
Crudwell Parish Council

Internal Audit Report 2016-17

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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 previously provided this service the Council and was re-appointed last year and again for 2016-17.

Internal Audit Approach

In undertaking the review for the year, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts/Annual Return. Our programme of cover has been designed to afford appropriate assurance that the Council's financial systems remain 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 Annual Return, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

We have concluded that, on the basis of the satisfactory conclusion of our annual programme of work, the Council has maintained generally adequate and effective internal control arrangements, with no significant issues identified, although we have identified included a few areas where we consider that the Council could and should change working practice to further strengthen existing controls. Detail of these areas is set out in the body of the report with any resultant recommendations further summarised in the appended Action Plan

We have completed and signed the 'Internal Audit Report' in the year's Annual Return, having concluded that, in all significant relevant areas, the control objectives set out in that Report were being achieved throughout the financial year.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Council previously acquired and used the Rialtas Alpha software to maintain the Council's accounting records: following deliberation by members, the decision was made to revert to a spreadsheet basis of account recording part way through 2016-17. Consequently, the year's accounting records and year-end Annual Return detail are based on the separate spreadsheets in use for receipts and payments.

Given the low volume of annual transactions, we have verified detail of all transactions, as recorded in the cashbooks to both the Lloyds' current and deposit bank account statements, also verifying the accuracy of the brought forward balances as at 1st April 2016 to the prior year's closing balances.

Furthermore we have checked and verified the year-end bank reconciliations with no issues arising.

Conclusions and recommendation

In reviewing the payments cashbook detail, we note that data is being entered on the basis of the date transactions appear on the bank statements. Standard accounting practice requires that cashbook transactions should be entered on the date that cheques are issued and / or income is actually received, in order that the Council's true financial standing may be determined at any point in time. The only time bank statement dates should be applied is for direct debits and credits. Recording transactions on that basis then provides a means of effecting a meaningful reconciliation between the cashbooks and bank balances.

Additionally, we note that the cheque issued covering the first instalment payment for the new playground equipment was rejected by the bank, appearing as both a payment and a non-honoured cheque on the bank statements with its subsequent appropriate clearance by the bank on re-presentation. The Clerk has recorded the payment and effective cancellation of the payment as both a payment and a receipt in the separate cashbooks, with the cheque's final clearance through the bank also recorded. This has resulted in the over-statement of both receipts and payments in Section 2 of the Annual Return presented for our examination by £12,588 at Boxes 3 & 6. We have provided the Clerk with the corrected value for entry at Box 6 of the Return, which is also subject to a further £119 adjustment as detailed later in the report under Review of Salaries.

- R1. Payments made by cheque and moneys received should be recorded in the cashbooks on the date(s) that cheques are physically signed and issued and / or when funds are received, irrespective of the date(s) they appear on bank statements, excepting direct debits / credits.*
- R2. Where cheques (payments and receipts) are cancelled or rejected by the bank, they should be recorded in the cashbooks as negative payments or receipts rather than receipts and payments, which latter action results in the over-statement of those values.*

Review of Corporate Governance

We noted last year that the Council has Standing Orders (SOs) in place, which appeared to have been last reviewed and re-adopted in February 2012. We note the intention to review them in early 2017-18 following the local elections and remind the Clerk and Members that, inter alia, the value recorded for formal tender action should be consistent with that in the Financial Regulations (FRs), which we are pleased to note have been prepared in line with the latest NALC model document and been adopted by the Council in December 2016.

Whilst the model document refers to a formal tender limit of £25,000, which reflects the requirement to formally advertise any tenders in excess of that value in the Government's Contract Finder website, we consider that a lower value of between £5,000 and £10,000 would be more appropriate for a Council the size of Crudwell, as regards seeking formal tenders.

We have examined the Council minutes for the financial year to determine, as far as we are reasonably able to ascertain, whether or not any issues exist that may have an adverse effect, through litigation or other causes, on the Council's future financial stability, also that the Council has not undertaken nor is planning to undertake any work or decisions that may result in ultra vires spending. We are pleased to record that no such issues appear to exist at present or to be developing.

We thank the Chairman for completing our Governance questionnaire, which serves to further clarify the Council's operative controls and afford us with further confirmation of their general soundness.

Conclusions

Whilst no significant issues arise in this area this year, as indicated above, we consider a lower value than the £25,000 recorded in the recently adopted Financial Regulations should be applied.

We have also suggested to the Clerk that, in line with best practice and in order to assist and ensure effective succession management procedures are in place should the Clerk resign or be absent for any lengthy period, formal documented financial procedures, sometimes rather derogatorily referred to as "idiot's guides", should be prepared and be approved by members.

Review of Expenditure and VAT

Our objective in this area is to ensure that the Council has appropriate arrangements in place to monitor and control the incurring of expenditure, approval and authorisation of payment release. We have reviewed the procedures in place and consider them sound affording a good level of assurance of members' involvement in the expenditure approval and release of funds process.

In view of their low volume, we have reviewed all payments made during the year to ensure that the following criteria were met:

- Payments were supported by a trade invoice or acknowledgement of receipt;
- Payment documentation is appropriately annotated to evidence member review and authorisation;
- The Council minutes formally indicate approval of each payment;

- Payments have been correctly analysed in posting to the accounting software and thence in preparation of the year-end Statement of Accounts; and
- VAT has been calculated correctly and is recovered at appropriate intervals.

Conclusions

We are pleased to record that the above criteria were met appropriately in every case. We also note that VAT reclaims are prepared and submitted periodically to HMRC for recovery during the course of the year: we have verified the content of the two reclaims prepared and submitted during 2016-17 and reiterate our prior year suggestion that reclaims be prepared and submitted at half yearly intervals at the end of September and March.

Assessment and Management of Risk

The Governance and Accountability Manual requires all councils to consider, develop and adopt formally at least once annually a suitably designed financial risk assessment register: we are pleased to note the existence of such a document at Crudwell, which was subject to formal review and adopted at the March 2017 Council meeting.

We note that the Council's insurance cover is provided by Hiscox, via Came & Co, and have reviewed the content of the schedule and consider it appropriate for the Council's current needs: we note that Hirer's Liability cover is in place at £5 million and have suggested to the clerk that she query this with the insurer as cover in this respect would not appear necessary with the Council having no hireable resources, apart from the allotments, which are covered by rental agreements. Removal of this from the schedule may result in savings to the Council.

Conclusions and recommendation

We are pleased to record that no issues arise in this area, other than in relation to Hirer's insurance liability, which appears to not be required with no hireable, other than allotments and the village green, facilities warranting formal comment or recommendation.

R3. The Clerk should check with the insurers to determine exactly what is covered by the Hirer's Liability and, if deemed un-necessary, it should be removed from the Council's policy schedule.

Budgetary Control and Reserves

The Council's minutes, together with the supporting papers provided to Council, indicate that members have considered and agreed the 2017-18 budget and precept, setting the latter at £15,206 at the December 2016 meeting.

We are also pleased to note that members receive periodic updates on the council's financial standing and performance against budget throughout the year.

Overall reserves at 31st March 2017 have decreased to £30,777 (£49,162 as at 31st March 2016). We are pleased to note that members have, at the April 2017 meeting, reviewed the level of retained reserves agreeing the maintenance / establishment of earmarked reserves totalling £19,800. The residual General Fund balance of approximately £11,000 equates to 6 months'

revenue spending at the 2016-17, which is in line with the generally recognised CiPFA guideline of between three and six months' revenue spending.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Review of Income

The Council receives, in addition to the annual precept, only limited income from bank interest, occasional grants and donations, allotment rents and recoverable VAT. We have reviewed and agreed income received during the year by reference to the year's bank statements and other available supporting documentation.

We noted last year that no allotment rental income was recorded in the year's accounts as a result of a misunderstanding between the Clerk and member of the public who collected the rents from tenants on behalf of the Council (the allotment year runs from 1st March annually). We noted that appropriate invoices had been raised to recover the rents due in the early part of 2016-17 and now note that those covering 2017-18 (i.e. from 1st March 2017) have been issued with all rents receivable duly received and banked prior to 31st March 2017. Consequently, the year's Accounts include two years' allotment rents, although the amount involved is relatively low with only 14 plots charged at £5 each annually.

Conclusions

We are pleased to record that no issues arise in this area warranting formal comment or recommendation.

Petty Cash Account

We note the Council's policy not to maintain any form of cash float. Any out-of-pocket expenses incurred are reclaimed and paid accordingly in line with normal trader payment procedures. We also note that a Council bank account debit card is held by one councillor for any essential ad hoc purchases and have examined and ensured that appropriate documentation is held in respect of its use as part of our above "Review of Expenditure" with only one purchase made in the year by that means.

Salaries and Wages

We noted previously that the Clerk has an appropriate Employment Contract. We have checked the basis of her salary payments during the year, noting Council's acknowledgement of the national pay award increase effective from 1st April 2016, although we have noted a minor discrepancy in the hourly rate being applied when compared to the approved national salary scale for the Clerk's point on scale. We have drawn this to the Clerk's attention and provided detail of the hourly rates applying with effect from both 1st April 2016 and 2017.

We note that the Clerk's salary is below the thresholds for deduction of tax and NI during 2016-17 and have consequently verified, subject to the above small error, the amounts paid to her each month.

In checking the detail entered on the year's Annual Return, we noted that the quarterly fees paid to the payroll bureaux service provider (£22.50 per quarter: i.e. £90.00 for the financial year) and the Clerk's out of pocket expenses totalling £18.60 had been included as "Staff Costs" at Box 4 on the Annual Return. These are not strictly employment costs and have resulted in the overstatement of the value in Box 4 by £119 with a compensating understatement of the value at Box 6 (subject to the previously referenced adjustment required to the latter Box). We have consequently provided the Clerk with revised data for inclusion in the 2016-17 Annual Return at Section 2: the existing entries requiring amendment should be struck through with a single line and be initialled by the Chairman and Clerk: the revised detail will also require ratification by the Council.

Conclusion and recommendations

As indicated above, we have identified a few issues in this respect resulting in the following recommendations.

- R4. *The Clerk and members should ensure that the correct hourly salary rate is applied in accordance with the Clerk's employment contract and the 2016 and 2017 nationally agreed salary rates.*
- R5. *The Annual Return should be amended in line with the revised data we have provided to the Clerk.*

Asset Registers

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. We are pleased to acknowledge the existence of an appropriate register and noting that the content has been the subject of formal review and verification during the course of the year.

We are also pleased to note that the total value on the register includes the newly acquired play equipment at purchase cost: we have consequently agreed the value recorded in the 2016-17 Annual Return. We also note that the insurance schedule includes detail of the Council's assets, which include a significant number of street furniture items.

We are also pleased to note the intention to develop in the near future a photographic record of assets such as street furniture, as recommended by us last year and will check on progress next year.

Conclusions

There are no issues arising from this area of our review this year.

Investments and Loans

The Council has no funds in investments, other than the Lloyds deposit account on which a small amount of interest is received monthly. No loans in existence.

Statement of Accounts and Annual Return

Whereas in prior years, a Statement of Accounts and Annual Return information were generated automatically by the Rialtas Alpha software, data for inclusion in the 29016-17 Return has been based on the cashbook and asset register detail. As indicated in the preceding sections of this report, we have identified a few areas where values in Section 2 of the Return require amendment and have provided the Clerk with the appropriate values in each case.

Conclusions

No additional issues arise in this area warranting formal comment or recommendation and we have duly signed off the Internal Audit Report in the Annual Return assigning positive assurances in each relevant area.

Action Plan

Rec. No.	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	Payments made by cheque and moneys received should be recorded in the cashbooks on the date(s) that cheques are physically signed and issued and / or when funds are received, irrespective of the date(s) they appear on bank statements, excepting direct debits / credits.	
R2	Where cheques (payments and receipts) are cancelled or rejected by the bank, they should be recorded in the cashbooks as negative payments or receipts rather than receipts and payments, which latter action results in the over-statement of those values.	
Assessment and Management of Risk		
R3	The Clerk should check with the insurers to determine exactly what is covered by the Hirer's Liability and, if deemed un-necessary, it should be removed from the Council's policy schedule.	
Review of Salaries		
R4	The Clerk and members should ensure that the correct hourly salary rate is applied in accordance with the Clerk's employment contract and the 2016 and 2017 nationally agreed salary rates.	
R5	The Annual Return should be amended in line with the revised data we have provided to the Clerk.	