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# **Seend 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 provided this service the Council since the outset of the "Limited assurance" audit arrangements.

## Internal Audit Approach

In undertaking the 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 again maintained adequate and effective internal control arrangements, with no additional issues identified to those set out in our interim report warranting formal comment and recommendation.

We have completed and signed the 'Internal Audit Report' in the year's Annual Return, having concluded that, in all significant respects, excluding that relating to risk assessments, 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. Consequently, as the assessments were neither reviewed, updated nor adopted by the Council during 2015-16, we are duty bound to record a "NO" response in that respect.

Other areas where we consider that improved controls would further strengthen the existing position are detailed in the body of the report with resultant recommendations further summarised in the appended Action Plan.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

The clerk has continued to maintain the Council's accounting records for 2015-16 in spreadsheet format, which we consider more than adequate in view of the number of annual transactions with appropriate columnar analysis in place.

Given the relatively low number of annual transactions, we have verified the spreadsheet detail for the financial year to both current and deposit bank account statements, also verifying the accuracy of the brought forward balances as at 1<sup>st</sup> April 2015 to the prior year's closing balances. Furthermore we have checked and verified the year end bank reconciliation with no issues arising. In completing this work we note that no year-end bank statement is available for the Bath Building Society account and have based our assessment of the validity of the year-end balance in this account on receipts provided for the deposits made during the year.

### Conclusions

*No issues arise in this area of our work.*

## Review of Corporate Governance

The Standing Orders (SOs) and Financial Regulations (FRs) were last reviewed and approved by the Council at the March 2014 and September 2011 meetings respectively. It is good practice to review and formally re-approve these key documents on a regular basis and we would suggest that the Financial Regulations (FRs) should be reviewed again in 2016-17, ideally based on the latest NALC model document issued in January 2016, which takes account of recent legislative changes. As part of that process we would also suggest that the Council reviews the formal value at which tender action is required as currently it differs between the SOs and FRs (quoted at £10k in the SOs and £50k in the FRs). We consider the lower value more appropriate given the annual level of the Council's budget and precept.

We have continued our examination of the Council minutes for the financial year to determine whether or not any issues exist that may have an adverse effect, through litigation or other causes, on the Council's future financial stability. We are pleased to record that no such issues appear to exist at present or to be developing.

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 ✓

Review of the Council's website (<http://www.seendparishcouncil.co.uk/>) has identified that not all of these items are present (Internal Audit report, payments over £100, year-end accounts and list of assets).

We also wish to draw the Clerk's attention to the change in EU legislation effective from 1<sup>st</sup> 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 is probably 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.

### **Conclusions and recommendations**

*Whilst no significant issues exist in this area at present, as indicated above, a consistent value should be recorded in the SOs and FRs in respect of the level at which formal tender action is required. Given the level of the annual budgeted expenditure and precept, we believe that the present SO value is the more appropriate.*

- R1. The Council should formally review and re-adopt Financial Regulations, bringing them into line with the latest NALC model documents.*
- R2. A uniform limit for formal tender action should be determined and recorded in the Standing Orders and Financial Regulations, ideally in line with the lower level currently recorded in the Standing Orders.*
- R3. The Council should ensure that it has met all of the requirements of the Transparency Code with all required information published on its website.*

### **Review of Payments**

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.
- VAT has been calculated correctly and is recovered at appropriate intervals.
- The Council at a Council meeting approved each payment.
- Payments have been correctly analysed in preparation of the year-end Statement of Accounts.
- 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 the 2015-16 VAT reclaim has been prepared appropriately and was submitted in April 2016.*

## Assessment and Management of Risk

The Council formally reviewed and adopted a Risk Register in January 2011, which was then further formally reviewed and re-adopted at the February 2015 meeting. However, we have seen no indication of any further review or re-adoption that during 2015-16, contrary to the now mandatory requirements of the Governance and Accountability Manual – The Practitioner's Code.

The Council is insured with Hiscox. We have reviewed the content of the schedule and consider that it remains appropriate for the Council's current needs with Employer's and Public Liability cover in place at £10 million and Fidelity Guarantee cover at £150,000.

### Conclusions and recommendation

*We note, as above, that the Council's risk register was not subjected to further review and re-adoption during 2015-16 contrary to the now mandatory requirement for such action: (Paragraph 2.104 of the "Governance and Accountability for Local Councils: A Practitioners' Guide (England)" refers, as follows:*

*"The council generally and members individually are responsible for risk management, because risks threaten the achievement of policy objectives. As a minimum, at least once each year, members must:*

- take steps to identify and update their record of key risks facing the council;*
- evaluate the potential consequences to the council if an event identified as a risk takes place;*
- decide upon appropriate measures to avoid, reduce or control the risk or its consequences; and*
- record any conclusions or decisions reached."*

*In the absence of a formal re-adoption of the risk register during 2015-16, we have to give a negative assurance on this aspect in the year's Internal Audit Report.*

*R4. The Council must ensure that the annual re-adoption of the Risk Register is completed and formally minuted in order to meet the requirements of the 2014 Practitioner's Guide.*

## 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 £12,141 at the November 2015 meeting.

Overall reserves at 31<sup>st</sup> March 2016 have decreased slightly to £13,557 (£13,933 as at 31<sup>st</sup> March 2015). This equates to approximately fourteen months' net revenue expenditure based on current levels, which is significantly higher than the CiPFA guideline of between three and six months revenue spending. We also note that there was an increase in the precept request agreed for 2016-17. We have raised this in our last two reports and consider that the Council should review its balances.

### **Conclusions and recommendation**

*We are pleased to record that no significant issues arise in this area although, as indicated above, we consider the level of retained reserves potentially excessive.*

- R5. *The Council should review the level of retained balances and, if balances are not required for ongoing revenue spending or specific projects, work to reduce them through a reduction in the annual precept should be taken.*

### **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 have reviewed income in the year compared to last year and note a significant increase in establishment income, which arose due to a receipt from HRMC of £349.94. Initially it was our understanding that this was a refund due to overpayment of tax on the clerk's salary in 2014-15, as identified during last year's internal audit. However, the clerk has since confirmed that the overpaid tax was refunded directly to her and she does not know what the monies received from HRMC are for.

We note that allotment rents were reviewed in March 2014 and the Council resolved to retain them at the same level in an effort to encourage occupancy of the site.

### **Conclusions and recommendation**

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

- R6. *The Council should contact HMRC and establish the reason for the refund of £349.94 received in November 2015 to ensure it has not been refunded in error.*

### **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.*

### **Salaries and Wages**

We note that there have been no changes to the Clerk's salary during the year. We have checked and verified her salary payments, including the tax and NI deductions which are paid to HMRC via a formal PAYE scheme.

As noted above, we are pleased to note that the overpayment of tax on the clerk's salary, as identified in the 2014-15 audit, has been refunded to the clerk during the year.

## **Conclusion**

*No issues arise in this area of our work.*

## **Asset Registers**

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. Whilst a register of assets exists it cannot be directly agreed to the detail in the Annual Return (a copy has not been provided for our examination this year). The register records asset values at insurance value, whilst the detail in Note 6 to the detailed Statement of Accounts prepared on behalf of the Council by their contract accountants, relates to the figure in Section 2, Box 9 of the Annual Return.

Extant guidance now requires that asset values in the Annual Return are reported at purchase cost or, where that value is unknown at the previous year's Return level uplifted or decreased to reflect the acquisition of any new assets or disposals. We are pleased to note the Council has reflected this in their Annual Return data with the one asset purchased during the year being added at purchase cost less VAT.

## **Conclusions**

*There are no issues arising from this area of our review, although we suggest that the asset register is amended to record asset values at both purchase or, where that is unknown, "proxy" cost and also insurance value to assist in budgeting for their replacement.*

## **Investments and Loans**

*The Council has no funds in investments, any surplus cash held in an interest bearing deposit account at Lloyds TSB, and there are no loans in existence.*

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

The Statement of Accounts has, as previously and indicated above, been prepared by DCK Beavers on behalf of the Council. We have checked the content of the Statement of Accounts to the cashbook, via DCKB's working documentation with no issues noted.

We have checked and agreed the detail recorded thereon and in Section 2 of the Annual Return to the cashbook.

## **Conclusions**

*We have agreed all detail in the year end accounts, Annual Return and Supporting Statement and have duly signed off the Internal Audit Report assigning positive assurances in each area on the Certificate except question C (arrangements for risk management and review) as detailed earlier in this report.*