
St Mary Bourne Parish Council

Internal Audit Report 2015-16

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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 since 2009-10.

This report sets out the work undertaken in relation to the 2015-16 financial year, during our visit on 18th April 2016, 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 have identified a few areas where we consider that further improvements in the overall internal control environment are required. Details of any outstanding matters from the previous year, together with additional matters identified during the course of this year's audit visit are set out in the body of the report, with the recommendations arising further summarised in the appended Action Plan. We ask that members consider the content of this report and respond in due course to the recommendations set out in the Action Plan, indicating, where appropriate, the actions to be taken and the likely timescale for their implementation.

We have completed and signed the 'Annual Internal Audit Report' in the 2015-16 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 2015-16 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

We are pleased to report that no issues have been identified in this area of our review. The clerk has to date only received bank statements to 23rd March 2016 on the two bank accounts: the bank was contacted during the course of our visit who confirmed that the bank balances remained unchanged as at 31st to those on 23rd March 2016.

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.

We have noted previously that the Council adopted Standing Orders and Financial Regulations based on NALC model documents some years ago. Whilst these documents are re-adopted at each Annual Parish Council Meeting, they have not been significantly revised recently and consequently do not reflect the recent legislative changes affecting, inter alia, the filming and recording of meetings or the repeal of Section 150(5) of the 2972 Act requiring two members to sign all payable orders.

Furthermore, whilst not likely to directly affect the Council, EU legislation as regards the advertising of contracts changed from 1st April 2015 requiring all local government bodies to formally advertise contracts exceeding £25,000 over a three year period. NALC has only recently (March 2016) issued a further revised model set of Financial Regulations, which take due account of this and earlier legislative changes and we urge the Council to review in depth its own regulatory documentation to take account of these changes. In order to assist the Council, we have provided the clerk with electronic copies of the latest documentation, together with more detailed guidance on procurement.

Furthermore, we note that the existing documents imply a formal tender limit of £10,000 in the Standing Orders, whilst the Financial Regulations refer to a limit of £50,000: we consider that a consistent value at the lower level should be applied.

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 and recommendation

We shall continue to monitor the Council's approach to governance issues at next year's review and, as above consider that the Council should take appropriate action as a matter of some urgency to ensure that its governance arrangements are sound and comply with current legislation, guidance and best practice.

R1. The Council should undertake a full review of its extant Standing Orders and Financial Regulations bringing them into line with the latest NALC model documents and ensuring that they reflect all changes to legislation and ensuring that the Council is compliant with best working practice.

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 £500 plus every fifteenth payment, as recorded in the alpha cashbook. Our test sample comprises 37 individual payments and totals £33,200 equating to 65% 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

No issues have been identified in this area of our work 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: -

- Examined the Council's insurance policy arranged through Came & Co 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.
- Noted with pleasure that, following last year's failure to comply with the requirements of the Governance and Accountability Manual, the Council has developed and adopted formally an appropriate financial risk register at its meeting in November 2015.

Conclusions

We are pleased to acknowledge action to address the concern expressed in last year's report with no issues arising this year.

Budgetary Control & Reserves

We are pleased to note that, following due and formal consideration, the Council has agreed its budget and precept for 2016-17 at the January 2016 meeting totalling £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 now created a few Earmarked Funds. Combined reserves total £44,900 and equate to some 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 whether or not they have been settled. Whilst not warranting formal comment, we suggest that in order to further clarify the position, rather than just a tick to indicate settlement of the account, the actual date of receipt be recorded.

We have also updated our year-on-year analysis of income across the various headings, detail of which will be considered when planning our 2016-17 review programme.

Conclusions

We are pleased to report that the income systems appear to continue to operate effectively with no control weaknesses identified: as indicated above, we consider enhanced control would be evidenced were the actual date of receipt of invoiced moneys recorded on the clerk's record of invoices raised.

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 £176 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 31st March 2016.

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 2015-16.

We also noted that the Council approved implementation of the 2014-2016 national pay settlement and that this was applied appropriately from 1st January 2015: we also note the Council's approval for a further increase in the Clerk's pay advancing one point up the spinal scale.

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 Register

We are pleased to note the existence 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, following the change in reporting requirements a few years ago.

We have previously suggested that, in order to assist the Council in assessing future budget requirements in respect of asset replacements, the register should also include the annually uplifted insurance value, which generally approximates to replacement cost and are pleased to note that the clerk has complied with this updating the register as at 31st March 2016 accordingly.

Conclusions

We noted that the value of assets, as recorded on the register as at 31st March 2016, was incorrect and have agreed the correct total value to be recorded thereon and in the year's Annual Return: the register included appropriate adjustments for new acquisitions since 31st March 2015 and deletions.

Investments and Loans

The Council re-invested £20,000 in March 2016 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 arise in this area.

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 1 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.

Rec. No.	Recommendation	Response
Review of Governance and Accountability		
R1	The Council should undertake a full review of its extant Standing Orders and Financial Regulations bringing them into line with the latest NALC model documents and ensuring that they reflect all changes to legislation and ensuring that the Council is compliant with best working practice.	