

Horton Parish Council

Internal Audit Report 2018-19

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Background

Statute requires all town and parish councils to arrange 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 Governance and Accountability Return (AGAR).

This report details the work undertaken in relation to the 2018-19 financial year's AGAR following provision of documentation in support of the year's financial transactions and governance arrangements.

Internal Audit Approach

In undertaking our review for the year, we have again paid due regard to the materiality of transactions and their susceptibility to any potential misrecording or misrepresentation in the year-end Statement of Accounts / AGAR. Our programme of cover is 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 series of internal control objectives.

Overall Conclusion

We have concluded that, based on our review of the year's records, the Clerk and RFO have continued to make positive progress to ensure that adequate and effective internal control arrangements are put in place. We also wish to acknowledge the actions taken to address issues in or prior year reports.

We remind the clerk and members that the Governance and Accountability Manual (G&AM) requires both internal and external audit reports to be presented to and be considered formally by the Council.

We have identified a few issues this year that require appropriate attention, detail of which is set out in the body of the report with resultant recommendations further summarised in the appended Action Plan.

We have duly signed off the Internal Audit Report in the year's AGAR and are pleased to report that we have been able to assign positive assurances in each relevant area of the Internal Audit Certificate this year.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The RFO has continued to maintain the Council's accounting records in an appropriate spreadsheet format, based on the example previously provided by us. A single bank account is in operation with Unity Bank.

Our objectives in this area are to ensure that the accounting records are maintained accurately and in a timely manner with detail reconciled routinely to the various bank accounts in use. We have: -

- Checked to ensure that the closing balances reported in the 2017-18 accounts and AGAR have been "rolled-over" correctly as opening balances for 2018-19;
- Verified transactions on the Unity Trust account for the full financial year due to their low volume;
- Verified the content of the year-end bank / cashbook reconciliation, also noting that members are now provided with detail of each quarter-end reconciliation; and
- Ensured that the year-end balance is accurately recorded in the year's AGAR.

Conclusions

We are pleased to report that appropriate accounting records have been maintained throughout the financial year with reconciliations now periodically submitted to, reviewed and signed-off by a nominated member. We have, however, noted a few minor issues in relation to the presentation of detail in the cashbooks and have discussed these with the RFO, also providing a revised copy of the year's updated cashbook for his reference and use (for formatting purposes) in 2019-20 and beyond.

Review of Corporate Governance

Our objective in this area is to ensure that the Council has robust corporate governance documentation and procedures in place; that Council meetings are conducted in accordance with the adopted Standing Orders and that, as far as we may be reasonably expected to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation. We have: -

- Examined the Council's minutes for the financial year to determine whether any issues exist that may have an adverse effect, through litigation or other causes, on the Council's future financial stability; and
- Noted that both Standing Orders (SOs) and Financial Regulations (FRs) are being reviewed currently by the clerk and will be adopted by the Council in due course. We again draw the Clerk and members' attention to the recently revised version of the NALC model SOs and FRs and have provided the Clerk with electronic copies of both to assist her current review. These latest NALC documents take account of legislative changes in contracting arrangements (Public Contracts Regulations 2015) and GDPR issues.

We are pleased to note that the Council has considered and approved the 2019-20 budget and precept at the January 2019 Council, although the minutes do not identify the total value of the precept.

Conclusions and recommendations

Whilst no significant issues arise in this area this year, we urge the Clerk and Council to finalise the review and adoption of both SOs ad FRs, ideally aligning them closely to the NALC model documents. The total value of the approved precept should be reported in the approving minutes, not just a reference to the increased value per Band D property: this should be minuted formally and retrospectively at the next Council meeting.

- R1. *Urgent action should be taken to finalise the review and adoption of updated Standing Orders and Financial Regulations, both of which should be, ideally, based on the latest NALC model documents.*
- R2. *The total value of the approved 2019-20 precept should be formally and retrospectively minuted at the next Council meeting.*

Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- All payments are subject to appropriate approval in accordance with the Council's approved procedures;
- 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; and
- VAT has been appropriately identified for periodic recovery.

We have reviewed the Council's approach to the approval and authorisation of release of moneys to traders and staff and consider that they are generally sound, noting that, following our previous comment, invoices now afford indication of specific review by members when signing-off cheques.

We have again reviewed the full year's transactions due to their low volume ensuring compliance with the above criteria and are pleased to record that no significant issues have been identified, apart from one instance where the detail recorded in the cashbook analysis of the expenditure (cheque no. 393) did not match the total payment made, although the latter reflected to actual invoice value.

We note that the VAT incurred in 2017-18 has been reclaimed and repaid by HMRC early in 2018-19. VAT incurred in 2018-19 totals £3,024.98 and should be recovered as soon as is practicable.

Conclusions

We are pleased to record that no significant issues or concerns arise from our work in this area this year with no recommendations considered necessary.

Assessment and Management of Risk

Local councils are required to put in place appropriate arrangements to assess and manage all potential risks, financial and other, to which they may be exposed, also ensuring that appropriate insurance cover is in place.

We noted last year that the Council had neither considered nor re-adopted risk assessment documentation during the financial year and reminded the Clerk and members that, in accordance with the requirements of the Governance and Accountability Manual (G&AM), risk assessments must be reviewed and formally re-adopted by the Council at least once annually. We are pleased to note compliance with this requirement with a formal Risk Management Policy Statement and detailed assessments of potential risks facing the Council prepared and adopted formally at the July 2018 meeting of the Council.

We have examined the current year's insurance schedule noting that cover is provided by Zurich Municipal and consider that cover is appropriate for the Council's present needs with Employer's and Public Liability cover in place at £10 million and £12 million respectively, together with Fidelity Guarantee cover at £250,000.

Conclusions

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

Budgetary Control and Reserves

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and the level of precept to be drawn down from the Royal Borough: also, that an effective reporting and monitoring process is in place. We also aim to ensure that the Council retains sufficient funds in general and earmarked reserves to finance its ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

We note that, following due debate, the Council finalised its budget and precept deliberations for 2019-20 formally adopting the latter with an increase of £1.50 per Band D property recorded: however, as indicated earlier in this report, the total value of the precept should be minuted formally (Recommendation R2 refers).

We note that subsequent to the RFO providing members with accounting detail including quarterly bank reconciliations and reports identifying performance against the approved budget, members determined to cease the practice: not only is the presentation of such detail a requirement of the G&AM, it is also considered best practice that members be provided with such data so that they may effectively monitor the Council's financial performance and discharge their fiduciary responsibilities effectively.

The Council's reserves at the financial year-end have remained virtually unchanged from the year's opening balance standing at £45,700 (£45,800 as at 31st March 2018). The balance equates to almost approximately 8 months spending at the 2018-19 level and is considered appropriate for the Council's ongoing revenue spending requirements

Conclusions and recommendation

As indicated in the body of the report a more formalised approach should be taken to preparing a detailed annual budget across the various receipts and payments headings with periodic reports prepared and presented to members for their review and approval identifying actual performance against the approved budget.

R3. A detailed annual budget should be prepared and used as the basis for the periodic reporting of actual performance against the approved budget.

Review of Income

The Council receives income from a very limited number of sources in addition to the precept, primarily by way of grants, bank interest and recoverable VAT. We have agreed detail of income received to bank statements and, where available, other supporting documentation.

Conclusions

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

Petty Cash Account

The Council does not operate a petty cash account.

Review of Staff Salaries

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 Revenue and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions. We note that the Council uses the services of an external payroll bureau.

To ensure compliance with the above objectives, we have: -

- Ensured that the gross salaries applied in 2018-19 to the Clerk and RFO have been paid at the approved rate of pay;
- Verified the net payments made to both throughout the financial year, based on the gross salary recorded on the payroll provider's records and taking account of any tax NI deductions payable
- Noted that no National Insurance employee deductions or Council contributions were applicable, as the salary for both was below the relevant threshold; and
- Ensured the appropriate and prompt payment of tax deducted to HMRC during the year.

Conclusions

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

Asset Registers / Inventories

The G&AM requires all councils to maintain a record of all assets owned. We noted last year that, due to the circumstances arising since the end of the previous financial year, the then locum Clerk had been unable to trace a formal asset register, either in hard copy or electronic format. We noted that she had drawn this to members' attention and that they acknowledged the requirement to develop / maintain an appropriate register.

We are pleased to now note that a formal register has been developed with appropriate values applied to the asset detail as recorded. We also note the inclusion of the new assets acquired during 2017-18 and 2018-19 to the register with a consequent increase in the asset value reported in the year's AGAR of £1,062.

We have previously suggested that, in line with best practice, the Council should consider the development of a photographic register of their assets, as several of our clients had found that it assisted the smooth progress of any insurance claims where assets have either been stolen or vandalised and acknowledge that the Council is taking appropriate action to develop such a register.

Conclusions

No issues arise in this area this year warranting formal comment or recommendation and anticipate that, with a formal "priced" asset register in place, no further issues will arise in future years.

Investments and Loans

The Council has no long-term investments, nor does it have any loans in place repayable either by or to it.

Statement of Accounts and AGAR

Section 2 of the AGAR now forms the Council's formal Statement of Accounts subject to external audit review and certification. We have examined the content of the detail to be recorded in Section 2 for 2018-19 agreeing detail to the underlying financial records.

Conclusions

No issues arise in this area, although we remind the Clerk, RFO and members of the need to formally approved and adopt Sections 1 & 2 of the AGAR by the statutory deadline of 30th June 2019.

Based on the outcome of our work programme for the year, we have signed off the Internal Audit Report in the AGAR assigning positive assurances in each relevant area.

Rec. No.	Recommendation	Response
Review of Corporate Governance		
R1	Urgent action should be taken to finalise the review and adoption of updated Standing Orders and Financial Regulations, both of which should be, ideally, based on the latest NALC model documents.	
R2	The total value of the approved 2019-20 precept should be formally and retrospectively minuted at the next Council meeting.	
Budgetary Control and Reserves		
R3	A detailed annual budget should be prepared and used as the basis for the periodic reporting of actual performance against the approved budget.	