
Horton Parish Council

Internal Audit Report 2017-18

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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 AGAR.

This report details the work undertaken in relation to the 2017-18 financial year's Annual Governance and Accountability Return (AGAR) following provision of documentation in support of the year's financial transactions and governance arrangements.

Internal Audit Approach

In undertaking our review for the year, we have again paid due regard to the materiality of transactions and their susceptibility to any potential misrecording or misrepresentation in the year-end Statement of Accounts/AGAR. 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 'Internal Audit Report' in the Council's AGAR, which requires independent assurance over ten separate internal control objectives.

Overall Conclusion

We have concluded that, based on our review of the year's records and from discussions with the RFO, the Council has made positive progress to ensure that adequate and effective internal control arrangements are put in place. Whilst we are pleased to acknowledge the positive progress made, there remain a few areas where further action is required, specifically in relation to the formal review and adoption of a register of assessed risks, which, in accordance with the Governance and Accountability Manual, should be undertaken at least once annually.

Whilst the Council's minutes for 2017-18 indicate action as being taken, we have seen no formal confirmation of the adoption of the risk register during the financial year and, consequently, have to give a negative response to Box C of the year's IA Report in the AGAR. Similarly, the Council will need to give a negative response to Box 5 of the Governance Statement in the AGAR, Section 1.

We remind the clerk and members that the Governance and Accountability Manual (G&AM) requires both internal and external audit reports to be presented to and be considered formally by the Council.

We have also identified a few additional issues in 2017-18 that require urgent attention, detail of which is set out in the body of the report with resultant recommendations further summarised in the appended Action Plan.

We have duly signed off the Internal Audit Report in the year's AGAR with a negative response, primarily in relation to the absence of any formal adoption of a financial and associated risk register during the year.

This report has been prepared for the sole use of Horton Parish Council. To the fullest extent permitted by law, no responsibility or liability is accepted by Auditing Solutions Ltd to any third party who purports to use or rely, for any reason whatsoever, on this report, its contents or conclusions.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The RFO is now maintaining the Council's accounting records in an appropriate format, based on the example we provided previously. A single bank account is in operation with Unity Bank.

Our objectives in this area are to ensure that the accounting records are maintained accurately and in a timely manner with detail reconciled routinely to the various bank accounts in use. We have: -

- Checked to ensure that the closing balances reported in the 2016-17 AGAR have been "rolled-over" correctly as opening balances for 2017-18;
- Verified transactions on the Unity Trust account for the full financial year;
- Verified the content of the year-end reconciliation, also noting that members are now provided with detail of each quarter-end reconciliation; and
- Ensured that the year-end balance is accurately recorded in the year's AGAR.

Conclusions

We are pleased to report that appropriate accounting records have been maintained throughout the financial year with reconciliations now periodically submitted to, reviewed and signed-off by a nominated member. We have, however, noted a few anomalies in the cashbooks, which we have discussed with the RFO and agreed appropriate amendments to ensure that the year-end detail is both accurate and reconciles appropriately to the bank account.

Review of Corporate Governance

Our objective in this area is to ensure that the Council has robust corporate governance documentation and procedures in place; that Council meetings are conducted in accordance with the adopted Standing Orders and that, as far as we may be reasonably expected to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation. We have: -

- Examined the Council's minutes for the financial year to determine whether or not any issues exist that may have an adverse effect, through litigation or other causes, on the Council's future financial stability; and
- Noted that both Standing Orders (SOs) and Financial Regulations (FRs) are being reviewed currently and will be adopted by the Council in due course. We draw the Clerk and members' attention to the very recently revised version of the NALC model SOs, which take account of recent legislative changes, including GDPR issues: we commend the document as a sound basis for all councils to employ and have provided the clerk with an electronic version to assist in the review process.

We are pleased to note that the Council has considered and approved the budget and precept for 2018-19 at the January 2018 Council meeting setting the latter at £2,617.

Conclusions

We are pleased to report that no significant issues arise in this area currently, although we urge members to finalise their consideration of the revised SOs and FRs adopting them as soon as practicable in 2018-19 and also taking account of the latest amendments to the NALC model document.

Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- All payments are subject to appropriate approval in accordance with the Council's approved procedures;
- 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; and
- VAT has been appropriately identified for periodic recovery.

We have reviewed the Council's approach to the approval and authorisation of release of moneys to traders and staff and consider that they are generally sound, noting that, following our prior year recommendation, invoices now afford indication of specific review by members when signing-off cheques with printed sticky labels fulfilling this purpose: we do, however, retain some reservations with this process as, unless actually glued to the invoices, which would not necessarily be foolproof as they could easily become detached: consequently, we reiterate our previous recommendation.

We have again reviewed the full year's transactions ensuring compliance with the above criteria and noting a few anomalies where the cheque amount differed from the invoice value, the latter being recorded in the cashbook. Should such an incident recur, the value to be recorded in the cashbook should be that on the cheque clearing the bank account with an appropriate adjustment made to correct any under or over-payment on the next payment.

We also noted that the Insurance Premium Tax (IPT) of £87.25 has been identified in the cashbook as VAT: IPT is non-recoverable from HMRC and should not be included in the 2017-18 VAT reclaim when prepared.

Conclusions and recommendation

We are pleased to record that no significant issues or concerns arise from our work in this area, although, as indicated in last year's report and in line with best practice, we consider that, if adhesive certification slips are to be used when processing payments, they should be affixed to invoices in a more permanent manner. Care should also be taken to ensure that the cashbook records the actual value of transactions and, where an error occurs between the cheque value and invoice, the former is recorded in the cashbook and adjustment made on the next payment.

- R1. Consideration should be given to the acquisition of a suitably designed rubber certification stamp to be affixed to every invoice or for the present slips to be more permanently affixed to the invoices.*
- R2. Where the face value of cheques is erroneously recorded, the actual cheque value should be recorded in the cashbook and adjustment of the amount payable be made on the next invoice payment.*
- R3. Care should be taken to ensure that only true VAT is recorded as such in the cashbook for periodic recovery from HMRC.*

Assessment and Management of Risk

Local councils are required to put in place appropriate arrangements to assess and manage all potential risks, financial and other, to which they may be exposed, also ensuring that appropriate insurance cover is in place.

We noted last year that the Council considered and re-adopted its risk assessment document at the January 2016 meeting and reminded the Clerk and members that, in accordance with the requirements of the Governance and Accountability Manual (G&AM), risk assessments must be reviewed and formally re-adopted by the Council at least once annually. Whilst we note regular references to the review and update of the risk assessments following our 2016-17 review and recommendations, we have seen no indication in the year's minutes that the review has been finalised and resultant documentation

We also drew attention to the existence of more detailed software developed by a company in Scotland (DMH Solutions) specifically for this tier of Local government, which is also used by a number of our clients. We note that, following due consideration, the Council has elected to not acquire the software.

We have again examined the current year's insurance schedule noting that cover is provided by Zurich Municipal and consider that cover is appropriate for the Council's present needs with Employer's and Public Liability cover in place at £10 million and £12 million respectively, together with Fidelity Guarantee cover at £250,000.

Conclusions and recommendation

In the absence of any evidence to indicate the formal review, update (if necessary) and formal re-adoption of the Council's risk assessment documentation during 2017-18, we have no alternative than to assign a negative response in this area of our review process. Consequently, the Council will also need to give a negative assurance in the Governance Statement at Box 5, Section 1 of the 2017-18 AGAR.

- R4. The Council must ensure that it complies with the requirements of the G&AM, reviewing and adopting formally its financial and other risk assessments at least once during the financial year. the Council will also need to give a negative assurance in the year's AGAR at Box 5, Section 1.*

Budgetary Control and Reserves

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

We note that, following due debate, the Council finalised its budget and precept deliberations for 2018-19 formally adopting the latter at £24,617.

We are pleased to note that the RFO is now providing members with accounting detail including quarterly bank reconciliations and reports identifying performance against the approved budget.

We also noted previously the existence of a charity for which the Council acted as custodian trustee. We note from the Council's minutes that the Charity Commission have effectively "closed" the charity down with the result that the Council has resolved to apply the funds "for the benefit of the village" transferring the residual funds to Champney Hall.

The Council's reserves at the financial year-end have increased substantially to £45,800 (£29,100 as at 31st March 2017) primarily due to a re-imburement of expenditure of £8,000 incurred in 2016-17 by the Council on behalf of Champney Hall (i.e. plus £8,000 income in 2017-18 and less expenditure of £8,000 in 2016-17). The balance equates to almost 2 years' spending at the 2017-18 level and is potentially excessive: however, we note the Council's intention to develop a parish office and public conveniences adjacent to the village hall, which will have a significant impact on the level of funds held. We suggest that a financial "best estimate" be determined with the value effectively identified as an earmarked reserve until such time as work commences when the reserve level will be reduced accordingly.

Conclusions

We are pleased to report that no significant issues arise in this area this year warranting formal comment or recommendation, although, as indicated above, we suggest that the best estimate of the cost of the office and public convenience development be assessed and set aside (nominally only – i.e. it does not require the opening of a separate bank account) in an earmarked reserve for that specific purpose.

Review of Income

The Council receives income from a very limited number of sources in addition to the precept including various grants, small amounts of bank interest and recoverable VAT. We have agreed detail of income received to bank statements and, where available, other supporting documentation.

Conclusions

We are pleased to report that no issues arise in this area this year.

Petty Cash Account

The Council does not operate a petty cash account.

Review of Staff Salaries

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 Revenue and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions. We note that the Council uses the services of an external payroll bureau.

To ensure compliance with the above objectives, we have: -

- Ensured that the gross salaries applied in 2017-18 to the Clerk and RFO have been paid at the approved rate of pay;
- Verified the net payments made to both throughout the financial year, based on the gross salary recorded on the payroll provider's records and taking account of any tax NI deductions payable
- Noted that no National Insurance employee deductions or Council contributions were applicable, as the salary for both was below the relevant threshold; and
- Ensured the appropriate and prompt payment of tax deducted to HMRC during the year.

Conclusions

We are pleased to record that no issues have been identified in this area of our review process this year warranting formal comment or recommendation.

Asset Registers / Inventories

The G&AM requires all councils to maintain a record of all assets owned. We noted last year that, due to the circumstances arising since the end of the previous financial year, the then locum Clerk (appointed following the sudden death of the previous Clerk) had been unable to trace a formal asset register, either in hard copy or electronic format. We noted that she had drawn this to members' attention and that they acknowledged the requirement to develop / maintain an appropriate register.

We note that the new Clerk has endeavoured to establish a formal register detail of which is recorded in the March 2018 Council minutes: however, she has, at this point in time, only been able to confirm the existence of assets acquired in 2014-15 and subsequently by reference to the available financial records. The resultant asset list totals £15,572 including newly acquired assets in 2017-18 of £799 at cost price including VAT (NB: the asset register should record asset values net of VAT).

Consequently, in the absence of further information at this time and to ensure a degree of consistency in reporting asset values in the AGAR for 2017-18, we have agreed with the Clerk that the 2016-17 Annual Return value of £28,355 should remain unamended and that the 2017-18 value should be increased by the £666 spend (net of VAT) on new assets in 2017-18.

We have also agreed that a full physical examination of the Council's potential asset stock will need to be undertaken as soon as possible in order to ensure that assets acquire pre-2014-15 may be identified and an appropriate value may be assigned accordingly.

We suggested last year, that, again in line with best practice, the Council should consider the development of a photographic register of their assets, as several of our clients had found that it assisted the smooth progress of any insurance claims where assets have either been stolen or vandalised. We are pleased to acknowledge that the Council is taking appropriate action to develop such a register.

Conclusions and recommendation

As indicated above, the Council needs to ensure compliance with the G&AM and best working practice and ensure that an appropriate and detailed asset register is in place identifying all assets owned by the Council with an appropriate proxy value assigned to each (where the true acquisition cost is unknown).

We note that the record compiled to date by the Clerk of assets acquired in 2014-15 and subsequently includes the relevant detail as suggested in our 2016-17 report: obviously, it will most probably be impossible to identify the acquisition date and true purchase cost of previously acquired assets and, once identified, they will need to be added to the register with an assigned "best estimate" of their cost recorded.

R5. *The Council must ensure that an appropriately constructed and comprehensive asset register is developed and maintained routinely in future: as indicated in the body of the report, once assets acquired pre-2014-15 have been identified, they should be assigned a "best estimate" value, which should then be used in reporting the asset value in future years' AGARs.*

R6. *Additionally, in line with best practice, consideration should be given to the development of a photographic register of assets (street furniture, etc), which could prove useful in progressing any insurance reclaims in the event of theft or vandalism.*

R7. *The asset register should record asset values net of VAT, which is recoverable from HMRC.*

Investments and Loans

The Council has no long-term investments, nor does it have any loans in place repayable either by or to it.

Statement of Accounts and AGAR

Section 2 of the AGAR now forms the Council's formal Statement of Accounts subject to external audit review and certification. We have examined the content of the detail to be recorded in Section 2 for 2017-18 agreeing detail to the underlying financial records and, with regard to assets, the best available valuation currently (see previous section of report).

Conclusions

No addition issues arise in this area, although we remind the Clerk, RFO and members of the need to formally approved and adopt Sections 1 & 2 of the AGAR by the statutory deadline of 30th June 2018.

Based on the outcome of our work programme for the year, we have signed off the Internal Audit Report in the AGAR assigning positive assurances in each area, other than in relation to risk assessments.

Rec. No.	Recommendation	Response
Review of Payments and VAT		
R1	Consideration should be given to the acquisition of a suitably designed rubber certification stamp to be affixed to every invoice or for the present slips to be more permanently affixed to the invoices.	Completed September 2017
R2	Where the face value of cheques is erroneously recorded, the actual cheque value should be recorded in the cashbook and adjustment of the amount payable be made on the next invoice payment.	Noted and will be followed
R3	Care should be taken to ensure that only true VAT is recorded as such in the cashbook for periodic recovery from HMRC.	Noted and will be followed (refers to Zurich IPT which is non recoverable.)
Assessment and Management of Risk		
R4	The Council must ensure that it complies with the requirements of the G&AM, reviewing and adopting formally its financial and other risk assessments at least once during the financial year. the Council will also need to give a negative assurance in the year's AGAR at Box 5, Section 1.	Hoping to adopt Risk Assessment in June 2018, diarised for annual re-adoption
Asset Registers		
R5	The Council must ensure that an appropriately constructed and comprehensive asset register is developed and maintained routinely in future: as indicated in the body of the report, once assets acquired pre-2014-15 have been identified, they should be assigned a "best estimate" value, which should then be used in reporting the asset value in future years' AGARs.	Noted and done
R6	Additionally, in line with best practice, consideration should be given to the development of a photographic register of assets (street furniture, etc), which could prove useful in progressing any insurance reclaims in the event of theft or vandalism.	Noted: to be carried out
R7	The asset register should record asset values net of VAT, which is recoverable from HMRC.	Noted and will be followed (and previous errors corrected)