

---

# **Broad Town Parish Council**

*Internal Audit Report 2017-18*

---

*Stuart J Pollard*

*Auditing Solutions Ltd*

## **Background**

Statute requires all town and parish councils to arrange for an independent internal audit examination of their accounting records and systems of internal control and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR). We were approached by the current clerk in late May 2017 following the resignation of the appointed clerk earlier in the year and were subsequently appointed for 2016-17 and again for 2017-18. This report sets out the work we have undertaken in relation to the 2017-18 financial year.

## **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 Annual Return. Our programme of cover has, as with all our clients, 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 a number of internal control objectives.

Detail of the work undertaken on the Council's accounting and other records is set out in the following detailed report, together with those issues arising with recommendations further summarised in the appended Action Plan.

## **Overall Conclusions**

We are pleased to acknowledge the positive actions taken in most areas and, based on the generally satisfactory conclusions drawn from our review programme for the year, we have assigned positive assurances in all relevant areas in the Internal Audit Report in the year's AGAR, with one exception. From examination of minutes, we note that review of the Council's Financial Risk Assessment document was deferred at the March 2018, not being examined and adopted formally until the April 2018 meeting. We note the expressed intention in those minutes for the document to be reviewed quarterly in future: however, as no formal consideration and adoption of the document occurred during the 2017-18 financial year, we have no alternative but to give a negative assurance in this respect. The Council will similarly have to give a negative response at Box 5 of Section 1.

## 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 those records. We note that three bank accounts continue in operation with Lloyds Bank.

Due to the absence of any formal cashbook record in 2016-17, we assisted the then locum clerk (now appointed permanently) in constructing a meaningful cashbook for the year, also providing a suitable template for use in 2017-18, which the clerk has duly used. However, in checking the detail in the 2017-18 cashbook against the bank statements for the year, we noted that monthly interest on the deposit account wasn't being recorded routinely and hadn't been entered for the last three months of the year. Similarly, detail of one or two cheques issued in the last month of the year, had not been recorded, nor had detail of inter-account transfers.

We have agreed the revisions necessary to the cashbook to ensure that it balances at the financial year-end with no cheques remaining uncleared on any account as at 31<sup>st</sup> March 2018.

As reported last year, the Governance and Accountability Manual (G&AM) requires a non-cheque signing councillor to periodically review and sign off bank reconciliations. In view of the above anomalies it is hard to understand how any councillor can undertake a meaningful check on the cash book and bank statement balances: we do note, however, that the later are reported routinely at each meeting; even so, this does not comply with the G&AM requirements.

We have provided the current interim clerk with electronic copies of the cashbooks we have created, together with the year-end combined bank reconciliation detail and suggest that these be used going forward in 2018-19. We have also provided a template for use in the new financial year.

#### *Conclusions and recommendations*

*We have again identified a few concerns with the manner in which the cashbook is being maintained and urge that an appropriate review mechanism is implemented by members to help ensure all transactions are recorded accurately and in a timely manner with appropriate, at least quarterly, formal and accurate reconciliation to the bank account balances.*

*Overall and, based on the positive action taken to date to ensure a meaningful cashbook is maintained, we have assigned a positive assurance in this respect in the AGAR's IA Report, although further improvement is required to ensure that a meaningful record of account transactions is maintained.*

*R1. The Council must ensure that the cashbook record of financial transactions is maintained accurately, completely and currently with quarterly, as a minimum, bank reconciliations prepared, reviewed and signed off, as required by the G&AM.*

### Review of Corporate Governance

Our objective here 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

(SOs) and that, as far as we are reasonably able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation. We also aim to ensure that appropriate policies, procedures and protocols are in place to prevent and provide a reasonable assurance of the detection of any fraudulent or corrupt activity.

We are pleased to note that, following due deliberation, the Council has adopted revised SOs and Financial Regulations (FRs) based on the NALC model documents: we also note that the clerk is aware of the most recent revision to the NALC model SOs and commend the revised document as an appropriate template for application by the Council when its SOs are next subjected to review.

In examining the recently (April 2018) adopted SOs and FRs, we note appropriate reference to the revised Public Contracts Regulations, although an inconsistency exists in the value assigned for formal tender action in the two documents, with the SOs recording a value of £15,000, whilst the FRs record a value of £25,000. Additional to this apparent anomaly, we consider that a value of £15,000 is potentially too high for a council the size of Broad Town with an average spend over the past four years of less than £10,000.

We have examined the Council's minutes for the financial year and to date in 2018-19 to identify 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 are pleased to record that no issues arise in this respect.

The requirements of the Transparency Code became mandatory for smaller Councils from 1<sup>st</sup> April 2015. For a Council of under £25,000 turnover, 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

We note from examination of minutes that the Council has acknowledged the need to comply with the appropriate disclosures: we will check to ensure that 2017-18 data is added appropriately in the near future.

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

***As indicated above, we consider that the FRs and SOs should be subjected to further revision to ensure consistency in the formal value for tender action and to take account of changes in the most recently issued NALC model SOs. We consider that the tender value should ideally be set at between £5,000 and £10,000.***

- R2. *The Council should undertake a further review of the recently adopted Standing Orders and Financial Regulations setting a consistent value for formal tender action and at a more appropriate level given the average annual spend.*
- R3. *The Council must ensure compliance with the disclosure requirements of the 2015 Transparency Code each financial year.*

## Review of Payments and VAT

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

- Payments are supported by a trade invoice or acknowledgement of receipt;
- Members are scrutinising all payments and evidencing their review accordingly;
- VAT has been calculated correctly and is recovered at appropriate intervals;
- The Council at a Council meeting approved each payment; and
- Payments have been correctly analysed in preparation of the year-end Statement of Accounts.

We have reviewed the procedures in place for the processing of invoices noting that the clerk has initiated a system of official orders that are being signed by two members and attached to trader invoices. Whilst detail of approved payments is recorded in the minutes and cheque counterfoils are being initialled by the two members signing cheques, the actual invoices bear no indication of member review. As indicated in last year's report, we consider it essential that the invoices themselves are initialled by the cheque signatories as evidence of their review and to also reduce the potential risk of duplicated submission and payment arising.

We are pleased to note that, where applicable, VAT on invoices is being identified for recovery with a reclaim prepared to 31<sup>st</sup> March 2018 for submission to and settlement by HMRC.

### *Conclusions and recommendation*

*As indicated in last year's report, we again suggest that the expenditure certification and evidencing process be further enhanced by the acquisition of a suitably designed rubber stamp to be affixed to each invoice and "signed-off" accordingly.*

*R4. Consideration should be given to the acquisition of a suitably designed rubber certification stamp to be affixed to every invoice approved for payment and be "signed-off" accordingly.*

## 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 / 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.

Councils are required by the G&AM to undertake at least once annually, a formal review of their register of assessed risks (finance and health / safety). We noted previously the existence of a formal risk register dated May 2014 but have seen no indication in last year's minutes or those for 2017-18 that a financial risk register has been formally reviewed and adopted. Whilst we acknowledge the preparation of an updated document prior to the financial year-end, its review and formal adoption was deferred at the March 2018 meeting until the April meeting.

The Council's insurance is provided by Zurich with Employer's and Public Liability cover both in place at £10 million, together with Fidelity Guarantee cover at £25,000, all of which we consider appropriate for the Council's present requirements.

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

*Whilst acknowledging the Council's minuted intention to review risk registers quarterly starting in 2018-19, the absence of any formal review and adoption of an appropriate document during 2017-18 means that we must assign a negative assurance in this respect in the IA Report in the year's AGAR: the Council will, similarly need to give a negative response at Box 5, Section 1 of the year's AGAR.*

*R5. The Council must ensure compliance with the requirements of the G&AM each year, formally reviewing and re-adopting the risk register and will need to give a negative response in Section 1, Box 5 of the 2017-18 AGAR.*

## **Precept Determination and Budgetary Control**

We note conclusion of the Council's 2018-19 budget and precept deliberations with the latter formally approved at the January 2018 full Council meeting with the precept set at £8,490.

Given the low level of annual spending, we indicated in last year's report that the need for detailed reporting of actual spend against approved budget was not essential: however, we are pleased to note that the clerk has implemented an appropriate reporting system which is provided to members routinely throughout the year. The only concern we have in this respect is that, as indicated in the first section of the report, the cashbook detail and similarly that in the budget reports may not always be fully up-to-date or accurate.

We have also reviewed the level of retained reserves as at 31<sup>st</sup> March 2018, noting that they total £16,968 (£9,046 as at 31<sup>st</sup> March 2017) including earmarked sums for specific projects totalling £1,250 as minuted in the minutes of the March 2018 meeting. A further £10,600 is held in the Community Fund Account leaving a General Reserve balance of £4,850, which equates to approximately six months' revenue spending at the 2017-18 level (i.e. excluding Community Fund expenditure) and is considered appropriate for the Council's ongoing spending plans.

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

*We are pleased to report that no issues arise in this area this year warranting formal comment or recommendation: we shall continue to monitor the ongoing appropriateness of the level of retained reserves at next year's review.*

## **Review of Income**

The Council receives limited income primarily by way of the annual precept, small amounts of bank interest and recovered VAT, together with donations, etc received into the Community Fund for specific projects, etc. We have agreed detail of income received to bank statements and other available supporting documentation, albeit limited in scope.

### ***Conclusions***

*No significant issues arise in this area warranting formal comment or recommendation, although we suggest that, wherever possible, a copy of all documentation supporting the Council's income should be held on the file of financial documentation.*

## **Petty Cash / Clerk's Out-of-pocket Expenses**

*The Council does not operate a formal petty cash account.*

## **Salaries and Wages**

In examining the Council's payroll function, we aim to confirm that salary payments are in line with the Council approved pay rates and that extant legislation is being appropriately observed as regards adherence to the requirements of HMRC legislation in relation to the deduction and payment over of income tax and NI contributions.

We note that the newly appointed clerk has been provided with a formal employment contract once her appointment was confirmed as permanent. We have duly checked and agreed the periodic payments made to her during the course of the year, also ensuring that any relevant tax or NI deductions were calculated appropriately and paid over to HMRC periodically.

### ***Conclusions***

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

## **Fixed Asset Register**

The aforementioned G&AM requires all councils to maintain a record of all assets owned. We are pleased to note the existence and maintenance of an appropriate register and note that no new assets have been acquired during 2017-18. We have checked the updated asset register noting that detail of new assets acquired during 2017-18 has been included appropriately with values assigned at cost price (net of VAT). We have consequently agreed the value to be reported in the AGAR at Section 2 Box 9 with the clerk.

### ***Conclusions***

*No matters have been identified in this area warranting formal comment or recommendation.*

## **Investments and Loans**

*The Council holds no funds in investments, nor does it have any loans in place either repayable by or to it.*

## **Statement of Accounts and AGAR**

The Accounts and Audit Regulations, as amended periodically, require all councils to prepare annually a Statement of Accounts, which is now set out in in the AGAR at Section 2: this, together with the Annual Governance Statement at Section 1, is subject to independent external audit examination and certification.

We have, following inclusion of the necessary additional financial transaction (see first section of this report) detail in the 2017-18 cashbook, agreed with the Clerk the detail to be reported in Section 2 of the AGAR.

***Conclusions***

***No additional issues arise in this review area and, based on the work undertaken this year, we have duly signed off the Internal Audit Report in the AGAR, assigning positive assurances in each relevant area, apart from in relation to risk assessments..***



Rec. No	Recommendation	Response
<b>Review of Accounting Arrangements and Bank Reconciliations</b>		
R1	The Council must ensure that the cashbook record of financial transactions is maintained accurately, completely and currently with quarterly, as a minimum, bank reconciliations prepared, reviewed and signed off as required by the G&AM.	
<b>Review of Corporate Governance</b>		
R2	The Council should undertake a further review of the recently adopted Standing Orders and Financial Regulations setting a consistent value for formal tender action and at a more appropriate level given the average annual spend.	
R3	The Council must ensure compliance with the disclosure requirements of the 2015 Transparency Code each financial year.	
<b>Review of Expenditure</b>		
R4	Consideration should be given to the acquisition of a suitably designed rubber certification stamp to be affixed to every invoice approved for payment and be "signed-off" accordingly.	
<b>Assessment and Management of Risk</b>		
R5	The Council must ensure compliance with the requirements of the G&AM each year, formally reviewing and re-adopting the risk register and will need to give a negative response in Section 1, Box 5 of the 2017-18 AGAR.	