
Uplyme Parish Council

Internal Audit Report 2013-14

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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 internal auditor has then to provide the Council with a certificate covering a number of key areas associated with the transactions and management of the Council's affairs.

The Council previously used a local contractor to undertake the review process. We at Auditing Solutions Ltd were contacted at the close of 2013 and asked to provide a quote for provision of the service to the Council: we were subsequently appointed and this report therefore is our first on the financial and governance controls operated by the Council.

Internal Audit approach

In undertaking our review, we have paid due regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts and Annual Return. Due to this being our first year of appointment and the relatively low number of transactions during the year, we have not only examined and considered the robustness of the financial procedures and controls in place, but also employed direct substantive testing procedures to the majority of systems for the financial year.

This report summarises our conclusions on each of the key areas set out in the Internal Audit Certificate contained within the Annual Return. We are pleased to record that no major concerns have been identified with the operative controls and procedures in place: however, we have identified a few areas where we consider that the Council could and should strengthen those controls. Detail of the issues arising is set out in each section with any resultant recommendations further summarised in the appended Action Plan: we would ask that, following due consideration by the Council, we be provided with responses to the recommendations arising.

Overall Conclusion

We are again pleased to conclude that the Council operates effective controls systems and we wish to commend the clerk on the quality of documentation maintained and provided for our examination in support of our certification of the Annual Return.

On the basis of the overall effectiveness of controls in each area, we have duly signed off the Internal Audit Certificate in the Annual Return assigning positive assurances in relevant areas, with one reference to this report in relation to the maintenance of a comprehensive register of risks where we consider action is required.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

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.

The Council currently operates a current and deposit (interest earning) account with HSBC. Detail of transactions on these accounts is recorded in Excel Workbooks with separate worksheets for receipts and payments, together with additional spreadsheets maintained to provide routine monthly financial information to members. In view of the relatively low number of annual transactions we consider this to be an appropriate medium to maintain the financial records, which feed into the year-end Accounts and Annual Return detail.

Due to their relatively low volume, we have checked and agreed detail of all transactions in the spreadsheet cashbooks to bank statements, invoices and other supporting records for the financial year.

We are pleased to note that bank reconciliations are undertaken monthly, although they do not appear to be subject to formal scrutiny and sign-off by an independent individual or to be routinely presented to Council.

In addition to confirming the accuracy of detail in the spreadsheets, we have also verified the accuracy of detail in the year-end bank reconciliation and accurate disclosure of closing balances in the year-end Accounts and, consequently, the Annual Return.

We have also discussed the back-up arrangements of data maintained on the Clerk / Council PC and consider them to be sound.

Conclusions and recommendations

We are pleased to report that no issues have been identified with the data recorded in the spread sheet cashbooks. However, in examining the deposit account bank statements, we note that interest earned is being paid net of basic rate income tax: whilst the amounts “lost” are considered insignificant, the Council should, as a corporate body, enter negotiations with the bank to ensure that interest earned is paid gross in future and that tax deducted is refunded: this may require referral to HMRC for prior years in order to ensure recovery of tax deducted by the bank, although HSBC should be able to refund that deducted in 2013-14.

We also consider that, in order to further improve governance controls and in line with best practice, formal bank reconciliations should be prepared at the close of each month, be reviewed and signed off as authenticated by a nominated councillor and also be presented to full Council for adoption (we have provided the clerk with a suitable format for such reconciliations).

- R1. *The Council should negotiate with HSBC to ensure that in future interest is paid gross and not net of basic rate tax: attempts should also be made to recover the tax deducted in 2013-14 and prior years.*
- R2. *Formal bank reconciliations should be prepared at the close of each month, be reviewed and signed off by a nominated councillor and also be submitted to Council for formal approval.*

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 note that the Standing Orders (SOs) are currently with the Chairman for review and presentation to Council for formal re-adoption. Given the recently announced relaxation and removal of the requirement for two members to sign all payable orders and approval for Councils to make use of electronic banking processes, we consider that these changes should also be borne in mind when revising the Standing Orders and Financial Regulations (FRs). We understand that NALC has issued an updated version of the latter document to take account of these changes, but have yet to see a copy ourselves. Notwithstanding that, we suggest that the Council obtains a copy of the document, together with the most recently published SOs and tailors them both appropriately to meet the Council's specific requirements and any planned changes in banking arrangements and working practices.

We note that the extant documents do not identify a formal limit for formal tender action to be taken, the current FRs purely identifying a lower value for the acquisition of quotations. The latest model SOs and FRs both identify a limit of £60,000 for formal tender action. Given the level of annual precept and spending, we consider that, for most councils, that level is unsustainable and would suggest that a lower limit of £25,000 be considered and approved.

We have examined the Council's minutes covering the financial year to ensure that no issues either exist currently or are developing that may have an adverse affect on the Council's financial standing: we have also sought to ensure that no actions are planned or have taken place that may be of an ultra vires nature and place the Council at risk of criticism or possible financial penalty.

We are pleased to note that the Council has given due consideration to its budgetary and precept requirements for 2014-15 formally approving and adopting a precept of £19,266.47 at its December 2013 meeting. We also note that a number of grants and donations are approved for payment annually as part of the budget process, although the specific powers being relied on for approval of such payments does not appear to be considered or formally minuted: best practice suggests that, in order that members may demonstrate the effective discharge of their fiduciary responsibilities, the powers relied for approval of such payments should be minuted formally.

Conclusions and recommendations

Whilst no major issues have arisen in this area, we consider that the Council should ensure that both Standing Orders and Financial Regulations are reviewed and updated to reflect changes in current legislation and possible changes in local working practice: they should also identify a formal value above which expenditure should require formal tender action.

We also wish to thank and acknowledge the completion of our governance questionnaire, detail of which we have reviewed and consider provides appropriate further assurance on the soundness of the Council's governance arrangements.

R3. The Council should ensure that the extant Standing Orders and Financial Regulations are reviewed in a timely manner and reflect latest legislation: they should also identify a lower limit above which formal tender action is required.

R4. Minutes should include detail of the grants and donations approved for payment, together with the specific powers relied on.

Review of Payments

Our aim here 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;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct analysis of expenditure has been applied in the spread sheet cashbook to invoices when processed; and
- VAT has been appropriately identified and analysed appropriately in the cashbooks for annual recovery.

Conclusions and recommendation

Due to their relative low number, we have reviewed all payments in the year to ensure compliance with the above criteria: we are pleased to advise that no issues have been identified other than noting the absence of an invoice for one payment processed recently. Where the Council determines to make and approves payments in advance of receipt of a formal invoice, in order to provide a comprehensive audit trail and verification of the Council's formal approval of such payments, we suggest that a proforma invoice is prepared and certified by the Council Chairman.

We note that, due to the close proximity of this review to the financial year-end, the year's VAT return has not yet been prepared, although we note that the relevant

supporting detail has been set out in a spread sheet in readiness for its production and submission to HMRC. We have asked the clerk to provide a copy of the reclaim once prepared and ready for submission.

R5. Where a formal invoice is not available to support a payment made, a proforma should be prepared and be signed by the Council Chairman to support the payment made.

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 note that the play areas are subjected to routine scrutiny in accordance with RoSPA guidelines. However, from discussion with the clerk and Deputy Chairman, we understand that no formal risk assessment documentation is in place. During that discussion, we drew attention to the existence of bespoke software developed by a company now based in Scotland (DMH Solutions). The software (Local Council Risk System – LCRS) identifies some 50 service areas, not all of which are pertinent to each and every Council, and is available through the internet at a cost of approximately £100 plus VAT. .

Users identify the areas relevant to themselves and then scroll down through the menus to more detailed and specific risks in each area (in all some 500 are available): the likelihood and financial impact of each risk is then assessed based on a numeric range from Zero (not applicable) to 3 (High Risk), the product of which gives an overall score, with those identified as above medium risk further detailed in an Action Plan generated by the software. Users also have to compare their controls with the recommended control detailed for each individual risk and update the detail accordingly. In addition to generating a formal Action Plan, the software includes references to all relevant legislation in each area and also generates Health and Safety and Insurance checklists, together with, where appropriate, periodic checklists which can be prepared and retained to demonstrate action taken in each relevant area.

We have also provided the clerk with a much abbreviated proforma risk assessment document in use by some of our other clients, although it is not as comprehensive.

We have examined the current year's insurance schedule in place with Aviva and consider that, with Public and Employer Liability cover in place at £10 million, Fidelity Guarantee cover set at £150,000 and Business Interruption cover set at £10,000, appropriate cover is in place to cover the Council's current requirements. We also note that the Council's assets, excluding those with a nominal value of £1 each per the asset register, are also covered by the insurance schedule.

Conclusions and recommendation

We consider that the Council has appropriate insurance cover in place to meet its current requirements. However, we believe that a more robust and formal approach is required to the assessment and management of potential financial risk to the Council.

R6. The Council should strengthen its approach to the identification, assessment and management of potential financial risks, ideally acquiring and applying the LCRS software referred to in the body of the report.

Budgetary Control and Reserves

In this area of our coverage, we aim to ensure that the Council has sound procedures in place for the determination of its annual budget and also for monitoring and managing available resources throughout the financial year.

The Council's minutes and supporting documentation provide effective confirmation that the 2014-15 budget and precept has been formally considered, discussed, approved and adopted by the Council with the precept for the year adopted formally as £19,266.47.

We are pleased to note that the clerk provides members with regular, generally quarterly, detail of budgetary performance throughout the financial year. We have reviewed the year-end position with no significant or unanticipated / unexplained variance in existence.

The cumulative end of year balance (31st March 2014) stands at £23,500 (£22,500 at prior year-end), with the General Reserve standing at £6,600 (£8,700 at prior year-end). The latter equates to almost three months' revenue spending, which is relatively in line with the CiPFA recommended guideline of between three and six months' revenue spending.

We note that members consider the level of retained earmarked reserves when determining the budget, although no formal approval is given to the level of these rolled forward at the close of each financial year.

Conclusions and recommendation

No significant issues arise in this area of our review, although, in line with best practice, we suggest that members should formally approve the level of earmarked reserves to be carried forward annually.

R7. Members should consider and approve the level of retained earmarked reserves to be rolled forward at the close of each year, detail being formally recorded in the approving minute.

Review of Income

We aim in this area of our review to ensure that the Council has robust systems in place to ensure the identification of all income to which it is entitled and for its subsequent recovery, banking and appropriate recording in the Council's financial records.

The Council has a limited range of income sources, primarily the annual precept, very limited bank interest, occasional grants, interment and associated fees and the annual VAT recovery. We have, as indicated previously, agreed detail of income banked and interest received, as recorded in the cashbook by reference to bank statements, and prepared a year-on-year comparative analysis of income levels with no issues of concern identified.

We have specifically examined the Burial register for the year, ensuring that all appropriate supporting documentation is in place including undertakers' applications, burial and cremation certificates and that the appropriate fees have been charged, recovered and banked in a timely manner. We have also examined the stonemasons' applications for placement of headstones and addition of inscriptions to existing memorials also ensuring that appropriate fees have been charged, recovered and banked in a timely manner.

Conclusions

No issues arise from our examination of the Council's income control procedures and records. We did, however, suggest to the clerk that, in order to ensure an effective audit trail is in place, the income receipt reference number should be recorded on all undertaker and stonemason applications: such detail is in evidence on some of the year's documentation.

Petty Cash Account

The Council does not normally operate a petty cash account, any miscellaneous expenses incurred by the clerk being reclaimed each month.

Salaries and wages

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 Revenues and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions.

The 1996 Employment Act requires that all employees are provided with a formal contract of employment. We are pleased to note that a suitable document is in place, although it has not been updated to reflect the increase in the clerk's weekly contracted employment hours. We also noted that, despite being discussed and approved for payment at a Council meeting, detail of approval for payment of the 1%

approved national pay award payable from 1st April 2013 is not recorded formally in the minutes.

We have checked and agreed the salary paid to the clerk for the year by reference to her employment contract, together with the approved increase in hours, also verifying the accurate deduction of tax and NI contributions for March 2014 by reference to the relevant HMRC Basic PAYE Tools software with no issues identified.

Conclusions and recommendations

No significant issues have been identified in this area, although we consider that either the clerk's employment contract detail should be updated or a covering letter confirming the increased weekly working hours should be issued.

R8. *The Clerk's employment contract should be revised to reflect the change in working hours.*

R9. *Where approval is given for the payment of nationally agreed pay awards the decision should be minted formally.*

Asset Registers

The 1996 Accounts and Audit Regulations required all councils to develop and maintain a register of their asset stock. The Council has prepared a suitable register, which includes detail of assets at the values included in the latest insurance schedule. We have drawn the clerk's attention to the 2010-11 revision to the reporting requirements in the Annual Return in this respect, that now require values to be recorded at purchase / cost price or, where that value is unknown, at the same value as reported the previous year, subject to any new acquisitions or disposals for which appropriate adjustments should be made.

We have agreed with the clerk that the value to be recorded in the 2013-14 Annual Return should remain unchanged from that reported in the certified Return for 2012-13 (see also the next section on "Investments").

Conclusions

No issues arise in this area warranting formal comment or recommendation following agreement with the clerk of the value of assets to be recorded u the current year's Annual Return.

Investments and Loans

The Council holds a War Stock 3.5% Bond with, it is believed a £100 book value, although the annual value has been eroded and now stands at less than £90. The Council has no loans repayable by or to it.

Conclusions

We have agreed with the clerk that, in line with current guidance, the value of the War Stock to be reported in the year's Annual Return should remain unchanged from that in the certified 2012-13 Return: consequently, no formal recommendation is required in this area.

Statement of Accounts and Annual Return

We are pleased to note that the clerk has again prepared a detailed Statement of Accounts for 2013-14 in Income and Expenditure format for presentation to members. These, as previously, form the basis of detail to be entered at Section 1 of the Annual Return and we have checked and agreed all that detail accordingly to the underlying accounting records, noting one or two amendments that were required to the Balance Sheet and Supporting Notes detail. We have discussed and agreed the revised detail with the clerk, who has agreed to provide us with the updated detail in due course.

Conclusions

No issues arise warranting formal comment in this area. On the basis of the work undertaken on the Council's accounting and other records for the year, we have duly signed off the Internal Audit Certificate at Section 4 of the Annual Return assigning positive assurances in all areas excepting that in relation to risk assessments, where we have referred to the above detail in this report.

We have also asked the clerk to provide us with copies of the completed Sections 1 & 2 of the year's Annual Return once adopted by the Council.

Rec. No.	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	The Council should negotiate with HSBC to ensure that in future interest is paid gross and not net of basic rate tax: attempts should also be made to recover the tax deducted in 2013-14 and prior years.	
R2	Formal bank reconciliations should be prepared at the close of each month, be reviewed and signed off by a nominated councillor and also be submitted to Council for formal approval.	
Review of Corporate Governance		
R3	The Council should ensure that the extant Standing Orders and Financial Regulations are reviewed in a timely manner and reflect latest legislation: they should also identify a lower limit above which formal tender action is required.	
R4	Minutes should include detail of the grants and donations approved for payment, together with the specific powers relied on.	
Review of Payments		
R5	Where a formal invoice is not available to support a payment made, a proforma should be prepared and be signed by the Council Chairman to support the payment made.	
Assessment and Management of Risks		
R6	The Council should strengthen its approach to the identification, assessment and management of potential financial risks, ideally acquiring and applying the LCRS software referred to in the body of the report.	
Budgetary Control & Reserves		
R7	Members should consider and approve the level of retained earmarked reserves to be rolled forward at the close of each year, detail being formally recorded in the approving minute.	

Rec. No.	Recommendation	Response
Salaries and Wages		
R8	The Clerk's employment contract should be revised to reflect the change in working hours.	
R9	Where approval is given for the payment of nationally agreed pay awards the decision should be minted formally.	