
All Saints Parish Council

Internal Audit Report 2016-17

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Internal Auditor

13th April 2017

Background

The Accounts and Audit Arrangements introduced from 1st 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 submit an annual return or be statutorily audited by an external audit body. Instead, All Saints Parish Council will be required to conform to the Transparency Code for Smaller Authorities (Smaller Authorities {Transparency Requirements} Regulations 2015)

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 10th January 2017 (2017/115). I have met with Paul Hayward, Clerk and RFO on two occasions in the last 12 months, most recently on 3rd April, 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 his 2016 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 other than those detailed below:

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. I will, as before, undertake an Interim Internal review of Council in Autumn 2017.

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 2016/17 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 updated regularly 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 method by which 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 continues to maintain a synchronized paper ledger of the same transactions which matches the computer records, although set out in a slightly different format. **As stated last year, I cannot see that this is entirely necessary, and certainly not required by legislation, and I would therefore recommend that the practice cease as soon as practicable so as to prevent any errors arising from the cross-referencing of financial records.**

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.) or both, as Council determines via its own Risk Management Review. In light of recent reported events in local councils with virus infection, back-up's should be carried out bi-weekly if possible, if not weekly or daily.

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. I note that Clerk also provided a corresponding “draft” annual return during the year so as to facilitate a swift completion of Councils accounts at year end and also to provide an ongoing verification of their accounts against the statutory format of the Annual Return.

Conclusions and recommendation

I am 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 at least bi-weekly.

I would recommend that the practice of maintaining dual paper and electronic financial records cease as soon as practicable so as to prevent any errors arising from the cross-referencing of these records. Signed copies of the relevant reports, once approved, should be maintained however.

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 am pleased to observe that the Clerk prepared a new draft of both Standing Orders and Financial regulations for Councils formal adoption at the Annual Meeting in May 2016 and these documents were reviewed and adopted by minuted resolution of Council. (2016/0519)

Furthermore, I note that Council will consider its own Internal Financial Controls review at the May 2017 Annual General meeting (previously adopted as minute 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.

I am pleased to note that the Council has once again given due consideration to its budgetary and precept requirements for 2017-18 formally approving and adopting a reduced parish precept of £9385 at the January 2017 meeting (made up of precept £9295 and reduced EDDC CSG of £90). {Minute entry 2017/111}. This represents an effective decrease in Band D equivalence as additional properties were added to the EDDC Tax Base in 2016/17 thus effectively spreading the tax charge more widely across the parish. Reserves are still high compared to NALC guidelines but I note that a Precept Holiday was implemented last year which saw a drop in effective council reserves and that a further "holiday" of £1860 was discussed and approved by resolution in January 2017. Pressures on Smaller Authorities costs as a result of financial pressures at District and County councils will 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 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. The last recorded VAT126 claim was processed and submitted on 30th January 2017 and payment received into account by BACS from HMRC on 17th February 2017. I have advised Clerk that HMRC are phasing out paper submissions of 126 Claims and that subsequent claims should be made via HMRC website.

I note that Mr. Hayward is now Clerk to Chardstock Parish Council, and Clerk and RFO to Newton Poppleford 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 Councils Risk Assessment review was formally adopted by Council in May 2016 (2016/0519(k)). 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 seen the draft report for consideration at the May 2017 AGM and can report that there are no issues of concern within that draft document. **Please ensure that a copy of the final document is made available to me when formally adopted with a minute entry reference.**

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.

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 2017-18 budget and precept has been formally considered, discussed, approved and adopted by the Council with the precept for the year adopted formally as £9,385. 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 the comments above, I note that the cumulative end of year balance (31st March 2017) has decreased by £1,664 at the year-end at £18,340 (£20,004 previously), with the sum of £15,350 being earmarked as General Reserves (£17,000 at prior year-end, with decrease roughly equating to "precept holiday" allowed for). Whilst I am happy that council is reducing its reserves by offsetting against lower precept demands, the figure of £15,350 still 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 continually monitored to ensure that future precept demands are calculated so as to minimize the financial effects on parish tax-payers. I note from the Council minutes and Precept Statement that some £1,860 of these reserves has been set aside to provide another "precept holiday" for local tax-payers, given that expenditure was estimated at £11,000 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, as previously reported in 2016.

Furthermore, I note that Council now operates an online banking arrangements with their bankers, Lloyds Bank Plc, which is supported by a system of Payment Authorisation Dockets (PAD's) replacing, but replicating, the previous process of cheque signatories. Once a docket has been signed by the requisite signatories, the payment is initiated by the Clerk using a secure card and keypad system, protected by PIN entry, with a copy of the PAD being attached to the supporting invoice, filed in a sequential file and being recorded in an electronic format, subject to regular back up. I consider this process more than sufficient to replace the previous method of cheque remittance where such a method is no longer permitted by the payee, and is also allows instantaneous review of the Councils bank account, as opposed to the somewhat archaic procedure before whereby bank reconciliations were delayed by the late receipt of the monthly bank statement.

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 2018/19 to ensure that tax-payers funds are not accrued unnecessarily whilst further demands for funding sought.

Additionally, I note from the 2017 draft Risk Assessment review that members have not set aside any specific reserves to cover costs of an election if called, but chose instead to consider the matter from reserves if and when the situation arises. This is not an area for concern per se, but should be noted herein.

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 Locality, DALC Flood Resilience and EDDC Parishes Together, some in co-operation with Chardstock Parish Council. 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 2016/17 in Box 3 of the Annual Return is significant and requires explanation within the Return and, additionally, that the consequential increase in expenditure under Box 6 also requires further explanation.

Conclusions

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

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 the Clerk is now 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.

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.

I understand that HMRC are no longer accepting cheques as a method of payment for PAYE remittances, and that alternate payments methods have been adopted.

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 recent asset acquisitions.

There was an exchange of correspondence between the Clerk and the External Auditor, Grant Thornton, during the Annual Assurance Review in 2016 and this was resolved to their satisfaction after my clarification as to the context of the assets held ie. predominately office based and some external assets such as sheds etc. but non-land / building orientated.

Conclusions

As mentioned above, 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 2017 - £4,020.

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.

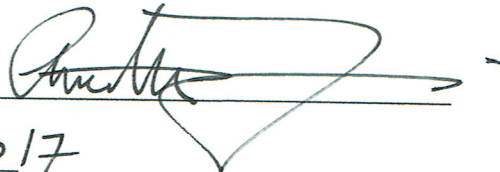
Statement of Accounts and Annual Return

I am pleased to note that the Clerk has again prepared a detailed Statement of Accounts for 2016-17 in Receipts and Payments format for presentation to members. These, as previously, form the basis of detail to be entered at Section 2 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.

Christopher Tipping



Date 13th April 2017

| Rec. Recommendation No. | Response |
|-------------------------|----------|
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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 BI-WEEKLY both to a separate Hard Drive (stored away from office) and to an Online Back-Up resource.
- R2 The Clerk should discontinue the practice of operating dual accounting records ie. paper ledger and electronic spreadsheets to prevent confusion and errors during replication.

Review of Corporate Governance

- R3 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.

Budgetary Control and Reserves

- R4 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.
- R5 That members consider the decision to not specifically create an earmarked reserve fund to cover Election expenditure, rather than simply relying on higher levels of general reserves as detailed in R4.
- R6 That procedures involving the new PAD banking system of authorizing and authenticating payments be Monitored and reviewed annually and fall under jurisdiction of Risk Assessment Review given the potential for breaches of care and pecuniary risk.