INTERNAL AUDIT REPORT 2018/19
APPLETON PARISH COUNCIL

The internal audit of Appleton 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 in place, adequate for the purpose intended and effective, subject to the recommendations reported in the action plan overleaf.

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

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JDH Business Services Limited

	ISSUE	RECOMMENDATION	FOLLOW UP
1	The AGAR annual return is incorrect as follows: Box 6 (Other Payments) is stated as £1,187,757 This should be corrected to £118,757. Box 7 (Balances c/f) is stated as £1,614,147 This should be corrected to £164,147.	The AGAR annual return should be amended as noted	
2	Review of the cash book identified the following issues: - There is no VAT column to record VAT against each relevant transaction, This is an important control to ensure VAT records agree to the cash book and VAT is completely and accurately reclaimed - There are no extended cash book headings that classify expenditure and income into different categories (for instance to match the budget headings) - No cash book column for s137 payments - There was a mis-allocation of	The format of the cash book should be improved as noted	

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	staff costs to other expenditure in December 2018, although this was resolved when compiling the year end accounts		
3	The clerk noted that quotations are deleted after a tender or quotation exercise has been completed, to comply with the GDPR. This action is not appropriate as quotations have to be retained as evidence for audit that the council undertook procurement in accordance with their Financial Regulations and Standing Orders. The GDPR principles requires personal information to be retained no longer than is necessary, and it is necessary under the Limitation Act 1980 to keep these documents for 6 years.	*The practice of deleting or shredding quotations/tenders without reference to legislation and audit requirements should cease.* *A time limit should be set in the council retention policy for the retention of quotations/tenders and the council should use the NALC LTN40 as a reference. LTN40 sets 6 years as the retention period for quotations/tenders in accordance with the legislation governing this, the Limitation Act 1980 (as amended).*	
4	The AGAR Annual Return internal audit certificate had been completed by the council. This is not appropriate – this certificate has to be completed by the independent internal auditor.	*The internal audit certificate should not be provided to the internal auditor pre-completed in future*	
5	The earmarked reserves disclosure in the explanation of variances for the external auditor casts to significantly more than the entire reserves of the council.	*The council should review the explanation of variances note for the external auditor and ensure earmarked (and general) reserves are accurately stated*	

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6	We were unable to agree the pricing for income invoice 4905 for £112 . The hire is for the large hall for four 2 hour sessions which should normally cost £36.*4= £144	*Council should review whether the pricing of this invoice is accurate (eg there may be a discount/concession applied). All other invoice pricing for hall hire was satisfactory.*	

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

1	Online banking was implemented during the financial year and discussion with the clerk has identified that robust internal controls, including pre-	*The detailed internal controls over online payments should be included in a written internal controls statement and adopted.*	**Implemented**

	ISSUE	RECOMMENDATION	FOLLOW UP
	authorisation of payments, are in place for expenditure. However, the updated internal controls over online payments have not been adopted.		
	Guidance Note for 2018/19 Data Protection Law changed significantly on May 25th 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. *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.* *A GDPR compliant data protection policy and an updated document retention policy should be adopted. Privacy notices should be developed internally for all staff, members and volunteers, and externally for residents. Data processing agreements should be established where external data processors are used.*		