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# **Old Woughton 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 provided this service to the Council in 2013-14 and was re-appointed for 2015-16. This report consequently sets out the work undertaken in relation to the 2016-17 financial year.

## **Internal Audit Approach**

In undertaking our 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: however, we have identified a few issues warranting formal comment and recommendation, detail of which is set out in the body of the attached detailed report and 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 respects, the control objectives set out in that Report were generally 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 here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries exist within cashbooks or financial ledgers. We note the implementation of the Rialtas Alpha accounting software for the year with the transaction detail on each of the three bank accounts with Metro Bank recorded in separate cashbooks. We have: -

- Agreed the opening balances with the closing balance shown in the Statement of Accounts and certified Annual Return for 2015-16;
- Verified that the accounts remain “in balance” at the end of the financial year;
- Examine the appropriateness of the coding structure in place, which we consider appropriate for the Council’s budgetary controls;
- Checked and agreed detail in the Alpha cashbooks to the supporting bank for the year; and
- Checked and agreed detail on the year-end bank reconciliation, also ensuring the accurate disclosure of the combined year-end balances in the Annual Return.

### *Conclusions and recommendation*

*We are pleased to record that no issues have arisen in relation to the entry of data into the Alpha software and we have, as above, duly verified the year’s transactions and detail for inclusion in the year’s Annual Return.*

*We note that the clerk is printing off bank reconciliations periodically during the year and remind him and members that the Governance and Accountability Manual (G&AM) requires reconciliations to be the subject of periodic independent review and sign off and suggest that a member is nominated to undertake the review initialling and dating the reconciliations accordingly. We raised this last year and understand from the response to our report that this was due to be implemented from September 2016, but have seen no indication of member review on the reconciliations provided in the file of papers presented for our examination: consequently, we reiterate the recommendation this year.*

*We note that one cheque (no. 800008 drawn on the Allotments Account in July 2016 remains uncleared at the bank at 31<sup>st</sup> March 2017: if, as appears likely, the cheque has been lost or is no longer required, it should be written back in the accounts as a negative payment thereby reducing the expenditure accordingly. If a replacement is required, it should be recorded in the normal manner.*

*In order to improve the ease of reviewing records, we suggest that bank statements be filed separately by account throughout the year. We also suggest that the Alpha prints of bank reconciliations and budget reports, etc each month also be filed separately for ease of identification and review. Additionally, in order to afford confirmation of the cashbook balances at their generally month-end preparation, we suggest that the Trial Balance be printed off at the same time and filed with the reconciliations as proof of the cashbook balance at that date.*

- R1. Bank reconciliations should be subject to periodic, ideally quarterly, scrutiny and sign off by a non-cheque signing member in line with the requirements of the Governance and Accountability Manual (G&AM).*
- R2. The one long-standing cheque should be written back in the cashbook as indicated in the body of the report and, if required a replacement cheque be issued.*
- R3. Ideally, the monthly or periodic printouts from the Alpha software should be filed separately from the trader's invoices: similarly, bank statements should also be filed separately and in chronological order by account for ease of reference.*

## **Review of Corporate Governance**

Our objective is to ensure that the Council has a robust framework of corporate governance documentation and procedures 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 are pleased to note that various policies and procedures, including Standing Orders (SOs) have been developed, are reviewed periodically (SOs annually) and are posted on the Council's website which will be reviewed and re-adopted periodically. However, we have seen no indication that Financial Regulations (FRs) are in place or that the Council has considered its position in relation to the relatively recent change in relation to procurement arrangements as detailed in EU legislation enacted from 1<sup>st</sup> April 2015, that now requires all councils and other governmental bodies, to formally advertise any contracts with a value in excess of £25,000 in the Government's Contract Finder website.

We note that the extant SOs record a value of £60,000 for formal tender action and, whilst we appreciate that the revised £25,000 value is unlikely to affect the Council in the near future, the governance documentation needs to be amended to reflect the tender value as a maximum, although for councils this size we generally suggest that a more appropriate value for formal tender action would be set at between £5,000 and £10,000.

NALC have produced a series of documents and Legal Topic Notes relating to the revised EU procurement requirements, together with a very recently updated set of model FRs and we have duly provided the clerk with electronic copies of these in order to facilitate the Council's compliance with best practice and extant legislation.

We have reviewed the Council's minutes for the financial year in order to ensure that, as far as we may reasonably be expected to identify, no issues have arisen or are being considered that might result in ultra-vires expenditure or place the Council's financial stability at risk.

### ***Conclusions and recommendations***

***As indicated above, the Council's governance documentation requires review and update to reflect the recent changes in procurement legislation. We are also pleased to note the Council's compliance with the requirements of the Transparency Code with the web site providing all required detail.***

***We shall continue to review minutes and monitor the Council's approach to governance issues at next year's review.***

- R3. The Council should undertake a full review of its extant governance documentation, ensuring that both Standing Orders and Financial Regulations are in place and reflect all recent legislative changes.*
- R4. When reviewing the documents, consideration should be given to establishing a reduced value (than the EU requirement of £25,000) for formal tender action as indicated in the body of this report.*

## **Review of Expenditure**

Our aim here is to ensure that: -

- The Council has robust and sustainable procedures in place to ensure that all expenditure is appropriately controlled and complies with legislation;
- 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 columnar analysis has been applied to invoices when processed; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have reviewed all payments processed in the year for compliance with the above criteria generally met, although we noted one or two payments that were not supported by an appropriate trade invoice or suitable few where no relevant supporting documentation was on the file of papers provided for our examination (e.g. J Palmer - £20.00 and Anglian Water - £165.18 paid from the allotment account in September 2015).

We are pleased to note that invoices generally, but not always, bear indication of members' scrutiny. In order to further clarify the intent behind their initials on invoices, we suggest that a suitably designed rubber stamp be acquired and be affixed to each payment docket: ideally the stamp should include provision for the following:-

- clerk's signature / initials confirming receipt of the goods or services;
- signatures / initials of two cheque signatories approving the payment
- Alpha account nominal code and cost centre (once installed and operational)
- cheque number and date of payment

We note that no VAT reclaim has yet been prepared for 2016-17 and urge that this be completed and submitted as soon as practicable.

### ***Conclusions and recommendation***

***No significant issues have been identified among the above test sample, although care should be taken to ensure that an appropriate trade invoice is obtained in support of each payment:***

*where no trade invoice is available, a suitable pro forma invoice should be prepared and be signed as approved for payment by the Chair or cheque signatories.*

- R5. *All payments should be supported by an appropriate trade invoice or suitable proforma document.*
- R6. *In order to further strengthen control and provide improved evidencing of review, a suitably designed rubber stamp, ideally incorporating the detail referred to in the body of the report should be acquired and affixed to each invoice / payment docket.*

## **Assessment and Management of Risk**

Our aim 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 have: -

- Noted that risks are documented in various forms with the register approved by the Council in March 2015, together with an updated risk strategy document approved in May 2015; and
- Noted previously that a three year deal existed for insurance cover with Came and Company: the clerk has, as yet, been unable to provide us with a copy of the 2016-17 schedule of cover, although based on that in place in 2013-14 and our experience with Came & Co at other councils are generally satisfied that appropriate cover will be in place requisite with the Council's specific needs.

### **Conclusions**

*No issues arise in this area this year, although we ask that the clerk ensures that all requested documentation is provided for our examination in future years.*

## **Budgetary Control and Reserves**

Our objective in this area is to ensure that the Council has a robust process in place for the determination of its annual budgetary and precept requirements; that the precept has been approved formally by the Full Council and that members receive and monitor performance routinely throughout the year.

We note that the Council considered its budget requirements for 2017-18 at its January 2016 meeting, formally approving and adopting the year's precept at £9,104. We are also pleased to note that members continue to receive periodic budget reports identifying actual spending (and income) against planned expenditure. This process will be simplified with the newly acquired Rialtas Alpha software.

We note the existence of a significant reserve balance that equates to approximately three years' spending at the present level: the external auditors have also made reference to this high value holding in their report on the 2015-16 Accounts / Annual Return. If these funds are being accumulated to finance specific projects, they should be identified as earmarked as such and, when setting up the new accounting software be allocated separate control account codes in order that the level of available General Fund reserves is not overstated.

## **Conclusions and recommendation**

***No significant issues arise in this area although we consider that, if applicable, the total reserve balance should be sub-divided to identify any funds held for specific future development projects with that detail to be identified in the new accounting software.***

*R7. Funds held for specific purposes / future developments should be identified as such in the new accounting software when set up and be subject to annual review and re-affirmation by members when considering the following year's budgetary and precept requirements.*

## **Review of Income**

The Council receives income primarily from the annual precept, allotment rents and deposits, although the latter should and are identified separately, as they are strictly a liability being repayable on vacation of the allotment plot and leaving it in a suitably tidy condition. When setting up the new accounting software and receiving training from the supplier, care should be taken to ensure that these retained funds are separately identified as a refundable liability.

We have examined the allotment register noting that actual allotment income received in the year, as recorded in the allotment cashbook (£5,500) exceeds the value of rents due per the allotment register (£4,900).

## **Conclusions**

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

## **Petty Cash Account**

***The Council does not operate a petty cash account, any incidental expenses incurred by the clerk being reimbursed through the standard trader invoicing process.***

## **Review of Salaries**

The Council employs only one member of staff, namely the clerk. We aim, in this area of our review process, to confirm that legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenue and Customs (HMRC) legislation with proper deduction and payment over of income tax and NI contributions. To meet that objective, we have: -

- Examined the clerk's contract of employment;
- Agreed the amounts paid to the Clerk by reference to that document and the Council's subsequently approved pay award;
- Ensured that tax and NI deductions have been made applying the appropriate tax code and NI Table;
- Noted that the Clerk is not contributing to the pension scheme; and
- Checked and agreed the physical payment of net salaries and the payment over of tax, national insurance and superannuation deductions to third parties.

### **Conclusions**

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

### **Asset Register**

The Annual Return requires disclosure of the value of assets retained by the Council as at 31<sup>st</sup> March annually in accordance with the reporting requirements set out in the G&AM. We aim in this area of review to ensure the accurate reporting of all asset values and are pleased to note that the Clerk maintains an appropriate register of assets subject to annual update and revision to record detail of any new acquisitions and disposals.

### **Conclusions**

*No issues arise in this area with the new dog bins acquired in year duly added to the register at cost price net of VAT.*

### **Investments and Loans**

Our objective here is to ensure that the Council is maximising its income earning potential whilst ensuring that appropriate funds are held in current accounts to effectively manage its day-to-day financial affairs. We note that the Council has placed £35,000 of its surplus funds into a 12-month term deposit with the Metro bank in order to attract a better rate of interest return (1¼%) than is obtainable through the existing current and deposit accounts.

The Council has no loans repayable either by or to it.

### **Conclusions**

*No matters arise warranting form comment or recommendation in this area.*

### **Statement of Accounts and Annual Return**

The Accounts and Audit Regulations, as amended periodically, require all Councils to prepare annually a detailed Statement of Accounts, ideally together with supporting statements identifying other aspects of the Council's financial affairs. However, the Annual Return now serves as the statutory accounts of the Council and we have examined the content of the year's Return agreeing it to the underlying financial and other records with no issues arising.

### **Conclusions**

*On the basis of the satisfactory conclusion of our programme of cover this year, we have duly signed off the Internal Audit Report in the Annual Return assigning positive assurances in each relevant area.*



Rec. No	Recommendation	Response
<b>Review of Accounting Arrangements and Bank Reconciliations</b>		
R1	Bank reconciliations should be prepared to include detail of pence, not just be rounded to the nearest £1: they should also be submitted to members for scrutiny and sign-off routinely throughout the year.	
R2	The four cheques drawn in 2015-16 that have not cleared the Natwest bank accounts should be written back at the outset of recording transactions in 2017-18.	
<b>Review of Corporate Governance</b>		
R3	The Council should undertake a full review of its extant governance documentation, ensuring that both Standing Orders and Financial Regulations are in place and reflect all recent legislative changes.	
R4	When reviewing the documents, consideration should be given to establishing a reduced value (than the EU requirement of £25,000) for formal tender action as indicated in the body of this report.	
<b>Review of Expenditure and VAT</b>		
R5	All payments should be supported by an appropriate trade invoice or suitable proforma document.	
R6	In order to further strengthen control and provide improved evidencing of review, a suitably designed rubber stamp, ideally incorporating the detail referred to in the body of the report should be acquired and affixed to each invoice / payment docket.	
<b>Budgetary Control &amp; Reserves</b>		
R7	Funds held for specific purposes / future developments should be identified as such in the new accounting software when set up and be subject to annual review and re-affirmation by members when considering the following year's budgetary and precept requirements.	