
St Mary Bourne Parish Council

Internal Audit Report 2014-15

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Background and Scope

The Accounts and Audit Arrangements introduced from 1st April 2001 require all Parish Councils to implement an independent internal audit examination of their Accounts and accounting processes annually. The Council complied with this requirement appointing a local person to undertake the work on their behalf: we were subsequently approached and appointed from 2009-10. This report summarises our conclusions on the areas examined during the course of our visit for the year which took place on 23rd April 2015, and allows us to gain sufficient assurance to 'sign-off' the Internal Audit Certificate in the Annual Return for the year.

Internal Audit approach

In undertaking our review, we have again had regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts. With the relatively limited number of transactions annually, we have applied direct substantive tests in most areas rather than selective sampling.

Overall Conclusion

We are again pleased to conclude that overall the Council continues to operate effective systems in place to ensure that its financial affairs are managed appropriately and that transactions are accurately reflected in the Statement of Accounts and Annual Return. Whilst no significant issues have arisen, we have identified one or two areas where action is required in order to comply with the latest requirements of the Governance and Accountability Manual (2014 update): detail is set out in the body of the report with subsequent recommendations further summarised in the appended Action Plan.

On the basis of work completed both a tour own offices in advance of our visit and subsequently at the Council's offices, we have signed off the Internal Audit Certificate in the Annual Return assigning positive assurances in each relevant area, excepting that in relation to Risk Management where positive action is required by members to ensure compliance with the latest governance requirements as set out in the 2014 edition of the aforementioned Manual.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The clerk uses the Alpha accounting system to maintain the Council's financial records. Three bank accounts are in place; a Current and Business Reserve Account, together with a fixed term investment account all 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 2014-15 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.

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 noted previously that the Council adopted Standing Orders and Financial Regulations based on NALC model documents. Whilst these documents are reviewed and 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.

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.

We also wish to take this opportunity to draw the Clerk and members attention to the 2014 revision of the Governance and Accountability Manual. The document includes a number of changes and identifies a number of areas where the Council now “**MUST**” take formal action (e.g. the annual review and adoption of risk assessments) whereas such were previously not specifically required. We anticipate that the external auditors will take a more positive attitude and report accordingly in the Annual Return Certificate where councils have failed to comply with the requirements of the revised Manual.

Conclusions and recommendations

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 guidance and best practice.

- R1. *The Council should undertake a full review of its extant Standing Orders and Financial Regulations ensuring that they reflect any and all changes to legislation and ensuring that the Council is compliant with best working practice.*
- R2. *The Clerk and members should ensure that they are familiar and that the Council complies with the requirements of the revised (2014 edition) of the Governance and Accountability Manual.*

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, due to their relatively small number, examined all payments in the year for compliance with the above criteria with no issues arising. We also note the preparation and submission of a VAT reclaim for the full financial year, detail of which we have agreed to the 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 and determined that cover in each area is appropriate to the Council's needs.
- Noted that, whilst comprehensive health and safety assessments are in place, no progress has been to develop robust financial risk assessments and registers, nor to formally reassess and re-adopt the former as now required annually by the Governance and Accountability Manual.

Conclusions and recommendation

We consider that the level of cover afforded by the Aviva policy in each area remains appropriate for the Council's present requirements. Urgent action is, however, required to ensure compliance with the requirements of the aforementioned Governance and Accountability Manual with formal financial risk assessments developed and subjected to annual review and re-adoption by the full Council.

R3. The Council should ensure that it complies with the requirements of the Governance and Accountability Manual (2014) with financial and other risk assessments subjected to annual review, update and formal re-adoption by the full Council.

Budgetary Control & Reserves

We are pleased to note that, following due and formal consideration, the Council has adopted a precept of £19,506, together with the Council Tax Support Grant of £1,494 for 2015-16 at its January 2015.

We also again note that a half-yearly review of budget performance is carried out by members comparing actual performance against the approved budget. We have reviewed the year-end outturn to determine whether or not any significant and / or unexplained variances exist 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 £45,000 and equate to some ten 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 Alpha nominal income account detail to ensure that the allocation of income is correct and that no evidence exists of unrecovered income. We have also updated our year-on-year analysis of income across the various headings, detail of which will be considered when planning our 2015-16 review programme.

Conclusions

We are pleased to report that the income systems appear to continue to operate effectively with no control weaknesses identified.

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. Some £50 only has been expended through the account in the year and 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 Alpha accounts taking note of transactions since 31st March 2015,

Conclusions

No significant issues have arisen from our review of the operation of the petty cash account, apart from noting that VAT had not been identified for recovery on a few of the periodic parking tickets included in the year's payments: we have drawn this to the Clerk's attention and, consequently, do not consider that a formal recommendation is required.

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 last year 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 2014-15.

We also note 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.

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 now 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. We are pleased to note that the clerk has endeavoured to comply with this updating the register as at 31st March 2015 accordingly to include the data in generic groups (the insurance schedule does not provide a more detailed breakdown of the individual assets values).

Conclusions

We have ensured the accurate disclosure of the year-end value in the Annual Return including the defibrillator acquired during the year and, consequently, no issues arise warranting formal recommendation this year.

Investments and Loans

The Council has re-invested £20,000 in March 2015 for one-year with Lloyds Bank: we have examined the resultant contract note, also ensuring that the prior year "investment" (£15,000) 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 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 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 Certificate at Section 4 of the Return assigning positive assurances in each relevant area other than in relation to risk management issues as detailed above.

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 ensuring that they reflect any and all changes to legislation and ensuring that the Council is compliant with best working practice.	
R2	The Clerk and members should ensure that they are familiar and that the Council complies with the requirements of the revised (2014 edition) of the Governance and Accountability Manual.	
Assessment and Management of Risk		
R3	The Council should ensure that it complies with the requirements of the Governance and Accountability Manual (2014) with financial and other risk assessments subjected to annual review, update and formal re-adoption by the full Council.	