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# **All Saints Parish Council**

*Internal Audit Report 2017-2018*

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***Christopher TIPPING***  
*Internal Auditor*

*26<sup>th</sup> April 2018*

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## **Background**

The Accounts and Audit Arrangements introduced from 1<sup>st</sup> April 2001 required 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. However, it is to be noted that arrangements for the auditing of Small Parish Councils has changed; there being no requirement for "*Exempt*" Councils with a turnover under £25,000 to formally submit an annual return or be statutorily audited by an external audit body. Instead, All Saints Parish Council would normally be required to conform to the Transparency Code for Smaller Authorities (Smaller Authorities {Transparency Requirements} Regulations 2015) and publish an AGAR2 document on the parish noticeboards and website. However, as both receipts and expenditure during the past financial year were both over £25,000, the Council is required to comply with the full external audit regime via the submission of AGAR3 and associated other documents.

I was engaged to act as the Internal Auditor by resolution of the Council (2016/0315) at the March 2016 meeting of the Council and re-appointed by resolution of Council on 19<sup>th</sup> March 2018 (2018/20d). I have met with Paul Hayward, Clerk and RFO on three occasions in the last 12 months, most recently on 23rd April, and, as a result, herein submit my internal audit of the Councils financial position and procedures. An interim internal audit report was submitted to Council in September 2017 and I will reference that document below.

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 (AGAR3). I am pleased to record that no major concerns have been identified with the operative internal controls and procedures in place and all of the comments in my interim internal audit report of September 2017 remain valid.

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 any recommendations arising in a timely fashion. I will, as before, undertake an Interim Internal review of Council in Autumn 2018 if Council so instructs as part of their Internal Financial Control Review.

## **Overall Conclusion**

I am pleased to conclude that the Council continues 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 2017/18 AGAR3, Internal Audit section

On the basis of the overall effectiveness of controls in each area, I have duly signed off the Internal Audit Certificate in the Annual Governance and Accountability Return (AGAR3) assigning positive assurances in all relevant areas for the financial year under consideration.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

Single current account "Treasurers" still maintained with Lloyds Bank.

I note that transactions are no longer recorded in paper ledger format as per my previous recommendation. The Cashbook maintained via Microsoft Excel is comprehensive and sufficient in detail to allow full analysis of the Councils financial position. No other accounting software is used by this authority.

All PC files are backed up on a weekly basis as per my previous recommendation, to both an external hard drive and to a Cloud Based virtual drive.

Bank reconciliations continue to be carried out at regular intervals and signed off by members alternately; Bank reconciliations every 2 months to coincide with the bi-monthly meetings of this small authority meet with governance and accountability recommendations. Bank statements for year start, and year end, have been seen and initialed with RFO. Copies of financial reports provided to members also seen and initialed.

All financial records held cross-reference the cheque number or online authorisation reference issued to the invoice received for future cross-referencing and auditing. All invoices and cheques / online authorisations are countersigned by two signatories as per extant financial regulations. A random sample of 10 transactions over the calendar year returned 0 errors or omissions, corroborated with invoices and bank statements.

The Clerk also maintains a running "draft" AGAR3 Section 2 summary which runs alongside the Cashbook and self-reconciles as new transactions are added. This allows members of Council to see, at a glance, the year on year position as reported to the external auditor.

### *Conclusions and recommendation*

**None**

## 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.

The following documents relating to Accountability and Governance were considered and approved as below:

Standing Orders	Approved May 2017 ( 2017/0519a )
Financial Regulations	Approved May 2017 ( 2017/0519b )
Risk Assessment Review	Approved March 2018 ( 2018/20e )
Internal Financial Controls	Approved March 2018 (2018/20e )

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 effect 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. All sampled payments made / approved have been made using appropriate powers. Payments by way of Section 137 (LGA1972) amounted to £197, which was within the statutory maximum of £3475 for this parish Council.

It is noted that the Council has once again given due consideration to its budgetary and precept requirements for 2018-19 formally approving and adopting an increased parish precept of £12,000 at the January 2018 meeting (made up of precept £11,932 and reduced EDDC CSG of £68). {Minute entry 2018/6e}. This represents an effective increase in Band D equivalence to £46.25 per annum, up from £36.88 in 2017/18. Council has issued press statements to explain the increase of some 25%. The budget for the parish was agreed at £13,700 with the deficit coming from parish reserves. These are still high compared to NALC guidelines but the continuing precept "holiday", as implemented last year, will allow for the effects and impact of the proposed lease on the cricket field to be better considered next year and any subsequent increase in precept will be tempered somewhat by the larger increase this year in anticipation of the increased expenditure to come. Pressures on Smaller Authorities costs as a result of financial pressures at District and County councils continue to affect budgeting considerations.

### Conclusions and recommendations

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

***Council should continue to ensure that all relevant policies and internal review procedures are reviewed at least annually and adopted by formal resolution of council at the Annual General Meeting in May.***

## **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 increasing numbers, I have checked the documentation supporting a random series of payments in the last financial year and am pleased to acknowledge compliance with the above criteria in all cases. Audit trail of approval for expenditure, receipt and payment, through to VAT reclaim can be established. No payments were made on which VAT was non-recoverable ie. All transactions were non-business related and thus eligible for VAT126 reclaim.

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 HMRC have been successfully submitted and recoverable VAT received back into Council bank account. The last recorded VAT126 claim was processed and submitted on 28<sup>th</sup> February 2018 and payment received into account by BACS from HMRC on 15<sup>th</sup> March 2018. Expenditure in March resulted in a debtor figure of £646.76 to be claimed from HMRC albeit this receipt will fall into 2018/19 accounting period.

I note that Mr. Hayward is still Clerk to Chardstock Parish Council, and Clerk and RFO to both Newton Poppleford Parish Council and, more recently, Tatworth and Forton Parish Council and I should take this opportunity to remind him that all financial records for each council should be kept separately as is currently the case.

### ***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 Council's Risk Assessment Policy & review was formally adopted by Council in March 2018 (2018/20e) as was their Internal Financial Control Review. I once again 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 seen the approved report considered at the March 2018 meeting of Council and can report that there are no issues of concern within that document.

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. Recent asset acquisitions should be reflected in the next renewal.

### ***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.***

***All new assets acquired in the last 12 months must be notified to Insurers upon renewal.***

## Budgetary Control and Reserves

In this area of my audit, 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 2018-19 budget and precept has been formally considered, discussed, approved and adopted by the Council with the precept for the year adopted formally as £12,000 against a considered budget of £13,700. 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. Budget reports for both 17/18 and forecasted 2018/19 are uploaded to Councils website as part of its transparency code compliance.

Notwithstanding the comments above, I note that the cumulative end of year balance (31<sup>st</sup> March 2018) has risen slightly at the year-end at £19073 (£18,340 previously), with the sum of £13,757 being earmarked as General Reserves (£15,350 at prior year-end, with decrease roughly equating to the approved "precept holiday" allowed for). This figure of £13,757 is now almost equivalent to the proposed budget for 2018/19 in accordance with the CiPFA recommended guideline and the new reserves will need to be monitored to ensure that future precept demands are calculated so as to minimize the financial effects on parish tax-payers albeit taking into account the added burden of additional services and amenities proposed. I note from the Council minutes and Precept Statement that another £1,700 of these revised reserves have been set aside in the next financial year to provide a further "precept holiday" for local tax-payers, given that expenditure was budgeted to exceed precept by the same amount for this financial year to come.

I note that members considered the level of earmarked 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, as previously reported in 2016 and 2017. Several reserve funds have been created this year as a result of grant receipts which were not fully spent. Council now has an "Election Costs" reserve as previously recommended by myself.

Clerk has provided me with a draft summary of the AGAR3 submission together with Explanation of Variances which uses the previous model preferred by Grant Thornton LLP; there being no such document provided by PKF Littlejohn LLP. All variances are explained and I have no issues in that regard; increased income is commensurate with increased expenditure.

### ***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 2019/20 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 VAT126 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.

I note that Council received noticeably increased grant funding from a variety of sources this year, including DCC Highways, Lottery Funding and EDDC Parishes Together, some in co-operation with neighbouring parishes. The increase in "other receipts" is significant; 310% above 2016/17 level. These have all been duly accounted for in both the financial records and in terms of documentation held. Furthermore, minute entries for expenditure under these grant awards has been noted.

The consequence of these additional grant receipts is that the published variance in OTHER RECEIPTS compared to 2017/18 in Box 3 of the AGAR3 is significant and requires explanation within the annual return and, additionally, that the consequential increase in expenditure under Box 6 also requires further explanation. The same applies to VAT reclaimed and expended; both relate directly to the increased overall expenditure.

It is also interesting to see the receipt of reimbursement from other Council's for shared training costs where Clerk attended on behalf of all his employers. This demonstrates good value for all small authorities involved.

### *Conclusions*

*No issues arise from my examination of the Council's income control procedures and records other than that listed above.*

## Petty Cash Account

*The Council does not 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, NI and pension contributions.

The 1996 Employment Act requires that all employees are provided with a formal contract of employment. I am pleased to note that the Clerk is a permanent member of staff of the Council and has a valid, dated and signed Contract of Employment which I have seen. I have ensured that the monthly salary payments during the year are in accordance with the rates of pay and contractual hours contained therein. No details of the proposed Pay Scales for 2018/19 have yet been made available to Council and may I remind both Clerk and Council that any increase in staff remuneration must be supported by a resolution to that effect beforehand.

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.

Council made a payment of £300 to the Clerk in the last financial year, and a pension contribution of £400. These payments were the primary reason for the increase in staff costs as stated in Box 4 on AGAR3. There was no increase in staff hours or other terms of employment.

### *Conclusions*

*No issues have been identified in this area this year. Members are reminded that the HRMC Employee payment authorisation docket must be counter-signed by two members at the same time that the corresponding payroll salary calculation schedule is 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. This has been kept up-to-date by the Clerk in light of significant recent asset acquisitions.

Further to previous correspondence with Grant Thornton regarding the declaration of fixed assets ( which, for this authority, was primarily office equipment and signage ) I have been in discussion with other Internal Auditors locally and, after reading the current guidance notes for same, I have recommended to the Clerk that, for this annual return and hereafter, all assets as advised to the Council's insurer should now be INCLUDED on the annual submission, whether or not the Council makes a statutory exemption request. This will allow both residents and taxpayers to see for themselves where Council has chosen to purchase assets, as opposed to intangible service expenditure etc, and to also allow Council to keep a better eye on their asset values year-on-year.

Grant Thornton, during their Annual Assurance Review in 2017, were satisfied (after my clarification) as to the context of the previous assets held ie. predominately office based and some external assets such as sheds etc. but non-land / building orientated but taking a leaf from other neighbouring Councils, it now makes more sense administratively, and to ensure total transparency, that a full declaration be made in conjunction with the formal submission of the current asset register dated 31/3/18 of which I have been provided a copy by the RFO.

### *Conclusions*

*As mentioned above, contrary to previous agreement with Grant Thornton, and after consultation with the RFO, I can confirm an asset register value as at 31<sup>st</sup> March 2018 of £17,655; this to be shown in Box 9 on AGAR3 and explained by way of a Variance Statement.*

## 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.*

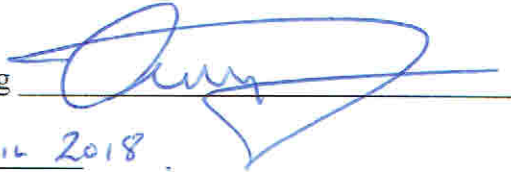
## Statement of Accounts and Annual Return

I am pleased to note that the Clerk has again prepared both a detailed Statement of Accounts for 2017-18 in Receipts and Payments format and a simplified version for presentation to members and public alike. These, as previously advised, form the basis of detail to be entered at Section 2 of the AGAR3 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.*

Christopher Tipping



Date 27<sup>th</sup> April 2018

Rec. Recommendation No.	Response
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**Review of Corporate Governance**

R1 The Council should ensure that the Standing Orders and Financial Regulations are reviewed, updated and formally adopted annually as a minimum. This also applies to all other relevant policies.

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**Budgetary Control and Reserves**

R2 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.

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**Asset Registers**

R3 That Council submits a revised Asset Figure of £17,655 in Box 9 on the AGAR 3 and that a year-on-year comparison and review of all assets held (including write-downs and disposals) is completed each year as part of the Risk Assessment and Internal Financial Controls Review process.