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# **Cheverell Magna 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 has been employed to provide this service to the Council for the first time this year. This report 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 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 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 Annual Return, which requires independent assurance over a number of internal control objectives.

## **Overall Conclusion**

We have concluded that, on the basis of the programme of work undertaken on the 2016-17 papers provided for audit, the Council has, in all but one area, demonstrated that adequate and effective internal control arrangements had been put in place by the end of the financial year.

We have completed and signed the 'Internal Audit Report' in the year's Annual Return, having concluded that, with the exception of "approval of expenditure" controls, the objectives set out in that Report were being achieved during the financial year to a standard adequate to meet the needs of the Council.

We have annotated two areas of the Report where we feel further detail is required to understand our conclusion that we 'agree' controls were in place. These are "accounting records" and "bank reconciliation" controls. We made these notes because, as noted later in our report, the documents provided for audit by the current Clerk were sufficient to meet the control objectives but we are aware that this would not have been the case if we had audited the Council's papers earlier in the financial year.

We would like to take this opportunity to thank the Council and the Clerk for their considerable work in providing such good quality working papers for audit given the problems faced by the Council in the early part of the financial year.

## Detailed Report

### Maintenance of Accounting Records & Bank Reconciliation

Whilst the Council highlighted significant weaknesses in the accounting processes under the previous Clerk, there is evidence in the minutes that they have taken their responsibility to resolve these issues very seriously. A new Clerk was appointed in November 2016 and, following that appointment, several new controls and processes were put into place.

The current Clerk has provided the Council's cashbook accounting records in an Excel spreadsheet, which is considered more than adequate for the volume of annual transactions. It is in columnar form, with a separate column for VAT. Two bank accounts are in operation, both with HSBC.

We have checked and agreed the cashbook entries in full to the bank statements for the financial year also agreeing the year-end cashbook and bank statement reconciliation to ensure there were no anomalous items or out-of-date cheques. No issues were arising during this review.

We are pleased to note that, at the December 2016 meeting, a Councillor was nominated to inspect the cashbook and bank reconciliations on a regular basis in accordance with section 2.2 of the Council's Financial Regulations. This was one of the new controls and was therefore not in place from April 2016 to December 2016.

#### *Conclusions*

*There were no significant matters arising from our review of this area warranting formal recommendation.*

### Review of Corporate Governance

As noted above, during the first half of the year, Corporate Governance was poor as highlighted by the external auditors in 2015-16 and by the Council itself (as evidenced in the minutes of the Council meetings). The Council has taken steps to improve the situation. A new Clerk has been employed and there is evidence in the minutes that in the second half of the year additional controls have been put in place, for example, dual signatory on cheque payments, revised Standing Orders and Financial Regulations (SOs and FRs) approved, together with the independent review of bank balances by a nominated Councillor.

We are pleased to note that the Council's SOs and FRs were reviewed and re-approved by the Council in March 2017 and that they now take into account the new requirements as set out in the latest NALC model documents.

We have examined the Council minutes for the year to determine whether any issues exist that may have either a legal or financial impact on the Council and its future financial stability, whilst also ensuring that the Council has neither considered or is considering any actions that may result in ultra vires expenditure.

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 are pleased to note that all were found on the Council's website (<http://www.greatcheverell.org/Council>) with the exception of a list of the Council's land and building assets, a list of the Councillor's responsibilities and the internal audit report. The former two exist and have been provided for audit. There was no internal audit report available to publish as the previous internal auditor did not provide the Council with one.

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

***There are no significant matters of concern arising from our review of this area; however we consider that the Council needs to make appropriate arrangements to ensure compliance with the Transparency Code.***

*R1. The Council should publish details of their assets, Councillor's responsibilities and, when available, the 2016-17 internal audit report on their website in order to meet the requirements of the Transparency Code.*

## **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.

We are pleased to note that procedures for making payments have been significantly improved since the arrival of the current Clerk and in response to weaknesses identified by the Council and the external auditor in the previous year. In particular, we note that until August 2016, the previous Clerk used an electronic banking system which circumnavigated the use of cheques and the dual signatory system. This system has now ceased and, with effect from September 2016, all payments are now made by cheque, with the exception of one DD and one SO.

Furthermore, the Clerk now checks invoices for accuracy and they are taken to a Council meeting for signature by two Councillors (three are authorised signatories). The Councillors also initial the cheque stubs. Invoices themselves are not initialled but the Clerk attaches a covering voucher to each one which sets out the details of the cheque, who signed it and whether or not the amount was within budget.

We have checked all transactions for the year to supporting documentation, identifying one payment with no supporting invoice and one grant payment with no request for funds or acknowledgment of receipt. Both of these payments were made under the previous Clerk. We also noted one receipt, which was unfortunately too faded to read. All other payments were appropriately supported by an invoice or receipt.

We are pleased to report that VAT has been identified correctly in the cashbook and a claim made for the year to 31<sup>st</sup> December 2016 for £520.08 has been successfully made.

We note that the majority of payments were not recorded as having been formally approved at a Council meeting.

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

***We are pleased to record that no significant issues exist in this area, although we consider that a further enhancement to controls over the authorisation and release of money would be achieved were a suitably designed rubber certification stamp acquired with provision for the clerk to confirm receipt of goods and/or services, for the two cheque signing members to initial the invoice confirming their review and appropriateness of the payment for processing and detail of the payment date and cheque number.***

- R2. *Consideration should be given to the acquisition of a suitably designed certification stamp to be placed on every invoice and payment docket.*
- R3. *The Council must ensure that supporting documentation is viewed and retained for all items of expenditure incurred during the year.*
- R4. *The Council must ensure that they minute the formal approval of all payments made during the year.*

## **Assessment and Management of Risk**

We are pleased to note that the Council's Risk Register was discussed and approved, along with the need to subject it to at least quarterly review, at the meeting on 13<sup>th</sup> March 2017.

The Council's insurance cover is provided by Zurich Municipal via Community First. Cover for the year includes Public and Employers Liability at £10m each and Employee dishonesty / Fidelity Guarantee at £25,000. Good practice is for employee dishonesty cover to be approximately half the year's precept plus the year-end balance. For 2016-17 this would be £27k which is slightly higher than the current cover.

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

***There are no significant matters arising from our review of this area, although, as indicated above, further consideration should be given to the level of Fidelity Guarantee cover.***

*R4. The Council may like to consider whether they feel their current level of employee dishonesty insurance cover is adequate given the relatively high year-end balances held.*

## **Budgetary Control and Reserves**

The minutes of the January 2017 Council meeting, together with other relevant supporting papers, afford sound indication that members have considered and agreed the detailed 2017-18 budget and precept requirement, setting the latter at an increased value of £9,374, and minuting the adopted value accordingly.

We note that members are presented with financial information at meetings and that due care is taken not to exceed budgets when payments are discussed and authorised.

The total value of reserves has increased slightly during the year to £22,700 (£21,800 at 31<sup>st</sup> March 2016). This would appear to be on the high side given that 6 months' expenditure (based on 2016-17) would only be £5,600. However, the Clerk has informed us that revenue balances stand at only £4,000 at 31<sup>st</sup> March 2017, representing approximately 5 months' expenditure. The remainder of the overall balance of £22,700 comprises a Capital Receipts Reserve arising from a land sale, and a couple of other small earmarked reserves.

### ***Conclusions***

***No issues arise from this area of our review.***

## **Review of Income**

The Council's has received limited income during 2016-17 in the form of the annual precept, together with Council Tax Support Grant, the prior year's VAT recovered and a small amount in SSE wayleaves. We have checked and agreed all cashbook transactions to bank statements and other available supporting documentation.

### ***Conclusions***

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

## **Petty Cash Account**

***The Council does not operate a petty cash account. Any out-of-pocket expenses incurred by the Clerk in connection with their work for the Council are reclaimed and paid by separate cheque processed in the same manner as all trader payments.***

## **Salaries and Wages**

The Council only employs a Clerk. One person was in this role from April to August 2016 and the current Clerk commenced employment with the Council from November 2016 (a temporary Clerk stood in the intervening period).

We have reviewed the new Clerk's contract of employment, noting the agreed salary and hours of work. We have then used this document to check the actual payments made to the new Clerk during the year with no issues arising. However, we note that the Clerk's hours and salary do not appear to have been formally minuted as agreed at a Council meeting. This can be done in a confidential section of the minutes which are not published on the Council's website.

We are pleased to note that the Council paid tax at source on the previous Clerk's salary, as required by HMRC. We note that the current Clerk's earnings are below the threshold and therefore no tax payment is required. We are however pleased to note that he submits detail of his earnings monthly to HMRC via the electronic Gateway to demonstrate that all earnings have been disclosed.

### ***Conclusions***

***No issues arising in this area warranting formal comment or recommendation.***

## **Asset Registers**

The Governance and Accountability Manual requires all Councils to maintain a record of all assets owned and are pleased to note compliance with this requirement.

The Annual Return reporting arrangements now require that asset values are reported at purchase cost or, where that value is unknown, at the previous year's Return value uplifted or decreased to reflect the acquisition of any new assets or disposals. We are pleased to note that the purchased assets have been correctly included at the purchase cost net of VAT.

### ***Conclusions***

***No issues arise from this area of our review.***

## **Investments and Loans**

There are currently no investments held by the Council. At the start of the year, there was £15k held in an HSBC Money Market 2-year Fixed Account: however, this was closed during the year and transferred to the Council's HSBC Money Manager Account.

We note that the Council wrote a letter to the bank during the year, signed by authorised signatory Councillors, asking for closing Statements for both the 2-Year Bond and another small Community Account which was also closed. To date, HSBC have not sent these. We have, however, been able to reconcile the closing balances to transfers into the Business Money Manager account.

We have ensured that all interest earned on the 2-year Fixed Account was received and included in the accounts and Annual Return with no issues arising.

*Conclusions*

*No issues arise from this area of our review.*

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

Recent local government legislation is aimed at increasing the awareness of the public and openness in the management of public finances. The Annual Return provides the basis for the external auditor's certificate, and, given the limited information contained in Section 2 of the Return, it is considered good practice for Councils to continue to produce a more detailed statement identifying the nature of the Council's financial transactions during any given year.

We are pleased to note that the Clerk has produced a summary of income and expenditure to support the detail in the Annual Return. We have agreed this to the cashbook and Annual Return with no issues arising.

*Conclusions*

*We have agreed all detail in the summary of income and expenditure and the Annual Return and have duly signed off the Internal Audit Report section of the Annual Return.*

Rec. No.	Recommendation	Response
<b>Corporate Governance</b>		
R1	The Council should publish details of their assets, Councillor's responsibilities and, when available, the 2016-17 internal audit report on their website in order to meet the requirements of the Transparency Code.	Agreed. This will be completed for the 2016/17 Financial Year by the due date of 1 July 2017. A new Council website, allowing greater transparency of this information, is currently under consideration.
<b>Review of Payments</b>		
R2	Consideration should be given to the acquisition of a suitably designed certification stamp to be placed on every invoice and payment docket.	Authorising Councillors will henceforth be required to initial the actual invoice as well as the cheque stub. However, given the limited number of transactions per year, the purchase of a rubber stamp is not considered to add any value over and above the payment voucher already in use.
R3	The Council must ensure that supporting documentation is viewed and retained for all items of expenditure incurred during the year.	Agreed. Greater attention will be paid to this during 2017/18 and future years.
R4	The Council must ensure that they minute the formal approval of all payments made during the year.	Agreed. The appropriate section of the Minutes will be enhanced to encompass this.
<b>Assessment and Management of Risk</b>		
R5	The Council may like to consider whether they feel their current level of employee dishonesty insurance cover is adequate given the relatively high year-end balances held.	The 2017/18 insurance renewal has already been negotiated. This calculation will be made in future years and applied to future insurance renewals.