
Gorefield Parish Council

Internal Audit Report 2016-17

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for Auditing Solutions Ltd

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 Gorefield Parish Council since 2010-11.

This report sets out the work undertaken in relation to the 2016-17 financial year, during our visit on 24th April 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. We have employed a combination of selective sampling techniques (where appropriate) and 100% detailed checks in a number of key areas in order to gain sufficient 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

On the basis of the programme of work we have undertaken, we have concluded that, in general, the Council has maintained adequate and effective internal control arrangements during the year. However, we have identified some areas where we consider that further improvements in the overall internal control environment can be made. During the course of our audit, we have reviewed the action taken in response to matters raised in last year's report and are pleased to note the good progress that has been made.

Details of the 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 2016-17 Annual Return, having concluded that, with the exception of risk management arrangements (internal control objective C), 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

Our objective in this area has been to ensure that accounting records are being maintained accurately and on a timely basis, and that no anomalous entries appear in cashbooks or financial ledgers.

The accounting records have again been maintained using the Sage accounting software, which we consider is appropriate for a council of Gorefield's size. The Council operates three bank accounts with Barclays Bank plc; the main community (current) account and two instant access saver accounts.

In order to ensure the appropriateness and accuracy of the recording of transactions, we have:

- Confirmed that there was an accurate roll forward of prior year closing balances to 2016-17;
- Verified that the accounts remain "in balance" at the financial year-end;
- Ensured that an appropriate cost centre and chart of accounts is in place to facilitate reporting of the Council's budgetary performance;
- Checked and agreed detail of the full year's financial transactions on all of the bank accounts, by reference to supporting bank statements; and
- Verified the bank reconciliation detail on each bank account as at 31st March 2017, also ensuring the accurate disclosure of the combined balances in the year-end Accounts.
- Confirmed that the financial system is backed-up periodically using a memory stick.

Conclusion

In general, the controls in this area were found to be adequate and operating effectively. The only matter we would raise concerns the ongoing use of two separate instant access saver accounts. We understand that there was a specific purpose for having separate accounts in the past, but that this is no longer the case.

R1 The Council should consider whether there is any need to continue to maintain two instant access savings accounts and, if not, whether they should be merged.

Review of Corporate Governance

Our objective is to ensure that the Council has robust corporate governance arrangements in place; that Council 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.

From our audit work, we noted the following:

- Our review of the Council's minutes for the 2016-17 financial year has not identified any issues that we consider may have an adverse effect on the Council's financial stability in the short, medium or longer term, or that give us concern that the Council may either be considering, or have taken, decisions that might result in ultra vires expenditure being incurred;
- The Standing Orders were updated and reapproved by Members in May 2016, to reflect the latest model guidance produced by NALC;
- All payments continue to be approved by members and recorded in the minutes. We note that our recommendation to include cheque numbers and, where applicable, the VAT element of payments has been taken on board; and
- The Council has also taken on board a number of requirements of the 'Transparency Code for smaller authorities (the Transparency Code)' which we drew attention to in last year's internal audit report.

We wish to thank the Chairman for completing our Corporate Governance Questionnaire, which provides us with further assurance as to the soundness of the Council's overall governance arrangements

Conclusions and recommendations

In general, the controls in this area were found to be adequate and operating effectively.. However, we have identified three areas where further action is required.

(a) From our review of the updated Standing Orders, we noted that the document has not been tailored to the Council's specific circumstances and currently includes sections and wording from the model document that are not applicable.

R2 The Standing Orders updated in May 2016 should be revisited to ensure that they are tailored to the specific circumstances of the Council.

(b) We confirmed that the Financial Regulations have not been updated since June 2014 and consequently, do not take into account a number of significant statutory and regulatory changes that have taken place since that date (e.g. in relation to procurement and financial control).

R3 The Financial Regulations should be reviewed and updated, to take into account the latest national guidance produced by NALC.

(c) As noted above, the Council has taken on board a number of the requirements of the 'Transparency Code' (e.g. the publication of agendas and minutes, which include details of financial transactions, the internal audit report and the names of Council Members). However, certain other information is not yet being published – namely, details of public land and building assets, the end of year accounts and Annual Governance Statement.

R4 The Council should ensure that it publishes all of the information set out in the 'Transparency Code', going forward.

Review of Payments

Our objective in this area 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;
- Any 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 reviewed the procedures in place for receiving invoices; checking their authenticity, accurate detail recording, processing by the Clerk and formal approval for payment by members. We are pleased to note that, in line with good practice, invoices continue to be evidenced as reviewed by the cheque signatories.

We reviewed all payments made during the year to ensure that the above criteria were met. We also confirmed the accuracy of the VAT reclaim made at the end of the year.

Conclusion

No matters have arisen from our review of payments this year that require a 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 operational/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:

- A Financial Risk Assessment is in place, which was last reviewed and re-adopted by the Council in July 2015.
- Other risk assessments are undertaken, in particular ROSPA reviews of play equipment and reported to the Council for appropriate action to be taken;
- A new insurance policy has been entered into with Zurich, covering the period to 31st May 2018. The policy includes a Public Liability limit of £12 million and Employer's Liability of £10 million, with Fidelity Guarantee cover at £150,000, all of which we consider appropriate for the Council's present requirements.

Conclusion

In general, the controls in this area were found to be adequate and operating effectively. However, whilst a Risk Register is in place, the document was not formally considered by Members during the 2016-17 financial year, as required by the Practitioners' Guide and by the Council's own Financial Regulations (17.1).

R5 In future years, the Council must ensure that it takes appropriate steps to review and update (as necessary) its Risk Register at least annually and that the results of the review and any conclusions or decisions reached are formally minuted.

Precept Determination and Budgetary Control

Our objective here is to ensure that the Council has robust procedures in place for identifying and approving its future budgetary requirements and the level of precept to be drawn down from the District Council, and that an effective reporting and monitoring process is in place. We also consider whether the Council retains appropriate funds in general and earmarked reserves to finance its ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

At its January 2017 meeting, the Council approved and adopted a precept for 2017-18 of £15,000, which is an increase of £623 from the previous year. In addition, it will receive £749 by way of support grant (£1,123 in the previous year) with the level of Concurrent Functions Grant of £1,820 remaining unchanged from 2016-17. Members were provided with a schedule showing the 2016-17 budget and spend to January 2017 to help inform the decision making process.

We also note that, throughout the year, Members are provided with details of the balances held on its accounts and of the monthly receipts and payments. In addition to the report provided for the 2017-18 budget setting process, the Clerk also produced a half-yearly report on performance against the 2016-17 budget.

Overall reserves as at 31st March 2017 stand at £30,469, compared to just over £20,300 at the end of the previous year. Whilst this is high in comparison to the annual expenditure of £10,745, we are aware that part of the reserves are required to cover expenditure on planned improvements to street lighting, which are estimated to cost up to £20,000. Taking this into account, the remaining general contingency balance of around £10,000 is not unreasonable for a council of Gorefield's size.

Conclusion

In general, the controls in this area were found to be adequate and operating effectively. The only matter we would draw to Members attention is the need for transparency in terms of the reserves held.

R6 For avoidance of any confusion regarding the level of reserves held, the balance that has been set aside to pay for improvements to street lighting should be identified as a specific "Earmarked reserve", separate from the General Reserve balance, when reporting the overall financial position.

Review of Income

Our objective is to confirm that appropriate arrangements are in place to identify all income due to the Council, to arrange for its collection by way of invoicing or direct settlement and for its prompt banking. We also aim to ensure that fees and charges are levied in accordance with the Council's approved scales, where appropriate.

The Council receives limited income other than the annual precept, primarily from the Concurrent Functions and other miscellaneous grants, allotment rentals and bank interest, together with recovered VAT. We have checked and agreed in full all receipt entries in the cashbook to the relevant bank statements and other supporting documentation.

We confirmed that all allotment rents have been paid, by reference to a register maintained by the Clerk and also noted that allotment rents have been formally reviewed by the Council during the year, as required by the financial regulations, with the decision being made that the current rent level is appropriate.

Conclusion

No matters have arisen from this area of our review that require a formal comment or recommendation.

Petty Cash Account / Clerk's Expenses

No petty cash account is operated by the Council, the clerk reclaiming any out-of-pocket expenses periodically, which are processed in the same way as supplier invoices.

Salaries and Wages

In examining the Council's payroll function, our objective is to confirm that extant legislation is being appropriately observed and the requirements of HM Revenue and Customs (HMRC) as regards the deduction and payment over of income tax and NI contributions.

The Clerk is the only employee. We have reviewed the payments made to her, and confirmed that they agree to approved salary; we have also verified detail of the tax deductions applied to her salary. We have also confirmed with the Clerk that the regulatory requirements in relation to Pensions Auto Enrolment are being complied with.

Conclusion

No matters have arisen from this area of our review that require a formal comment or recommendation

Asset Register / Inventory

The reporting arrangements for assets in the Annual Return require councils to report the value of each asset at purchase cost or, where that value is unknown, at a suitable proxy. The value of individual assets should not change from one year to another, with the only changes being the inclusion of new assets purchased or removal of assets disposed of.

As previously, a simple asset register has been maintained, which records assets at their original cost. We have confirmed with the Clerk that there has been only one addition in the year ('Phone box at a nominal £1) and no disposals of assets, and therefore the value of assets to be reported in the Annual Return has been increased to £383,501.

Conclusion

No matters have arisen from this area of our review that require a formal comment or recommendation

Investments and Loans

The Council has no specific investments in place, nor any loans repayable by or to it.

Statement of Accounts and Annual Return

As in previous years, the Clerk has prepared a detailed Statement of Accounts on a Receipts and Payments basis. We have examined the detail in the Statement of Accounts and agreed the detail therein to the year-end Trial Balance produced by the Sage software.

Conclusions

In general, the controls in this area were found to be adequate and operating effectively. The only matter arising was the presence on the year-end trial balance produced by Sage of some anomalous figures relating to VAT from previous years, which we have suggested to the Clerk should be investigated and removed. However, these do not affect the detailed accounts and we were able to reconcile them to the draft of Section 2 of the Annual Return (the statutory accounts). We look forward to receiving a copy of the completed Annual Return, (Sections 1 and 2) once it has been approved by the Council.

On the basis of the work undertaken during the course of our review for the year, we have completed and signed the Annual Internal Audit Report in the Annual Return, assigning positive assurances in all areas of internal control with the exception of risk management arrangements (internal control objective C), for the reason stated earlier in this report.

Action Plan

Rec. No.	Recommendation	Response
Maintenance of Accounting Records & Bank Reconciliations		
R1	The Council should consider whether there is any need to continue to maintain two instant access savings accounts and, if not, whether they should be merged.	
Review of Corporate Governance		
R2	The Standing Orders updated in May 2016 should be revisited to ensure that they are tailored to the specific circumstances of the Council.	
R3	The Financial Regulations should be reviewed and updated, to take into account the latest national guidance produced by NALC.	
R4	The Council should ensure that it publishes all of the information set out in the ‘Transparency Code’, going forward.	
Assessment and management of risk		
R5	In future years, the Council must ensure that it takes appropriate steps to review and update (as necessary) its Risk Register at least annually and that the results of the review and any conclusions or decisions reached are formally minuted.	
Precept determination and budgetary control		
R6	For avoidance of any confusion regarding the level of reserves held, the balance that has been set aside to pay for improvements to street lighting should be identified as a specific “Earmarked reserve”, separate from the General Reserve balance, when reporting the overall financial position.	