li>● All donations to registered Charities should be identified in the council's accounts as s.137 expenditure.</li> </ul>
4	<p>Has the council assessed the significant risks in delivering its activities and services and regularly reviewed the adequacy of these assessments?</p> <p>Is insurance cover appropriate and adequate?</p> <p>Are financial controls documented and regularly reviewed?</p>	<p><u>Assessment of significant risks</u></p> <p><b>Findings</b></p> <p>The annual review of the council's Risk Assessments was reviewed by council on the 13th March 2023; it was resolved to approve the proposed amendments and the additions to the Risk Assessments. The Risk Assessment includes financial management, employment of staff, the Clerk's office, Councillors, land and assets, employees and volunteers, Covid, contractors and events.</p> <p>Additional Risk Assessments include the Community Hub, Horticultural Show, the Village Hall and the Remembrance service. It is noted that the council has an emergency lighting annual service contract for the Hub. The Hub Risk Assessment identifies that annual PAT testing is undertaken and a Fire Risk Assessment &amp; Evacuation procedures are in place.</p> <p>Detailed inspection sheets, in respect of council assets and liabilities, are completed and identify what has been checked and any issues arising. They include provision for recording the actions taken by the Clerk as a</p>

		<p>result of any faults identified, and the date of completion of such actions. The sheets are reviewed by the Clerk and maintained as a permanent record.</p> <p>The council also has a Service Level Agreement with North Lincolnshire Council to undertake two inspections of the playground and equipment during the year.</p> <p>The council updated its guide (Clerk Guide A - Z) to financial and governance procedures that are undertaken throughout the year and at the year-end during April 2023. Such a document is considered to be invaluable in the event of the unexpected absence of the Clerk.</p> <p>I have reviewed the council's insurance cover and the levels of indemnity are considered to be adequate.</p> <p>The council's arrangements for the backing up of electronic records have been reviewed and are adequate. All files are backed up to Microsoft One Drive. The council's laptop computer is protected by a PIN number and secured by a combination lock security cable. HMRC Basic Tools electronic records are backed up to a memory stick which is also encrypted and password protected.</p>
5	<p>Has the annual precept requirement resulted from an adequate budgetary process?</p> <p>Has progress against budget been regularly monitored and reported and were reserves appropriate?</p>	<p><u>Adequate budgetary process</u></p> <p><b>Findings</b></p> <p>A detailed annual budget was prepared and adopted in setting the 2022/23 Precept.</p> <p>Budget monitoring reports were presented to council up to the 30th June, 30th September - and 21st November 2022 for budget setting purposes - and to the 31st January and 31st March 2023. The reports identify the principal variances between original budget and income and expenditure to date. A detailed narrative for the principal variances is provided to council by the Clerk.</p> <p>The council adopted a Financial Reserves Policy at the council meeting held on the 14th May 2018. The Policy is updated annually to include the council's earmarked and general reserves and was last agreed at the council meeting held on the 11th April 2023. It was resolved to update the council's earmarked reserves to</p>

		include £640 for work to the War Memorial grassed area. The council's total balances as at the 31st March 2023 were £55,890, and the general balance remaining, after the allocation of earmarked reserves, was £55,250. This represents 78% of the 2023/4 Precept and is considered to be adequate and prudent for a council the size of Messingham Parish Council.
6	<p>Was all expected income fully received in accordance with the current scale of charges, properly accounted for and promptly banked?</p> <p>Were security controls over cash and cash equivalents effective?</p>	<p><u>Adequate income controls</u></p> <p><b>Findings</b></p> <p>The Council Tax Authority's Precept was received in two instalments and the remittance advices agree to the income received in the cash book and the bank.</p> <p>The council now maintains four Scales of Charges:</p> <ul style="list-style-type: none"> <li>➤ Holme Meadow recreation field - reviewed and approved by the council on the 14th November 2022.</li> <li>➤ Butterwick Road allotments - Approved by the Allotment Advisory Committee on the 16th March 2023.</li> <li>➤ Miscellaneous - covering photocopying for Freedom of Information requests and the sale of history books - approved by council on the 13th March 2023.</li> <li>➤ Community Hub - approved at the Annual Parish meeting on the 10th May 2022, and updated on the 13th June and 3rd October 2022.</li> </ul> <p>I have checked and agreed a sample of Allotment rents from the rent collection record to the Scale of Charges, the cash book and the bank. The total of the register has been reconciled by the Clerk to the total rents received per the cash book, by adjusting the total of the register for terminations, overpayments, and new tenants during the year.</p> <ul style="list-style-type: none"> <li>➤ It is noted that the income the council receives in respect of allotment deposits is not formally recorded on the Scale of Charges.</li> </ul> <p>The council also received income from grants, wayleaves, a VAT repayment from HMRC, rent, the Horticultural show, the Community Hub, miscellaneous, and a small amount of bank interest. Documentary evidence in support of other income received during the year has been agreed to the cash book. The Clerk</p>



		<p>correctly used a separate spreadsheet for receipts and payments in respect of the Horticultural Show. It identifies all receipts and payments, cash paid into the bank and the net amount gifted to Lindsey Lodge Hospice.</p> <p>The safekeeping of cash prior to banking has been reviewed; it was found to be adequate and income was banked without undue delay.</p> <p>The External Auditor's Internal Audit Checklist in the JPAG Governance and Accountability Guide identifies that, "<i>Where amounts are receivable on set dates during the year, ensure that an appropriate control record is maintained duly identifying the date(s) on which income is due and actually received / banked.</i>"</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● For transparency and audit purposes the allotments Scale of Charges should include the charge the council makes for deposits.</li> <li>● The council should maintain a periodical receipts control record that identifies the date(s) on which income is due and actually received / banked. Income that is received by the council without it needing to raise an invoice or other documentation to request a payment from a third party, such as wayleaves, should be recorded in such a document.</li> <li>● The periodical control record should be provided to audit for review and verification of income due and received.</li> </ul>
7	Were petty cash payments appropriate and supported by receipts?	<p><u>Appropriate petty cash controls</u></p> <p><b>Findings</b></p> <p>A separate petty cash system is not maintained. All petty disbursements made by the Clerk and Council Members are reclaimed monthly and reimbursed through the payments system.</p>

	<p>Was all expenditure approved and reported to members?</p> <p>Has VAT been correctly accounted for?</p>	<p>The VAT element of expenditure has been separately analysed and identified in the cash book. For the sample checked, with the exception of one occurrence noted in section 3 of this report, VAT has been correctly identified in the cash book for reclaim from HMRC.</p> <p>Petty disbursements are reported to council monthly together with all other council payments.</p>
8	<p>Do all employees have contracts of employment with clear terms and conditions?</p> <p>Are salaries to employees and all other payments and allowances paid in accordance with council approvals?</p> <p>Has PAYE and NI been correctly deducted and paid to HMRC?</p>	<p><u>Adequate payroll controls</u></p> <p><b>Findings</b></p> <p>Both of the council's employees have formal contracts of employment which contain clear terms and conditions.</p> <p>I have agreed all gross pay during the year to original contracts and subsequent changes in terms and conditions that have been authorised by the council.</p> <p>Employees have been subject to PAYE and NI regulations and, for the sample checked, statutory deductions have been correctly paid to HMRC.</p>
9	<p>Is the Asset and Investment Register complete and accurate and reviewed on a regular basis?</p>	<p><u>Appropriate recording of assets</u></p> <p><b>Findings</b></p> <p>The council maintains a Schedule of Assets in the recommended format. For each asset it identifies the date acquired, the valuation for the purpose of the AGAR, the custodian and details of any disposals.</p> <p>The schedule has been updated to reflect additions and deletions during the year. All items purchased during the year have been added to the register using the correct method of valuation.</p> <p>The council does not hold any investments.</p> <p>The council reviewed and approved the Asset Register on the 13th March 2023.</p>

10	<p>Were bank reconciliations performed on a regular and timely basis?</p> <p>Has a year-end reconciliation been performed and balanced?</p> <p>Have all bank reconciliations been reviewed by an appointed member and evidenced as such?</p>	<p><u>Adequate bank reconciliations</u></p> <p><b>Findings</b> In addition to the year-end reconciliation, four interim bank reconciliations, which include both of the council's bank accounts, were prepared during the year.</p> <p>All reconciliations have been prepared in the recommended format. There are no unexplained balancing entries in the reconciliations.</p> <p>All reconciliations have been approved by council and signed and dated as prepared by the Clerk and signed and dated as approved by the Chairman. It is noted, however, that the Chairman has not also signed against the month-end balances on the respective bank statements to confirm the reconciliations are in agreement with statements. This is a key internal control process and considered to be best practice.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● As a key element of internal financial control, the Chairman, when signing to authorise the interim and final bank reconciliations, should also sign against the month-end balances on the respective bank statements to confirm that the reconciliations are in agreement with the statements.</li> </ul>
11	<p>Were Accounting statements prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate, were debtors and creditors properly recorded?</p>	<p><u>Correct accounting basis and previous Internal Audit Report actioned</u></p> <p><b>Findings</b> The year-end statements have been prepared on the correct accounting basis (Receipts and Payments) and, therefore, debtors and creditors have not been included.</p> <p>The statements agree with the cashbook and there is an audit trail from underlying financial records to the year-end statements.</p> <p>The figure in box 8, bank balances, agrees to the year-end bank reconciliation statement and the figure in box 9, fixed assets, agrees with the year-end total on the Asset Register.</p>

	Has the previous Internal Audit Report been submitted to council and actioned as necessary?	The 2022/23 Internal Audit Report was presented to council on the 10th May 2022, and it was noted that there were no recommendations.
12	If the council certified itself as exempt from an External Audit Limited Assurance Review last year, has it met the exemption criteria and correctly declared itself exempt?	<u>Exemption Certificate</u> <b>Findings</b> The council, correctly, did not complete an Exemption Certificate under Section 9 of the Local Audit (Smaller Authorities) Regulations 2015.
13	Did the council correctly provide, during the summer, the proper opportunity for the exercise of public rights in accordance with the requirements of the Accounts and Audit Regulations 2015?	<u>Exercise of Public Rights</u> <b>Findings</b> I have confirmed by a review of the council's website that, during the summer of 2022, the council provided the correct period for the exercise of public rights, in accordance with the requirements of the 2015 Accounts and Audit Regulations.
14	Did the council comply with the publication requirements for the previous year's AGAR?	<u>Publication Requirements</u> <b>Findings</b> I have reviewed the council's website and confirmed that the Parish Council published the correct documents as required by the Accounts and Audit Regulations 2015.
15	Has the council met its responsibilities as a Trustee?	<u>Trustee responsibilities</u> <b>Findings</b> I have seen no evidence that the council has responsibility for Trust Funds and the Clerk has confirmed that this is the case.

## Executive Summary

The accounts and governance arrangements of the council have again been maintained to a very standard and the assistance of the Clerk of the council in the completion of this audit was much appreciated.

The internal financial control environment within the council is excellent and the consideration and adoption of the above recommendations and advisory note will strengthen the systems, procedures and governance arrangements already in place.

The Internal Audit has been conducted in accordance with the Governance and Accountability for Local Councils – Practitioners Guide 2022.

I confirm that I have no relationship or interest, financial or otherwise, with any member or officer of the council.

Richard Dixon

*Public Sector Audit*

22<sup>nd</sup> April 2023

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