
Idmiston Parish Council

Internal Audit Report 2017-18

Stuart J Pollard

Director
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 Return. This report, the first since our appointment by the Council, details the areas examined as part of our review of the Council's financial and governance arrangements for 2017-18.

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 Annual Governance and Accountability Return (AGAR). 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' as part of the year's AGAR process: this requires independent assurance over ten internal control objectives.

Overall Conclusion

We have concluded that, based on the satisfactory conclusion of our review programme, the Clerk has ensured that generally adequate and effective internal control arrangements are in place. Detail of the work undertaken on the Council's accounting and other records is set out in the following detailed report, together with any issues arising with recommendations further summarised in the appended Action Plan.

We have completed and signed the 'Internal Audit Report', having concluded that, in virtually all significant respects, the control objectives set out in the Report were being achieved throughout the financial year to a standard appropriate for the needs of the Council. However, as highlighted previously by the external auditors, the Council has neither reviewed nor adopted a formal register of potential financial or other risks during 2016-17 or, as far as we have been able to establish, again during 2017-18, contrary to the requirements of the Governance and Accountability Manual (G&AM). This will necessitate the Council recording a negative assertion in the AGAR at Section 1, Box 5.

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 cashbooks or financial ledgers. We note that the Council has acquired and implemented the Scribe accounting software for 2017-18, which we consider perfectly satisfactory for the Council's financial recording arrangements.

The Council previously banked with Lloyds, with two accounts in operation: these were effectively closed in November 2017 and funds transferred to two new accounts with Unity Bank.

Given the relatively low level of annual transactions and this being the first year of our appointment, we have agreed all transactions recorded in the Scribe ledgers during the year to the supporting bank statements, also ensuring the appropriate transfer of the closing Lloyds account balances to Unity Bank. Finally, in this area, we have checked and agreed the year-end bank reconciliation, also ensuring the accurate disclosure of the year-end balance in Section 2, Box 8 of the year's AGAR.

We note the adjustment of two prior year uncleared cheques in the Scribe software, although the latter (cheque number 2743) has been incorrectly added as a payment in the 2017-18 ledger: we have discussed this with the clerk and agreed that the effectively duplicated entry in 2017-18 should be reversed by posting a matching negative entry.

Conclusions

No significant issues arise from our work in this area warranting formal comment or recommendation.

Review of Corporate Governance

Our objective 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 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 are pleased to note that the Council has formally adopted Standing Orders (SOs) and Financial Regulations (FRs) in May 2017 and March 2018 respectively. However, in examining the content of both documents, we note that they are based on older versions of the NALC model documents. The NALC model FRs were revised in 2015 to reflect the change in EU legislation relating to public contracts, as detailed in the 2015 updated version of the Public Contract Regulations, which also require that any contracts exceeding £25,000 must be advertised on the Government's Contract Finder website. Consequently, the latest versions of both the NALC model SOs and FRs reflect a suggested tender level of £25,000. We have provided the clerk with an electronic copy of the latest NALC FRs to assist in updating the Council's recently adopted version.

NALC has only just this week issued a revised model set of SOs and we commend these as a sound basis for the Council to tailor to their specific needs and adopt. However, with a bank balance of around £30,000 and annual turnover of between £40,000 and £50,000, we suggest that a more appropriate level for formal tender action to be recorded in both SOs and FRs would be set at around £15,000.

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, also ensuring that, as far as we may reasonably be expected to ascertain, no actions / decisions of an unlawful nature have occurred or may be being considered.

The requirements of the Transparency Code became mandatory for smaller councils from 1st April 2015. For a Council with an annual turnover below £25,000, 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

Whilst we appreciate that the Council is not specifically governed by this requirement, with the annual turnover exceeding the £25,000 disclosure limit, best and recommended practice is for all councils to also publish the specified documentation.

A clerk's sudden departure or incapacity could potentially leave the Council exposed to the risk of being able to continue to operate approved financial procedures resulting in potential errors, the possible inability to record financial transactions appropriately and delayed reporting of performance. Consequently, we consider that all small councils should develop appropriate detailed financial procedure notes setting out the procedures to be followed in a number of areas including data entry to spreadsheets / accounting software packages; bank reconciliations, processing of payments, salaries and identification of income due to the Council for timely recovery.

Conclusions and recommendations

We have identified a number of areas where the Council needs to take action to ensure that it complies with legal requirements and best practice, as detailed in the preceding paragraphs, with the following resultant recommendations.

- R1. Standing Orders and Financial Regulations should be subjected to further review and update to bring them into line with recent legislative changes affecting, inter alia, contracting arrangements, ideally basing them on the most recent model documents issued by NALC.*
- R2. Consideration should be given to determining a lower value at which formal tender action is required: we suggest a level of around £15,000 would be appropriate.*

R3. Whilst not mandatory, the Council should consider publishing relevant financial and other information on its website in keeping with the spirit of the Transparency Code for smaller authorities.

R4. In line with best practice and assist in succession management procedures, should they become necessary, financial procedures, sometimes referred to rather derogatorily as “idiots guides”, should be formally documented.

Review of Payments

Our aim here is to ensure that: -

- 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;
- The expenditure is formally approved by the Council and this is recorded in the minutes;
- The expenditure has been allocated to correct cost headings; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have reviewed all payments made during the year to ensure that the above criteria have been met with no significant issues arising, although we could not trace supporting documentation for three payments, which we do not consider a cause for concern, but suggest that, where no formal invoice is available, a proforma be prepared and be signed-off by the Chairman.

We also noted a few instances where expenses, such as car parking fees, were supported by till receipts or parking tickets bearing a VAT Registration number. Where an invoice or till receipt bears a VAT registration number, the Council is entitled to recover the VAT incurred, which should be calculated as 1/6th of the gross cost. Ideally, the receipt or invoice should also indicate that the payment was made on behalf of the Council.

Having switched to Unity bank, the majority of payments are now processed “on-line” with detail initially input by the clerk: two members then “log in” and authorise / release the payments. Whilst we consider this arrangement acceptable, we are concerned to note that members are not indicating that they have seen the supporting invoice. Following on from a relatively recent fraud perpetrated by a town clerk, we consider that, in line with best practice, members should examine and initial the invoices to reduce the risk of duplicated payments arising and being processed or other potential errors arising.

Ideally, a specially designed rubber stamp should be applied to every invoice incorporating the following detail: -

- Initials of the clerk confirming delivery of goods / services and arithmetic accuracy of the invoice;
- Initials of two members authorising and releasing the payment via the internet or cheque;
- Scribe account code;
- Scribe processing number (NB: this is already being recorded on the invoices)
- Date of payment release; and
- Approving minute reference (also included currently).

We note the preparation and submission of two VAT reclaims in the year, one for the whole of 2016-17 and the second for the first quarter of 2017-18 (i.e. to 30th June 2018), both of which have been repaid by HMRC. We understand that a reclaim covering the remaining three quarters of the financial year (i.e. to 31st March 2018) has now been prepared and submitted to HMRC.

Conclusions and recommendation

We are pleased to report that no significant issues arise in this area, although as indicated above, we suggest that evidencing of the approval of payments should be improved.

- R5. *To protect both the clerk and Council from potential allegations of fraudulent action, all invoices and payment documentation should be marked with a suitably designed rubber certification stamp, providing detail as set out in the body of the report.*
- R6. *Where a formal invoice is unavailable to support a payment, a proforma invoice should be prepared and be signed by the Chairman confirming the payment as appropriate.*
- R7. *Care should be taken to ensure that all recoverable VAT, including that on incidental expenses incurred by the clerk and reclaimed monthly is identified with the relevant VAT registration number also acquired.*

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 and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks to minimise the opportunity for their coming to fruition.

The external auditor drew attention in their report on the 2016-17 Annual Return to the absence of any action to review and adopt a risk register. We have seen no indication that appropriate action has been taken to address this position during 2017-18, as also confirmed by the clerk. The Governance and Accountability Manual (G&AM) stipulates that risk registers, financial and health / safety, etc should be reviewed and be adopted by the Council at least once annually. The failure to comply with this requirement will necessitate a negative response at Item 5 of Section 1 of the year's AGAR.

We note that the Clerk has now acquired a proforma used by another council and will use this as the basis for developing Idmiston's own register.

The Council is insured by Axa with Public and Employer's Liability both standing at £10 million and Fidelity Guarantee at £150,000, all of which we consider adequate for the Council's current needs.

Conclusions and recommendation

As identified previously by the external auditor, the Council must develop an appropriate approach to the assessment of potential financial and operational risks: the absence of such again in 2017-18 will require a negative response in the year's AGAR at Section 1, Box 5.

R8. The Council must ensure that an appropriate risk register is developed, reviewed and adopted formally at least once annually in accordance with the requirements of the Governance and Accountability Manual: the absence of such a document in 2017-18 will necessitate recording of a negative response in the year's AGAR at Section 1, Box 5.

Budgetary Control and Reserves

In this area of our coverage, we aim to ensure that the Council has sound procedures in place for the determination of its annual budget and monitoring and managing available resources throughout the financial year.

The Council's minutes and other documentation provided for our review indicate that members have agreed the precept for 2018-19 at £30,170.78 at the January 2018 meeting based on a detailed budget prepared by the clerk. We understand that no such detail has been available previously or during 2017-18 to provide a means of measuring actual performance against an approved budget.

Whilst we note that members are provided with detail of bank balances and payments at each meeting, improved information comparing actual receipts and payments during the year against an approved budget should be provided at least quarterly: the Scribe software provides that detail automatically once the approved budget has been entered.

At 31st March 2018, the Fund balance has increased from £29,850 to £33,530. We understand that the Council has not identified any funds to be set aside for specific projects in earmarked reserves. The year-end balance equates to approximately nine months' spending and is considered appropriate for the Council's ongoing revenue spending requirements.

Conclusions and recommendations

We are pleased to note the actions taken by the clerk to develop a more detailed analysis of planned income and expenditure for 2018-19, which we understand will be input to the Scribe accounting software for the year. As indicated above, we suggest that the Council considers the establishment of funds for future planned development and other periodic spending, such as election costs, transferring funds from the General Reserve to any specific earmarked reserves identified as required by members (NB: this does not require the establishment of additional bank accounts).

R9. Consideration should be given to the establishment of specific earmarked reserves with funds effectively set-aside for this purpose.

Review of Income

The Council receives income by way of the annual precept, newsletter advertising, burial and associated fees, occasional grants and recovered VAT.

We have examined the controls in place over the recovery of burial and associated fees with no concerns identified other than noting that the Interment Register entries are not being "signed-off" by the clerk as entering officer, as legally required. We have ensured that for each of the interments occurring in 2017-18, an appropriate undertaker's application has been received and

that the appropriate fees have been charged. We have, similarly, checked that the appropriate fees have been received in respect of the one memorial application received in the year.

We have similarly examined the register of advertisers again ensuring that the appropriate fees have been recovered with no issues in that respect. However, the sale of advertising space by the Council is a taxable service and we note that no VAT has been charged. The Council is not currently registered for VAT and we have discussed the position with the clerk suggesting that dispensation must be sought from HMRC to not charge VAT in view of the relatively low level of income arising from this service.

Conclusions and recommendations

We are pleased to record that no significant matters have been identified, although action is required to ensure that the Council does not leave itself exposed to HMRC surcharge for failing to register for VAT in respect of fees charged for advertising: we have provided the clerk with a suggested approach to HMRC which could result in dispensation not to charge in view of the relatively low level of income received in this respect.

R10. The Council should seek dispensation from HMRC to not charge VAT in respect of the sale of advertising space in the periodic newsletter.

Petty Cash Account

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

Review of Staff Salaries

The Council uses the services of an external accountant to prepare the monthly payroll generating the clerk's net pay and any tax, NI and pension contributions due to HMRC and the Wiltshire pension fund.

We are pleased to note that a formal employment contract is in place and have verified that the monthly gross salary payable to the Clerk is in line with that contract. We have also verified that the monthly tax and pension deductions are in accord with HMRC and pension fund requirements. Whilst the Clerk's NI contributions are identified on her monthly payslip, we note that detail of the Council's NI contribution element has not been advised to the clerk with the result that no payments have been paid to HMRC in this respect in 2017-18 and presumably prior years.

HMRC gave dispensation to employers to not pay NI contributions on the first £3,000 under specific conditions as set out in the HMRC website: however, that dispensation does not apply to government bodies, including town and parish councils and it may be that the external accountant has erroneously assumed that the Council was similarly included in the scheme and, consequently, not identified the Council's contributions, as the £3,000 limit would not be reached.

We also note that regular monthly payments are made to two members of the public who oversee the opening and closing of playgrounds, together with the preparation of routine weekly risk assessments. Two issues arise in this respect: firstly, HMRC may regard the monthly payments to these people as wages that should be subjected to possible tax and NI and be processed through a payroll; secondly, from a risk point of view, the sheets are not signed, nor are they being filed and retained separately. We believe that, as claims against the Council may be made by claimants up to the age of 18, these checklists should be retained for 18 years and suggest that the Council checks with its insurers as to their specific requirements to protect the Council if any claim for personal injury should arise.

Conclusions and recommendations

The Council should take appropriate action to rectify the apparent non-payment of employer's NI contributions, seeking clarification from its payroll provider as to why the Council has not been advised of its liability in this respect and discuss the best means of resolving the issue and settling any outstanding liability due to HMRC for 2017-18 and, presumably, prior years.

Similarly, clarification should be sought with HMRC on the Council's position in relation to the two casual workers and possible need for them to be paid through the payroll.

R11. The Council should seek an explanation from its payroll provider as to why the Council has not been provided with detail of the Council's NI contributions for payment to HMRC, also seeking clarification from HMRC on the approach to be taken in clearing the liability for 2017-18 and, presumably, prior years.

R12. Clarification should be sought on the possible need for the two casual workers to be included in the Council's payroll, with a potential tax and NI liability.

R13. Clarification should be sought with the Council's insurers on their requirements as regards retention of risk assessments in relation to the weekly playground inspections undertaken by the two casual workers.

Asset Register

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, the Clerk maintaining an appropriate register, although we note that in 2016-17, being new to the role, she had applied depreciation to the asset values in the year's Annual Return. This was duly pointed out by the external auditors with the requirement that the 2016-17 value to be reported in the current year's AGAR (i.e. that for 2017-18) is restated at the undepreciated value, which has been actioned accordingly with "Restated" entered under the year as recommended by the external auditor.

We are also pleased to note that the new acquisitions during 2017-18 have been added to the asset register at net cost, with detail added to the amended 2016-17 value and recorded appropriately in the 2017-18 AGAR.

Many of our clients are now also developing a photographic register of exposed assets, such as street furniture: we consider this to be an example of best practice as it provides the Council with clear evidence of the condition of fixed assets and would assist in the event of any insurance reclaim or police investigation being necessary following damage to or theft of such assets.

Conclusions and recommendation

No areas of concern have been identified in this area this year, although we suggest that consideration be given to the development of a photographic register of assets in due course.

R14. Consideration should be given to the development of a photographic register of assets to assist in the event of any insurance claim or police investigation becoming necessary.

Investments and Loans

The Council has no funds in investments, nor does it have any loans either payable by, or to it, at present. However, we take this opportunity to draw the Clerk and Council's attention to a current change in the requirement for production of a formal Investment Strategy: whilst this only becomes mandatory for Councils with retained funds in excess of £100,000, current NALC guidance indicates that, again in line with best practice, all Councils holding funds in excess of £10,000 should also develop an appropriate Strategy.

Annual Governance and Accountability Return (AGAR)

We have reviewed the content of Section 2 of the 2017-18 AGAR ensuring consistency with the underlying accounting records and asset register and are pleased to report that no issues have been identified in this area this year and have duly signed off the Internal Audit Report assigning positive assurances in each relevant area, apart from that in relation to risk assessments. The absence of any action to review risk assessments during the year will necessitate the Council recording a negative assertion in the AGAR at Section 1, Box 5.

Action Plan

Rec. No.	Recommendation	Response
Corporate Governance		
R1	Standing Orders and Financial Regulations should be subjected to further review and update to bring them into line with recent legislative changes affecting, inter alia, contracting arrangements, ideally basing them on the most recent model documents issued by NALC.	
R2	Consideration should be given to determining a lower value at which formal tender action is required: we suggest a level of around £15,000 would be appropriate.	
R3	The previous practice of reporting cheque numbers in the payment approving minutes should be reinstated.	
R4	In line with best practice and assist in succession management procedures, should they become necessary, financial procedures, sometimes referred to rather derogatorily as “idiots guides”, should be formally documented.	
Review of Payments and VAT		
R5	To protect both the clerk and Council from potential allegations of fraudulent action, all invoices and payment documentation should be marked with a suitably designed rubber certification stamp, providing detail as set out in the body of the report.	
R6	Where a formal invoice is unavailable to support a payment, a proforma invoice should be prepared and be signed by the Chairman confirming the payment as appropriate.	
R7	Care should be taken to ensure that all recoverable VAT, including that on incidental expenses incurred by the clerk and reclaimed monthly is identified with the relevant VAT registration number also acquired.	
Assessment and Management of Risk		
R8	The Council must ensure that an appropriate risk register is developed, reviewed and adopted formally at least once annually in accordance with the requirements of the Governance and Accountability Manual: the absence of such a document in 2017-18 will necessitate recording of a negative response in the year’s AGAR at Section 1, Box 5.	

Action Plan

Rec. No.	Recommendation	Response
Budgetary Controls & Reserves		
R9	Consideration should be given to the establishment of specific earmarked reserves with funds effectively set-aside for this purpose.	
Review of Income		
R10	The Council should seek dispensation from HMRC to not charge VAT in respect of the sale of advertising space in the periodic newsletter.	
Review of Staff Salaries		
R11	The Council should seek an explanation from its payroll provider as to why the Council has not been provided with detail of the Council's NI contributions for payment to HMRC, also seeking clarification from HMRC on the approach to be taken in clearing the liability for 2017-18 and, presumably, prior years.	
R12	Clarification should be sought on the possible need for the two casual workers to be included in the Council's payroll, with a potential tax and NI liability.	
R13	Clarification should be sought with the Council's insurers on their requirements as regards retention of risk assessments in relation to the weekly playground inspections undertaken by the two casual workers.	
Asset Register		
R14	Consideration should be given to the development of a photographic register of assets to assist in the event of any insurance claim or police investigation becoming necessary.	