
Pitton & Farley Parish Council

Internal Audit Report 2016-17

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For and on behalf of Auditing Solutions Ltd

Stuart J Pollard

Director

Background and Scope

The Accounts and Audit Arrangements introduced from 1st April 2001 and as amended periodically 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 Council previously used a local contractor to undertake the review process. We at Auditing Solutions Ltd were contacted and were appointed for 2014-15 and beyond: this report is therefore is our third on the financial and governance controls operated by the Council.

Internal Audit approach

In undertaking our review this year, we have again paid due regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Annual Return that now forms the Council's statutory annual accounts subject to external audit certification. Due to the low number of transactions during the year, we have not only examined and considered the robustness of the financial procedures and controls in place, but also employed direct substantive testing to all financial systems for the year.

This report summarises our conclusions on each of the key areas set out in the Internal Audit Certificate contained within the Annual Return. We are pleased to record that no major concerns have been identified with the operative controls and procedures in place: however, we have identified a few areas where the Council's governance controls could and ideally should be further enhanced. Detail of these issues is set out in the body of the following detailed report with any resultant recommendations further summarised in the appended Action Plan: we would ask that, following due consideration by the Council, we be provided with responses to the recommendations arising.

Overall Conclusion

We are pleased to conclude overall that the Council continues to operate generally effective control systems and wish to commend the clerk on the quality of documentation maintained and provided for our examination in support of our certification of the Annual Return.

On the basis of the overall effectiveness of controls in each area, we have duly signed off the Internal Audit Certificate in the Annual Return assigning positive assurances in each relevant area.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

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

The Council operates a single account with Lloyds / TSB with detail of transactions on the account recorded in an Excel Workbook with separate spread sheets for receipts and payments. In view of the relatively low number of annual transactions, we consider this to be an appropriate medium to maintain the financial records, which feed into the year-end Annual Return detail.

We have duly checked and agreed detail of all transactions in the spreadsheet cashbooks to bank statements, invoices and other supporting records for the financial year.

We are pleased to note that bank reconciliations are undertaken quarterly, and are now subject to formal scrutiny by members and sign-off during the ordinary meetings of the council.

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

Conclusions

We are pleased to report that no significant issues have been identified with the data as recorded in the spread sheet cashbooks.

Review of Corporate Governance

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

We have examined the extant Standing Orders (SOs) and Financial Regulations (FRs) and consider them appropriate for the Council's present requirements, noting last year that the Council had adopted revised SOs in line with the latest NALC model during the financial year to reflect the legislative changes affecting filming and recording of meetings. We are pleased to note the recording of a consistent value of £20,000 in the updated Standing Orders and Financial Regulations, which sits comfortably within the current EU Regulations on procurement, although for a Council the size of Pitton & Farley, we consider that a lower value of between £5,000 and £10,000 would be more appropriate.

We have examined the Council's minutes for 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: we have also sought to ensure that, as far as we may reasonably be expected to ascertain, 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.

Finally, in this area, we are pleased to note that the Council has again given due consideration to its budgetary and precept requirements for 2017-18, formally approving and adopting a precept of £17,800 at its January 2017 meeting.

Conclusions and recommendation

We are pleased to record that no significant issues have arisen in this area this year, although we suggest that a lower value for formal tender action would be appropriate.

R1. Consideration should be given to setting a lower tender value than the present £20,000 given the size of the Council's current precept and general annual level of spend.

Review of Payments & VAT

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Payments are supported by appropriate documentation, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due and/or an acknowledgement of receipt, where no other form of invoice is available;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- 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 annual recovery with the exception of the Eon standing orders.

Due to their relative low number, we have reviewed all payments in the year to ensure compliance with the above criteria.

Conclusions and recommendations

No significant issues have been identified in this area with the majority of payments appropriately supported. However, we note that, whilst members signing cheques are also signing off a schedule of payments each month initialling each, once again, the individual invoices afford no indication of any review by members.

Following a recent fraud arising at a town council on the South coast, whereby the clerk was fraudulently submitting invoices on more than one occasion with cheques written in removable ink and members were signing cheques without seeing invoices, best practice suggests that members should examine invoices and evidence their review thereon accordingly at the time of signing cheques.

We also consider that, again in line with best practice, the clerk should be initialling invoices to confirm their arithmetic accuracy and confirming receipt of the goods and services so invoiced. We note that the Clerk has now obtained and is utilising a certification stamp.

We have once again noted the absence of documentation supporting the monthly Eon direct debits. Where no formal trade invoice is available, a proforma should be prepared and be signed by the Chairman approving the payment accordingly.

We also note that, as identified previously, the VAT on Eon payments for electricity supply has not been reclaimed during this year.

R2. Where no formal invoice is available, a proforma should be prepared and be signed by the Chairman approving the payment accordingly.

R3. Cheque signing members should evidence their review of individual invoices and other payment supporting documentation by initialling invoices appropriately as indicated on the certification stamp now being applied to each invoice by the clerk.

R3. Action should be taken to obtain formal invoices from Eon identifying VAT incurred in 2016-17 in order that the VAT expended may be recovered: the small amount identified as omitted from the 2015-16 reclaim should also be added to the next reclaim.

Assessment and Management of Risk

Our 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.

We noted that, due to an oversight, the Council had not undertaken the required annual review and re-adoption of the register of assessed risks. This is a mandatory requirement and the council's failure in this regard has resulted in Internal Control Objective 'C' in the annual internal audit report 2016-17 being marked as not meeting the required control objectives.

We have examined the current year's insurance schedule, which remains in place with Community First / Zurich, and consider that appropriate cover is in place to meet the Council's requirements.

Conclusions

The annual review and formal re-adoption of the register of assessed financial and health & safety risks is mandatory. The council must ensure that this objective is met on an annual basis.

R5. The Council should undertake an immediate review of the register of assessed risks and the updated document be presented for adoption at the next ordinary meeting of the full council.

Budgetary Control and Reserves

In this area of our coverage, we 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 as indicated in the previous section of this report.

We note that the clerk provides members with regular, monthly, detail of budgetary performance throughout the financial year and have reviewed the year-end position with no significant or unanticipated / unexplained variance in existence.

The cumulative end of year balance (31st March 2017) has increased marginally to £9,233 (£9,030 at prior year-end) and equates to approximately six months' revenue spending at the 2016-17 level, which we consider appropriate for the Council's ongoing spending commitments.

Conclusions

No issues arise in this area of our review process. We shall continue to monitor budget performance and the level of retained reserves at future years' audit reviews.

Review of Income

We 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 very limited income, primarily the annual precept, occasional grants and donations, a wayleave and VAT recovery. We have, as indicated above, agreed detail of income banked and interest received, as recorded in the cashbook by reference to bank statements and other relevant supporting documentation.

Conclusions

No matters arise from our 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 each month.

Salaries and wages

In examining the Council's payroll function, we 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. We are again pleased to note that a suitable document is in place the content of which we reviewed previously and considered appropriate.

We have also verified the accurate calculation and deduction of tax by reference to the relevant HMRC Basic PAYE Tools software with no issues identified (the clerk's monthly earnings are below the lower earnings level for NI contributions, so no contributions are payable by her or the Council).

Conclusions

No issues arise in this area this year.

Asset Registers

The Governance and Accountability Manual – “The Practitioner’s Guide” requires all councils to develop and maintain a register of their asset stock. The Clerk has prepared a suitable register. A number of new assets have been recorded during the current financial year with their values being appropriately recorded on the updated asset register:

October 2016	Litter Bin	£ 353.00
	Grit Bin	£ 216.00
January 2017	Toddler Swing	£1,289.00
March 2017	Tools (various)	£ 469.00

We have consequently agreed with the clerk the value to be recorded in the 2016-17 Annual Return.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Investments and Loans

The Council holds no “Investments”, nor does it have any loans in place either repayable by or to itself.

Statement of Accounts and Annual Return

We have checked and agreed detail to be included in the Return to the underlying accounting records and have discussed and agreed the detail with the clerk, who has agreed to provide us with a copy of Sections 1 & 2 of the final certified document in due course.

Conclusions

On the basis of the work undertaken on the Council’s accounting and other records for the year, we have duly signed off the Internal Audit Certificate at Section 4 of the Annual Return assigning positive assurances in all relevant areas.

Rec. No.	Recommendation	Response
Review of Corporate Governance		
R1	Consideration should be given to setting a lower tender value than the present £20,000 given the size of the Council's current precept and general annual level of spend.	
Review of Payments & VAT		
R2	Where no formal invoice is available, a proforma should be prepared and be signed by the Chairman approving the payment accordingly.	
R3	Cheque signing members should evidence their review of individual invoices and other payment supporting documentation by initialling invoices appropriately as indicated on the certification stamp now being applied to each invoice by the clerk.	
R4	Action should be taken to obtain formal invoices from Eon identifying VAT incurred in 2016-17 in order that the VAT expended may be recovered: the small amount identified as omitted from the 2015-16 reclaim should also be added to the next reclaim.	
Assessment and Management of Risks		
R5	The council should undertake an immediate review of the register of assessed risks and the updated document be presented for adoption at the next ordinary meeting of the full council.	