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# **Pitton & Farley Parish Council**

*Internal Audit Report 2017-18*

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*For and on behalf of*  
*Auditing Solutions Ltd*

## **Background**

Statute requires all town and parish councils to arrange for an independent internal audit examination of their accounting records and system of internal control and for the conclusions to be reported each year in the Annual Return.

This report sets out the work undertaken in relation to the 2017-18 financial year, which took place on 15<sup>th</sup> June 2018.

## **Internal Audit Approach**

In undertaking our review for the year, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts / Annual Return. Our programme of cover is designed to afford appropriate assurance that the Council has appropriate and robust financial systems in place that operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Internal Audit Report' as part of the Council's Annual Governance and Accountability Return (AGAR) process, which requires independent assurance over a number of internal control objectives.

## **Overall Conclusion**

We have concluded that, based on the satisfactory completion of our programme of work for the year, the Council has again maintained adequate and effective internal control arrangements. We are pleased to report that there are no issues arising this year warranting formal comment or recommendation.

We note that all recommendations made as a result of our FY 2016-17 Internal Audit report have been fully implemented and take this opportunity to commend the Clerk for the improvements made to the Council's processes during FY 2017-18 and thank her for her time and assistance during this year's Internal Audit which made the review process extremely smooth.

We have completed and signed the 'Internal Audit Report', having concluded that the control objectives set out in that Report have been achieved within the financial year to a standard adequate to meet the needs of the Council.

# 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*

*No issues arise in this area of our review warranting formal comment or recommendation.*

## 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 £10,000 in the updated Standing Orders and Financial Regulations, which sits comfortably with the current EU Regulations on procurement and we consider for a Council the size of Pitton & Farley.

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 2018-19, formally approving and adopting a reduced precept of £14,500 at the January 2018 meeting of the Full Council.

### *Conclusions*

*No issues arise in this area of our review warranting formal comment or recommendation.*

## **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.

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

### *Conclusions*

*No issues arise in this area of our review warranting formal comment or recommendation.*

## **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 have noted that the Council reviewed and subsequently re-adopted its Risk Register in the Annual Parish Meeting in May 2017.

We have examined the current year's insurance schedule, (noting that this had been formally reviewed by the Council in year), which remains in place with Community First / Zurich, and consider that appropriate cover is in place to meet the Council's requirements.

### *Conclusions*

*No issues arise in this area of our review warranting formal comment or recommendation.*

## **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 it undertook a robust Budget setting and Precept determination process for FY 2018-19 and that subsequently the Budget and Precept was 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 year-end balance as at 31<sup>st</sup> March 2018 has increased significantly; from £11,689 at the prior year-end to £26,905. This amount includes several designated earmarked reserves (EMRs) totalling £15,300, leaving a General Reserve of £11,605 which equates to approximately 19 months' revenue spending at the 2017-18 level.

The accepted CiPFA guidelines state that in general, councils should maintain between three months and six months expenditure in reserve, based on the average monthly expenditure in the previous financial year, although it is deemed acceptable for smaller councils to maintain up to 12 months expenditure in reserve. Resultantly, the Council's General Reserve position is considerably higher than the highest level of General Reserve recommended by CiPFA.

### **Conclusions**

*Whilst we note that the Council reduced its Precept for FY 2017-18 in light of the high level of its retained reserves, we also note the Council maintains a high level of funds in designated EMRs. It is the opinion of this auditor, that based on the Council's historic expenditure patterns and its stated future plans that the council should aim to retain a maxim General Reserve position of between 6 and 9 months' spending at the prior year level and we ask that members keep this target in view during the 2019-20 Budget setting and Precept determination process.*

*We also note that the Council holds a designate EMR in the value of £2,500 for a 'Flood amelioration scheme' and advise the Council that the planning and approval process for Flood amelioration schemes is extremely complex, costly and falls under the purview of the County Council and the Environment Agency. These bodies are required to develop a business case for all flood amelioration works that are perceived to be required and such cases are often completed at the request of and with direct input from interested Parish Councils which may, from time to time, be granted the funds and delegated with the authority to oversee an approved project.*

*Members are reminded that it is the Environment Agency who are vested with the authority to conduct Flood amelioration scheme environmental impact studies, oversee the development of the corresponding project plan with input from interested parties, and provide the appropriate licences and, with the relevant County Council, assist in sourcing funding to enable works to proceed. The Council is further advised that even small flood amelioration schemes can easily run into six-figure expenditure and we encourage members that the proper approach to evaluate such a challenging scheme, and to obtain funding for it, should be to approach Wiltshire Council and the Environment Agency and to build a business case, with all the necessary environmental impact assessments, for any works that they deem to be required.*

### **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 issues arise in this area of our review warranting formal comment or recommendation.*

## **Petty Cash Account**

*The Council does not normally operate a petty cash account, any miscellaneous expenses incurred by the clerk being reclaimed each month. Subsequently, no issues arise in this area of our review warranting formal comment or recommendation.*

## **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 of our review warranting formal comment or recommendation.*

## **Asset Registers**

The Annual Governance & Accountability Return requires disclosure of the value of assets retained by the Council as at 31<sup>st</sup> March annually. The "Governance and Accountability Manual – The Practitioner's Guide" also requires councils to develop and maintain a register of all assets. We aim in this area of review to ensure the accurate reporting of all asset values and that the Council is complying with the 1996 Regulations.

We record that officers have continued to maintain a detailed inventory of the Council's assets and equipment, detail of each asset being recorded and the register being subject to annual update and revision to record any new acquisitions and / or disposals.

We note that the register has been updated to reflect the cost of new acquisitions in the year and that the revised total value of £12,924 has been correctly reflected, at purchase cost, in the value reported in the year's AGAR at Box 9 of Section 2.

### *Conclusions*

*No issues arise in this area of our review warranting formal comment or recommendation. However, we remind the Clerk that, in line with best practice, the replacement cost is for insurance purposes should also be identified in a separate column in the register. The benefit of recording asset values in this way is that it will assist the Council in the financial planning of future acquisitions, maintenance and replacements.*

## **Investments and Loans**

*We are pleased to note that the Council has no loans either repayable by it or to it, and that there are no issues arising in this area currently. However, we take this opportunity to remind members of the new Statutory Guidance on Local Government Investments from the 1<sup>st</sup> April 2018-19 strongly encourages all parish councils to develop an investment strategy, providing their total investments exceed or are expected to exceed £10,000 at any time during the financial year.*

### *Conclusions*

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

## **Statement of Accounts and Annual Governance and Accountability Return**

The Accounts and Audit Regulations, as amended periodically, require all councils to prepare annually a Statement of Accounts, which is now in the form of the Annual Governance and Accountability Return at Section 2, which is, together with the Annual Governance Statement at Section 1, subject to independent external audit examination and certification.

As part of our review process, we have examined the Council's procedures in relation to the identification of detail for inclusion in Section 2 of the Return, which is produced using Microsoft Excel spreadsheets, and used by the Clerk & RFO to provide all supporting accounting statements. We have agreed detail therein to Section 2 of the 2017-18 Annual Governance and Accountability Return.

### *Conclusions*

*We are pleased to record that no issues arise in this area and, on the basis of the work undertaken during the course of our review for the year, we have "signed off" the Internal Audit Report in the year's Annual Governance and Accountability Return assigning positive assurances in all areas.*