
Crudwell 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 previously provided this service the Council and was re-appointed for 2015-16.

Internal Audit Approach

In undertaking the review for the year, we have 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 adequate and effective internal control arrangements, with no significant issues identified, although we have included a few recommendations where we consider that the Council's governance arrangements require update and expansion to meet current legislative requirements.

We have completed and signed the 'Internal Audit Report' in the year's 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 Council has acquired and used the Rialtas Alpha software to maintain the Council's accounting records for 2015-16: the software is a market leader in this area of local government and is used by many of our smaller clients, as not only does it maintain the Council's financial records in an appropriate format, but also generates budget monitoring and bank reconciliation detail at any point in time, together with generating an appropriate form of detailed year-end Statement of accounts and information for inclusion at Section 2 of the Annual Return.

Given the low volume of annual transactions, we have verified detail of all transactions, as recorded in the two separate cashbooks, one for each of the Lloyds bank accounts, to both current and deposit bank account statements, also verifying the accuracy of the brought forward balances as at 1st April 2015 to the prior year's closing balances.

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

Conclusions

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

Review of Corporate Governance

We note that the Council has Standing Orders (SOs) in place, which were, as far as we can ascertain, last reviewed and re-adopted in February 2012. We note that no formal Financial Regulations (FRs) are in place and consider that the Financial Principles Statement, reviewed and last adopted in April 2015 does not afford full or appropriate detail of the Council's financial governance controls. Both documents require significant review and update to take account of the plethora of recent legislative changes affecting procurement and transparency.

NALC periodically publishes updates to its model SOs and FRs and we commend these to the Council as providing a sound basis to set out the Council's approach to and control over governance.

The requirements of the Transparency Code became mandatory for smaller councils from 1st April 2015. For a Council, such as Crudwell, with an annual turnover under £25,000, the Code requires the following to be published on a publicly available website:

- Annual Return
- Internal audit report
- Payments over £100
- Year end accounts
- Assets
- Councillor's responsibilities
- Minutes and agendas

Review of the Council's website indicates that not all of these items are published: consequently, the Council needs to ensure that it complies with the disclosure requirements in every respect.

We have, during the course of our review visit, drawn the Clerk's attention to the change in EU legislation effective from 1st April 2015 that now requires, inter alia, all councils to formally advertise any contracts with a value in excess of £25,000 on the Government's "Contract Finder" website. Whilst we appreciate that the Council may be unlikely to be directly affected by this at the present time, we have provided the Clerk with copies of recent NALC guidance on the topic, together with the latest revision to the model FRs, which takes account of these changes and was issued in January 2016.

We also consider that for a Council the size of Crudwell, a more appropriate level for formal tender action should be set at between £5,000 and £10,000.

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.

Conclusions and recommendations

As indicated above, we consider that the Council needs to strengthen its governance documentation reviewing and ideally adopting the latest NALC model Standing Orders and Financial Regulations, suitably tailored to meet the Council's specific requirements.

Additionally, given the level of the annual budgeted expenditure and precept, we believe that a value at which formal tender action is necessary should be set at the level indicated above.

- R1. The Council should formally review and update its Standing Orders, ideally basing them on the extant NALC model document.*
- R2. Similarly, the Council should adopt more detailed Financial Regulations than are covered in the extant Financial Principles Statement, again basing them on the latest NALC model document.*
- R3. A practicable and reasonable financial limit for formal tender action should be determined and recorded in both the Standing Orders and Financial Regulations, ideally in line with the range of values suggested in the body of the report.*
- R4. The Council should ensure that it takes appropriate steps to ensure that it meets all of the requirements of the Transparency Code with all required information published on its website.*

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 are pleased to acknowledge the soundness of controls in place which we consider afford the Council an effective control mechanism.

In view of the 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;
- VAT has been calculated correctly and is recovered at appropriate intervals; and
- Section 137 payments have been identified in the cashbook and are within the Council's spending limit.

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 appropriately and periodically to HMRC for recovery: whilst not warranting a formal recommendation, we have suggested to the clerk 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, subject to minor amendment, adopted at the March 2016 Council meeting.

We note that the Council's insurance cover is provided by Hiscox 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 £10,000 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

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

Budgetary Control and Reserves

The Council's minutes, together with the supporting papers provided to Council, indicate that members have considered and agreed the 2016-17 budget and precept, setting the latter at £15,098, together with the Council Tax Support Grant of £28.55 at the December 2015 meeting.

Overall reserves at 31st March 2016 have increased by almost 25% to £49,162 (£40,732 as at 31st March 2015). This equates to almost 5 years' revenue expenditure based on current levels, which is significantly higher than the generally accepted and recommended CiPFA guideline of between three and six months revenue spending. It appears that no formal earmarked reserves are in place currently, although we understand that consideration is being given to their establishment.

Conclusions and recommendation

Whilst no concerns arise in relation to the Council's financial health, we consider that the level of retained funds is potentially excessive unless they are being accumulated for specific projects, in which case they should be identified formally as earmarked for each specific planned project.

R5. *The Council should review the level of retained balances and, formally approve the establishment / set aside of funds into specific earmarked reserves.*

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 note that no allotment rental income is recorded in the accounts for 2015-16 as a result of a misunderstanding between the clerk and member of the public who collects the rents from tenants on behalf of the Council (the allotment year runs from 1st March annually). We note that appropriate invoices have now been raised to recover the rents due accordingly.

Conclusions and recommendation

We are pleased to record that no significant issues arise in this area, although appropriate arrangements should be put in place to ensure that in future allotment rents are invoiced and recovered in the relevant financial year.

R6. *The Clerk should ensure that allotment renewal invoices are raised in a timely manner in future with rents recovered in the appropriate financial year.*

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 note that following the resignation of the former clerk a new clerk has been appointed with an appropriate Employment Contract prepared and signed. Consequently, we have checked and verified her salary payments, including ensuring that the appropriate tax deductions have been made and been paid over to HMRC periodically (the clerk's earnings are currently below the threshold for NI contributions to be applicable).

Conclusion

No issues arise in this area of our review.

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 understand that the content was the subject of formal verification during the course of the year.

We are also pleased to note that the total value on the register is recorded at purchase cost or, where unknown, the prior year Annual Return value agrees the detail in the 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.

Conclusions

There are no issues arising from this area of our review, warranting formal comment; however, in line with best practice and to afford the Council with appropriate evidence of their existence in the event of the need to make an insurance claim for damage or theft, we suggest that a digital photographic record of each item of street furniture be made in order to ease the reclaim process should such be required.

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

The Statement of Accounts and Annual Return information are, as indicated earlier in this report, generated automatically by the Rialtas Alpha software. We have ensured the appropriate coding of all transactions in the year as part of the afore-referenced detail examination of receipts and payments, which affords an appropriate degree of assurance that detail has been reported appropriately for entry in the various Boxes in the year's Annual Return at Section 2, detail of which we have verified against the Rialtas Alpha detail.

Conclusions

No 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 Corporate Governance		
R1	The Council should formally review and update its Standing Orders, ideally basing them on the extant NALC model document.	
R2	Similarly, the Council should adopt more detailed Financial Regulations than are covered in the extant Financial Principles Statement, again basing them on the latest NALC model document.	
R3	A practicable and reasonable financial limit for formal tender action should be determined and recorded in both the Standing Orders and Financial Regulations, ideally in line with the range of values suggested in the body of the report.	
R4	The Council should ensure that it takes appropriate steps to ensure that it meets all of the requirements of the Transparency Code with all required information published on its website.	
Budgetary Control and Reserves		
R5	The Council should review the level of retained balances and, formally approve the establishment / set aside of funds into specific earmarked reserves.	
Review of Income		
R6	The Clerk should ensure that allotment renewal invoices are raised in a timely manner in future with rents recovered in the appropriate financial year.	