
Heytesbury, Imber & Knook 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 previously provided this service the Council and was re-appointed for 2016-17.

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 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 generally satisfactory results from our annual programme of work, the Council has maintained adequate and effective internal control arrangements, with no significant issues identified, although we have identified a few areas where we consider that the Council's governance arrangements require update and expansion in order to comply with current legislative requirements.

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 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

The Clerk has continued to maintain a hand-written cashbook to record detail of the year's financial transactions. We consider this to be appropriate given the relatively low number of annual transactions, although use of a spreadsheet would assist in identifying total receipts and payments in the year.

We are pleased to note that the cashbook has been formally balanced at the year-end to identify the carry forward balances with a formal bank reconciliation also prepared.

We are also pleased to note that, in line with the revised Financial Regulations, a nominated Councillor has verified bank reconciliations regularly throughout the year.

We have consequently reviewed all transactions, as recorded in the cashbook, agreeing detail to the underlying bank statements. We have also verified the accuracy of the year-end bank reconciliation and recording of the year-end balance in the Annual Return.

Conclusions

No issues have been identified in this area this year.

Review of Corporate Governance

We are pleased to note that the Council has reviewed its Standing Orders and Financial Regulations, re-adopting documents in line with the latest NALC models at the Council meeting in March 2017. We are also pleased to note that, following our recommendation last year, the tender limit in the Standing Orders has been brought into line with that shown in the Financial Regulations.

We have continued our review of the Council's minutes for the financial year to determine whether or not any issues exist or may be developing of a financial or legal nature that may impact on the audit opinion or the future financial stability of the Council. We have also ensured that, as far as we may reasonably be expected to ascertain, the Council has operated within its legal limitations.

The requirements of the Transparency Code became mandatory for smaller councils from 1st 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, in response to our recommendation in last year's report, the Council's website (<http://www.heytesburyparish.co.uk/ParishCouncil.htm>) now includes all of these items.

Conclusions

No issues have been identified in this area this year.

Review of Payments

All payments made during the course of the year were examined 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; and
- ❖ Payments have been correctly analysed in preparation of the year-end Statement of Accounts.

We are pleased to report that all payments processed during the financial year met the above criteria. We note from the response to our Governance Questionnaire that Councillors review invoices as part of the process for authorising payments: however, we have observed that invoices are not currently annotated to evidence this review and we suggest that, in line with best practice a suitably designed rubber certification stamp should be acquired providing for the following:

- Clerk's initials confirming receipt of goods or services, plus the arithmetical accuracy of the invoice
- Provision for both cheque signing members to initial the invoices or other supporting documents thereby evidencing their examination of the documents and accuracy of the cheque raised
- Detail of the cheque number and the payment data

We note that the cashbook record includes a separate column to record VAT. In examining the invoices, we noted two payments where VAT had not been identified for recovery (cheque numbers 1064 and 1070). These both relate to Councillor expenses: whilst the VAT element is very small in both cases, the Council is entitled to reclaim these amounts.

We note that a VAT reclaim was made on 19th January 2017 for £241.59 for expenditure incurred in 2016-17 to that date plus two further payments from 2015-16 which had not previously been claimed.

Conclusions and recommendations

No significant concerns have been identified in this area, although we consider that members should evidence their review of invoices, etc accordingly to confirm that they have examined them when signing cheques.

R1. Consideration should be given to the acquisition of an appropriately designed rubber certification stamp to be affixed to every invoice or payment document evidencing members' examination of the documents when signing cheques.

R2. The unidentified VAT on the two cheques referred to in the body of the report should be added to the next reclaim: we also suggest that reclaims are submitted covering the full financial year in future.

Assessment and Management of Risk

We note from our review of minutes that the Council again produced a formal risk assessment document, which was formally ratified at the Council's meeting on 28th March 2017.

Insurance cover has been provided by Aon, which, from our examination of the schedule, remains appropriate for the Council's needs.

Conclusions

No issues have been identified in this area this year.

Budgetary Control and Reserves

We are pleased to note that the 2017-18 budget and precept were formally discussed by members with the latter formally approved by the Council at £9,050 at the November 2016 Council meeting.

We are also pleased to note that the Clerk continues to provide members with regular updates on the level of bank balances held.

We have again examined the level of year-end funds available to the Council and note that overall reserves have decreased marginally and stand at £15,622 (£16,437 as at 31st March 2016). This balance equates to almost eighteen months' revenue spending at recent levels and is potentially high, when compared with the generally recognised CiPFA guideline of between three and six months' revenue spending annually. We have seen no indication that any of the total balance is set aside and earmarked for specific future projects.

We have made similar observations over the last three years, now noting that the Council specifically discussed this issue at the June 2016 meeting, when it was suggested that some of the money could be used for Knook Recreation Field after the Selwood planning application expires in August. We have, however, seen no indication that any specific amount has been identified as ring fenced by year-end.

Conclusions and recommendation

As indicated above, the Council needs to either reduce its precept in order to reduce balances or identify specific projects for which funds will be required and could be "earmarked".

R3. The Council should either consider a reduction in future years' annual precepts or "earmark" part of the total fund balance for specific projects.

Review of Income

The Council receives income from relatively limited sources, including the annual precept, grants and bank interest. We have agreed detail of income recorded in the cashbook to such supporting records as are available and to bank statements and bank deposit slips. We note that the Council also received a WALC grant in 2016-17.

Conclusions

No issue arise from our review of income.

Petty Cash Account

The Council does not operate a petty cash account, any out-of-pocket expenses incurred by the Clerk being paid through the normal trader payment approval procedures.

Salaries and Wages

We have checked the clerk's salary payments in the year to the approved scale fee and hours of employment, noting the changes to the hourly rate payable as agreed at the June 2016 meeting the change being backdated to 1st April 2016 in line with the national pay agreement.

We understand that the Clerk has resigned the clerk element of the role (5 hours per week), but wishes to continue with the RFO element of the role (1.5 hours per week). We have seen evidence in the minutes confirming advertising of the vacancy and interviewing candidates and note that, as at 31st March 2017, the position had still not been filled.

In one of our previous reports we reminded the Council of HMRC guidance that clerks cannot be regarded as "self-employed" and that councils should ensure that a formal PAYE scheme is registered. In response to this recommendation, the Council stated that they had confirmed by telephone with HMRC that all that was required was for the clerk was to notify HMRC of her earnings each year using the correct form.

Given the upcoming change in clerk, this would appear to be a good time to speak to HMRC again to ensure that the Council is meeting its requirements under HMRC regulations as it remains our understanding that parish councils are required to deduct tax and, if applicable, NI at source. We also suggest that any agreement by HMRC is confirmed in writing to safeguard the Council's position.

Conclusions and recommendations

Whilst no significant issues arise in this area, we consider that the Council needs to obtain written confirmation from HMRC in relation to the potentially "self-employed" status of the clerk and RFO.

R4. The Council should enter a dialogue with HMRC to establish formally in writing whether or not HMRC require the Council to register a formal PAYE scheme for the employment of the clerk and RFO.

Asset Registers

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. We are pleased to note compliance with this requirement with the Clerk maintaining an appropriate register.

We have reviewed the register ensuring that any in year acquisitions have been correctly added to the register and are accurately disclosed in the Annual Return at purchase cost net of VAT.

Conclusions

No issues arise in this area warranting comment or recommendation.

Investments and Loans

The Council holds no investments, nor are any loans in existence repayable by or to the Council.

Statement of Accounts and Annual Return

We are pleased to note that the Clerk has again prepared a formal Statement of Accounts with Supporting Statements / Notes in order to provide electors with information on the Council's financial affairs.

We have examined the content of these Statements and cross checked them to the cashbook with no issues arising. We have similarly verified the accurate transfer of detail to the year's Annual Return.

Conclusions

No issues have been identified in this area of our review and we have, consequently, signed off the Internal Audit Report in the year's Annual Return assigning positive assurances in each relevant area.

Rec. No.	Recommendation	Response
Review of Payments and VAT		
R1	Consideration should be given to the acquisition of an appropriately designed rubber certification stamp to be affixed to every invoice or payment document evidencing members' examination of the documents when signing cheques.	Signatures would be easier as rubber stamps would need to be changed when names change
R2	The unidentified VAT on the two cheques referred to in the body of the report should be added to the next reclaim: we also suggest that reclaims are submitted covering the full financial year in future.	The amounts were so small (pennies) but I could put them through the accounts book if the vat no is on the receipts. Claiming the full years VAT in the same financial yr is impossible as the March meeting cheques are presented too close to the yr end. The VAT return would be completed in the financial year but processed by HMRC and paid in the next financial year
Budgetary Control and Reserves		
R3	The Council should either consider a reduction in future years' annual precepts or "earmark" part of the total fund balance for specific projects.	The addition of the £4596 balance by the compulsory closure of the HSBC account will have to be ring fenced or transferred into a separate account to bring the bank balance down
Salaries and Wages		
R4	The Council should enter a dialogue with HMRC to establish <u>formally</u> in writing whether or not HMRC require the Council to register a formal PAYE scheme for the employment of the clerk and RFO.	I did contact HMRC when I started this job and because I was a non tax payer no action was required. I have the letter from HMRC stating this. HMRC stated to contact them only if my circumstances change which they have not.