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# **St Mary Bourne Parish Council**

*Internal Audit Report 2016-17*

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*Claire Lingard*

*Consultant Auditor*

*Stuart J Pollard*

*Director*

*Auditing Solutions Limited*

## **Background**

All town and parish councils are required by statute to make arrangements 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. Auditing Solutions Ltd has provided this service to the Council in recent years.

This report sets out the work undertaken in relation to the 2016-17 financial year, during our visit on 31<sup>st</sup> May 2017, together with the matters arising and recommendations for action, where appropriate.

## **Internal Audit Approach**

In undertaking our review for the year, we have had regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts/Annual Return. Due to the relatively low volume, we have employed 100% detailed checks in a number of key areas in order to gain assurance that the Council's financial and regulatory systems and controls are appropriate and fit for the purposes intended.

Our programme of cover has been designed to afford appropriate assurance that the Council's financial systems are robust and 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 'Annual Internal Audit Report' in the Council's Annual Return, which requires independent assurance over a number of internal control objectives.

## **Overall Conclusion**

We have concluded that, on the basis of the programme of work we have undertaken, the Council has maintained adequate and effective internal control arrangements during the year. We are pleased to record that no issues have been identified warranting formal comment or recommendation this year.

We have duly completed and signed-off the 'Annual Internal Audit Report' in the 2016-17 Annual Return, having concluded that, in all significant respects, the control objectives set out in that report were being achieved throughout the financial year to a standard adequate to meet the needs of the Council.

## Detailed Report

### Maintenance of Accounting Records & Bank Reconciliations

The clerk has continued to use the Rialtas Alpha accounting software to maintain the Council's financial records. Two bank accounts are in place with Lloyds TSB (Current and Business Reserve), together with a fixed term investment also with Lloyds TSB. Separate cashbooks are operated in the financial ledger for each of these accounts.

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. We have consequently: -

- Agreed the 2016-17 opening balances in the Alpha software to the prior year closing Trial Balance detail;
- Verified that the financial ledger remains "in balance" at the financial year-end;
- Ensured that the cost and expenditure coding structure is appropriate for purpose;
- Checked and agreed detail in the cashbooks for each bank account to supporting bank statements for the full financial year;
- Checked and agreed detail on the year-end bank reconciliations for all accounts; and
- Ensured the accurate disclosure of the combined cash / bank balances in the year's Annual Return.

#### **Conclusions**

*No issues have been identified in this area of our work warranting formal comment or recommendation.*

### Review of Corporate Governance

Our objective here 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.

In light of our previous advice, we note that the Council has revised the Standing Orders and Financial Regulations based on NALC model documents which were adopted at the full meeting of the Parish Council on the 13<sup>th</sup> December 2016 under Agenda Item 5.6 and 6.2 respectively.

We are pleased to note that the Financial Regulations now reflect EU legislation in regard to the advertising of contracts exceeding £25,000 being formally advertised, and that the Standing Orders and Financial Regulations refer to a consistent value of £2,500.

We have examined the Council and its standing committees' minutes for the full financial year to ensure that no issues exist or are developing that may have an adverse affect on the Council's financial stability and are pleased to record that no such issues have been identified. We also again note that Virements are reported to and approved by the Planning Committee with the full Council ratifying the initial decisions.

### ***Conclusions***

***No issues have been identified in this area of our work warranting formal comment or recommendation.***

## **Review of Payments and VAT**

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures;
- Funds are expended in accordance with approved 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 expense codes have been applied to invoices when processed; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have examined a sample of payments in the year for compliance with the above criteria with no issues arising, selecting every payment in excess of £700 plus every twentieth payment, as recorded in the alpha cashbook. Our test sample comprises 25 individual payments and totals £31,371 equating to 64% of all non-pay related expenditure in the year.

We also note the preparation and submission of a VAT reclaim for the full financial year, detail of which we have agreed to the Rialtas Alpha control account detail.

### ***Conclusions***

***We are pleased to record that no issues arise in this area.***

## **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: -

- Examined the Council's insurance policy arranged through Came & Co underwritten by Aviva to ensure that appropriate cover is in place and that members have reviewed its content: with Public and Employer's Liability cover both in place at £10 million and Fidelity Guarantee cover at £150,000, we consider the Council to have appropriate cover in place.
- The Council reviewed and formally readopted the Financial Risk Register at the meeting of the Full Council on 14<sup>th</sup> March 2017.

### ***Conclusions***

***No issues have been identified in this area of our work warranting formal comment or recommendation.***

## **Budgetary Control & Reserves**

We are pleased to note that, following due and formal consideration, the Council has agreed its budget and precept for 2017-18 at the meeting of the Full Council on 11<sup>th</sup> January 2017. The precept was frozen at the 2016-17 level of £21,000, including the Council Tax Support Grant of £1,503, giving an actual precept of £19,497.

We also again note that periodic reviews of budget performance are carried out by members comparing actual performance against the approved budget. We have reviewed the year-end outturn and are pleased to record that no unexplained or unanticipated variances requiring further review or action by the Clerk or members are apparent.

We have also reviewed the level of retained balances at the year-end, noting that the Council has no Earmarked Funds at present. The combined reserves total £44,083 and equate to approximately nine months' expenditure at current levels and are considered more than adequate to meet the Council's ongoing revenue spending plans and development aspirations.

### ***Conclusions***

***No issues have been identified in this area this year warranting formal comment or recommendation.***

## **Review of Income**

The Council has a limited range of income sources, primarily the precept, the fishing tenancy, grants for specific projects and other miscellaneous income by way of bank interest recovered VAT, etc.

We have examined the Rialtas Alpha nominal income account detail to ensure that the allocation of income is correct and that no evidence exists of unrecovered income. We are also pleased to note that the clerk is maintaining an appropriate record of sales invoices raised also indicating the date on which the invoice has been settled.

### ***Conclusions***

***No issues have been identified in this area this year warranting formal comment or recommendation.***

## **Petty Cash Account**

The Council operates a small petty cash account with minimal activity: however, as part of the Internal Audit Certification process, we are required to consider and report on the effectiveness of controls over operation of the account. The relatively small sum of £134.57 has been expended during the year with periodic round sum top-ups: in view of the low volume of payments in the year, we have checked and agreed each recorded payment to the supporting trade invoices, till receipts, etc. with no issues arising. We have also checked the physical cash holding on the day of our visit and agreed the amount held to the supporting Rialtas Alpha accounts taking note of transactions since 31<sup>st</sup> March 2017.

### ***Conclusions***

***No issues have arisen from our review of the operation of the petty cash account this year, with VAT being identified accordingly for recovery at the year-end.***

## **Salaries and Wages**

We aim in this review area to ensure that the Council has approved the Clerk's annual salary, that a formal employment contract is in place and that the monthly salary is calculated in accordance with these criteria. We also aim to ensure that the appropriate tax and NI deductions and employer's NI contributions have been calculated accurately and that the appropriate payments are made to the clerk and HMRC.

We noted previously that the services of a payroll provider were used in order to ensure compliance with Real Time Information submission requirements, the same arrangement continuing in 2016-17.

We also noted that the Council approved implementation of the 2016-17 national pay settlement and that this was applied appropriately from 1<sup>st</sup> January 2016: we also note the Council's approval for a further increase in the Clerk's pay advancing one point up the spinal scale to SCP 23.

We have, consequently, verified the monthly net payments made to the clerk, after deduction of the relevant tax and NI contributions, also ensuring the accuracy of payments of those deductions to HMRC, which are made quarterly.

### ***Conclusions***

***No issues arise from our review of payroll preparation and resultant salary and HMRC payments.***

## **Asset Registers**

We note the continued maintenance of an appropriate Asset Register, which records asset values at purchase cost or, as now required, at the prior year reported value in the Annual Return. The Clerk had updated the Asset Register appropriately to reflect the procurement of Planters for the Village square in the amount of £2,317.

We note that the register now also includes the annually uplifted insurance value, which generally approximates to replacement cost.

### ***Conclusions***

***No issues have been identified in this area this year warranting formal comment or recommendation.***

## **Investments and Loans**

The Council re-invested £20,000 in March 2017 for one-year with Lloyds Bank: we have examined the resultant contract note, also ensuring that the prior year “investment” (£20,000) has been repaid appropriately with interest paid gross. No loans are in place either repayable by or to the Council.

### ***Conclusions***

***No issues have been identified in this area this year warranting formal comment or recommendation.***

## **Statement of Accounts & Annual Return**

The Clerk has prepared a brief Statement of Accounts based on the Rialtas Alpha accounting system detail, supported by further supplementary explanatory notes detailing the causes of year-on-year variances,

We have checked and agreed the accurate disclosure of values in Section 2 of the Annual Return by reference to the Rialtas Alpha closing Trial Balance and other relevant documentation.

### ***Conclusions***

***No issues arise in this area warranting formal comment and, on the basis of the work undertaken during the course of our review, we have duly signed off the Internal Audit Report in the Annual Return assigning positive assurances in each relevant area.***