
All Saints Parish Council

Internal Audit Report 2015-16

Christopher TIPPING
Internal Auditor

15th April 2016

Background

The Accounts and Audit Arrangements introduced from 1st April 2001 require all Parish Councils to implement an independent internal audit examination of their Accounts and accounting processes annually. The internal auditor has then to provide the Council with a certificate covering a number of key areas associated with the transactions and management of the Council's affairs.

The Councils previous Internal Auditor, Mrs. Susan Mullins, resigned from the post at more or less the same time as the previous Clerk/RFO and I was engaged to act as the Internal Auditor by resolution of the Council (2016/0315) at the March 2016 meeting of the Council. I have met with the newly appointed Clerk on several occasions and, as a result, herein submit my internal audit of the Councils financial position and procedures.

I can confirm that I am independent of the Council and its members.

Internal Audit Procedures

This report summarises my conclusions on each of the key areas set out in the Internal Audit report contained within the Annual Return. I am pleased to record that no major concerns have been identified with the operative internal controls and procedures in place: I note that there were no comments/concerns/recommendations submitted by the former IA in her 2015 year-end report and I am therefore unable to confirm whether any changes or revisions to procedure have been implemented by the Council since that time.

Any recommendations contained herein are summarised in the appended action plan: I would ask that, following due consideration by the Council, I be provided with responses to the recommendations arising in a timely fashion.

Overall Conclusion

I am pleased to conclude that the Council appears to operate effective control systems and I must commend the Clerk on the quality of documentation maintained and provided for my examination in support of my certification of the Annual Return, Section 4.

On the basis of the overall effectiveness of controls in each area, I have duly signed off the Internal Audit Certificate in the Annual Return assigning positive assurances in all relevant areas for the financial year under consideration.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

My objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous or ambiguous entries appear in cashbooks or financial ledgers.

The Council operates a single Treasurers current account with Lloyds Bank Plc. Details of transactions on this account are recorded within an Excel Workbook with separate worksheets maintained to provide routine monthly financial information to members, bank reconciliations, monthly financial statements etc. In view of the relatively low number of annual transactions, I consider this to be an appropriate medium to maintain the financial records, which feed into the year-end Accounts and Annual Return detail, as prepared by the Clerk. I note that the Clerk also maintains a synchronized paper ledger of the same transactions which matches the computer records, although set out in a slightly different format. I cannot see that this is entirely necessary, but understand that this has been done to provide some continuity whilst the new Clerk took over the reins of the Councils finances.

Note: All PC files should be backed up regularly and measures taken to safeguard this back-up copy, be that as a physical asset (hard drive etc.) or via an online resource (The Cloud etc.)

Due to their relatively low volume, I have checked and agreed detail of all transactions in the spreadsheet cashbooks to bank statements, invoices and other supporting records for the financial year, despite this not being a requirement of the Internal Auditors role.

I am pleased to note that bank reconciliations are undertaken bi-monthly for submission to Council members, also noting that they are also subject to formal scrutiny and sign-off by an independent and different member on each occasion.

In addition to confirming the accuracy of detail in the spreadsheets, I have also verified the accuracy of detail in the year-end bank reconciliation and accurate disclosure of closing balances in the year-end Accounts and, consequently, the Annual Return.

Conclusions and recommendation

We are pleased to report that no issues have been identified with the data recorded in the spread sheet cashbooks. As mentioned above, the Clerk should ensure that all files are regularly backed up and copies taken and secured against loss.

Review of Corporate Governance

My objective is to ensure that the Council has a robust regulatory framework in place; that Council meetings are conducted in accordance with the adopted Standing Orders and that, as far as I am able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation.

I note, however, that the Standing Orders (SO) and Financial Regulations (FR) which the Council uses as its legal framework are both fairly outdated and, whilst they have been formally adopted, they do require some revision. I am pleased, therefore, to observe that the newly appointed Clerk has prepared a new draft of both documents for Councils formal adoption at the Annual Meeting in May 2016 and these drafts are currently with members for their perusal and review. Furthermore, I note that Council formally adopted its own Internal Financial Control review at the March 2016 meeting (2016/0316).

I have examined the Council's minutes covering the financial year to ensure that no issues either exist currently or are developing that may have an adverse affect on the Council's financial standing: I have also sought to ensure that no actions are planned or have taken place that may be of an ultra vires nature and place the Council at risk of criticism or possible financial penalty.

The only area of concern I found was that several cheques were issued by the Council in early September 2015 which appear to be missing the required counter-initial on the cheque stub – numbers 000359, 000360 and 000361. I have however cross-referenced the cheques to the corresponding invoices and can see that correct financial procedures were followed in that respect. I believe that this was a simple oversight related to the period during the change-over of Clerks between Mrs. Barnard and Mr. Hayward.

I am pleased to note that the Council has given due consideration to its budgetary and precept requirements for 2016-17 formally approving and adopting a precept of £9500 at the January 2016 meeting (made up of precept £9295 and EDDC CSG of £205). I also note that a far fewer number of grants and donations were approved for payment in this financial year, compared to the previous year as part of the budget process. Furthermore, I cannot see that the specific legal powers being relied on for approval of such payments appears to have been considered or formally minuted ie. under Section 137 etc; best practice suggests that, in order that members may demonstrate the effective discharge of their fiduciary responsibilities, the powers relied for approval of such payments should be minuted formally.

Conclusions and recommendations

No significant issues have arisen in this area. Council should ensure that the powers relied on for the future approval of grants and donations are considered and minuted accordingly.

The Council should ensure that the draft Standing Orders and Financial Regulations are reviewed and formally adopted in May 2016 and thereafter reviewed and updated annually to ensure both policies are maintained in accordance with developing legislation.

Council should ensure that all payments are made in accordance with Financial regulations and that cheques are counter-signed, cheque stubs counter-initialed and corroborating invoices counter-signed concurrently.

Review of VAT obligations and recovery.

My aim here is to ensure that: -

- The correct analysis of expenditure has been applied in the spread sheet cashbook to invoices when processed; and
- VAT has been appropriately identified and analysed appropriately in the cashbooks for bi-annual recovery.

Due to their relatively low volume, I have checked the documentation supporting each payment in the last financial year and am pleased to acknowledge compliance with the above criteria.

I note that appropriate VAT returns have been prepared covering the financial year and have verified the content accordingly to the cashbook record of payments in the year. Relevant claims on HRMC have been successfully submitted and recoverable VAT received back into Council bank account.

Conclusions

I am pleased to report that no issues warranting formal comment or recommendation have been identified in this area this year.

Assessment and Management of Risk

My aim here is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks in order to minimise the opportunity for their coming to fruition.

I note that the Councils Risk Assessment policy has still to be presented to, and adopted formally by, the Council and I draw attention to the updated and now mandatory requirements for risk assessments to be reviewed and adopted formally by the Council at least once annually (2014 edition of the Governance and Accountability Manual – “The Practitioner’s Guide” refers).

I have examined the current year’s insurance schedule in place with Zurich and consider that, with Public and Employer Liability cover in place at £6 million and £10 million respectively and Fidelity Guarantee cover set at £25,000 per member, appropriate cover is in place to cover the Council’s current requirements. I also note that the Council’s physical assets, ostensibly office equipment held at the Clerks home address, are also covered by the insurance schedule.

Conclusions

I am pleased to record that no issues have arisen this year warranting formal recommendation, although, as above, we remind the Clerk and Council of the need to comply with the extant requirement to review and adopt formally the financial risk assessment documentation at least once annually.

Budgetary Control and Reserves

In this area of my coverage, I aim to ensure that the Council has sound procedures in place for the determination of its annual budget and also for monitoring and managing available resources throughout the financial year.

The Council's minutes and supporting documentation provide effective confirmation that the 2016-17 budget and precept has been formally considered, discussed, approved and adopted by the Council with the precept for the year adopted formally as £9,500. I am pleased to note that the Clerk provides members with regular, generally bi-monthly, detail of budgetary performance throughout the financial year. I have reviewed the year-end position with no significant or unanticipated / unexplained variance in existence.

Notwithstanding, I note that the cumulative end of year balance (31st March 2016) has increased by £3,190 at the year-end at £20,004 (£16,814 previously), with the sum of £17,000 being moved to General Reserves (£0 at prior year-end, balances previously not split into current funds and reserves). Whilst I accept that circumstances have resulted in lower spending than was anticipated, the figure of £17,000 equates to more than 18 months' revenue spending, which is significantly above the CiPFA recommended guideline of between three and six months' revenue spending and these reserves will need to be monitored closely to ensure that future precept demands are calculated so as to minimize the financial effects on parish tax-payers. However, I note from the Council minutes and Precept Statement that some £1,672 of these reserves have been set aside to provide a "precept holiday" for local tax-payers, given that expenditure was estimated at £11,172 for the forthcoming financial year.

I note that members considered the level of retained general reserves when determining the budget, following advice from the Clerk, although no formal approval was given to the level of these rolled forward at the close of each financial year.

Conclusions and recommendation

No significant issues arise in this area of our review warranting formal comment or recommendation, other than that mentioned above i.e. That reserve funds are monitored during the year and taken into account when members discuss and approve the precept demand for 2017/18 to ensure that tax-payers funds are not accrued unnecessarily whilst further demands for funding sought.

Review of Income

I aim in this area of our review to ensure that the Council has robust systems in place to ensure the identification of all income to which it is entitled and for its subsequent recovery, banking and appropriate recording in the Council's financial records.

The Council has a limited range of income sources, primarily the annual precept, occasional grants and the bi-annual VAT recovery receipts. I have, as indicated above, agreed detail of income banked, as recorded in the cashbook by reference to bank statements, and updated a year-on-year comparative analysis of income levels with no issues of concern identified.

Conclusions

No issues arise from my examination of the Council's income control procedures and records.

Petty Cash Account

The Council does not normally operate a petty cash account, any miscellaneous expenses incurred by the Clerk being reclaimed every other month subject to provision of receipts or invoices received, these predominately being postage costs, stationery costs and minor administrative expenses for which no formal credit accounts exist.

Salaries and wages

In examining the Council's payroll function, I aim to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenues and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions.

The 1996 Employment Act requires that all employees are provided with a formal contract of employment. I am pleased to note that an updated employment contract has been recently prepared and signed for the Clerk following his successful completion of the probationary period and I have ensured that the monthly salary payments during the year are in accord with the rates of pay and contractual hours contained therein.

I have also verified the accurate deduction of tax and NI contributions for the year by reference to the relevant HMRC Basic PAYE Tools software with no issues identified.

Conclusions

No issues have been identified in this area this year. Members are reminded that the HRMC Employee payment notifications must be counter-signed by two members at the same time that the corresponding payroll cheque is counter-signed.

Asset Registers

The Governance and Accountability Manual requires all councils to develop and maintain a register of their asset stock. I am pleased to acknowledge the existence of an appropriate register, which now includes detail of assets at the prior year values, as required by the extant Annual Return reporting guidelines.

Conclusions

No issues arise in this area warranting formal comment or recommendation following agreement with the Clerk of the value of assets which, being predominately office equipment, and thus not designated as Long Term assets, do not require inclusion in the Annual Return. Value as at 31st March 2016 - £1,029.

Investments and Loans

The Council holds no investments, and has no outstanding loans or liabilities.

Conclusions

The Council has no loans in place either repayable by or to it: consequently, no issues arise in this area this year.

Statement of Accounts and Annual Return

I am pleased to note that the Clerk has again prepared a detailed Statement of Accounts for 2015-16 in Income and Expenditure format for presentation to members. These, as previously, form the basis of detail to be entered at Section 1 of the Annual Return and I have checked and agreed all that detail accordingly to the underlying accounting records.

Conclusions

No issues arise warranting formal comment in this area. On the basis of the work undertaken by the Clerk on the Council's accounting and other records for the year, I have duly signed off the Internal Audit Certificate at Section 4 of the Annual Return assigning positive assurances in all areas.

Rec. No.	Recommendation	Response
----------	----------------	----------

Review of Accounting Arrangements and Bank Reconciliations

R1 The Clerk should ensure that a full back-up is made of all relevant Council computer files AT LEAST MONTHLY either to a separate Hard Drive or an Online Back-Up resource.

Review of Corporate Governance

R2 The Council should ensure that the extant Standing Orders and Financial Regulations are reviewed, updated and formally adopted as soon as possible.

R3 The minutes approving the payment of any grants and/or donations should identify the specific powers relied upon.

R4 That all cheque payments made are signed in accordance with extant financial regulations, including the Counter-initialing of cheque stubs and the counter-signing of the corresponding invoice.

Budgetary Control and Reserves

R5 That members monitor the current level of General Reserves in conjunction with planned expenditure and ensure that future precept demands take into account the “good practice” guidelines in terms of the ratio between General Reserves and Revenue Spending.