

Idmiston Parish Council

Internal Audit Report 2018-19

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For and on behalf of
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 details the areas examined as part of our review of the Council's financial and governance arrangements for 2018-19.

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 new Clerk has implemented generally adequate and effective internal control arrangements which are now 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 a number of recommendations that have been made. The recommendations are further summarised in the appended Action Plan.

Based on the programme of work undertaken to the 31st March 2019, the Council continues to maintain broadly adequate and effective internal control arrangements that should ensure that transactions have been recorded accurately in the financial ledger and, subsequently, the detailed Statement of Accounts and Annual Governance and Accountability Return that forms the statutory accounts of the Council subject to external audit certification.

We have completed and signed the 'Internal Audit Report', having concluded that the control objectives set out in that Report have been achieved within the financial year to a standard adequate to meet the needs of the Council.

We ask that members consider the content of this report and acknowledge that the report has been reviewed and accepted by the Council.

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 Scribe accounting software package was not used to prepare the Council's accounts for the 2018-19 financial year with the Council reverting to spreadsheet use, prior to the implementation of Rialtas accounting software for councils effective the 1st April 2019. We consider the actions undertaken during the 2018-19 financial year, in using the Microsoft Excel software, a perfectly satisfactory solution for the Council's financial recording arrangements in this transitional phase.

The Council continues to maintain two bank accounts, a current and deposit account with the Unity Trust 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 spreadsheet cashbook during the year to the supporting bank statements, also ensuring the correct recording of transfers between the deposit and current account. Finally, in this area, we have checked and agreed the monthly bank reconciliations completed by the new Clerk from June 2018 onwards. We have 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.

Conclusions

There are no issues arising in this area of our review 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 note that the Council has formally reviewed, revised and adopted both its Standing Orders (SOs) and Financial Regulations (FRs), based on NALC model documents during the financial year with the tender threshold correctly set at £25,000.

We also note the Council's efforts to ensure compliance with the General Data Protection Legislation. We have noted that although the Council's IT approach is laudable, it is perhaps better suited to a larger council as it is rather 'over engineered' for a council of Idmiston's size, when a simpler solution would have sufficed.

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. We note a marked improvement in the quality and approach to minute taking upon the arrival of the new Clerk.

Conclusion

There are no issues arising in this area of our review warranting formal comment or recommendation.

Review of Payments

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Cheques are signed by two elected members of the Council;
- 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;
- The correct expense codes have been applied to invoices when processed; and,
- VAT has been appropriately identified and coded to the control account for periodic recovery.

Due to the relatively low level of transactions we have tested all payments made during the 2018-19 financial year: We note that where no formal invoice is available, a proforma be prepared and be signed-off by the Chairman.

We note that a 'Schedule of Payments', is presented to the Members at the monthly meeting of the Parish Council, which is duly authorised and minuted, with the cheques being prepared by the Clerk/RFO for signature by approved Members. Individual BACS, DD and SO payments, can be traced via their unique payment reference to the detail of the corresponding bank statement. There is clear evidence that Members are scrutinising each payment on the Schedule of Payments, however, not all of the payment documents included on the Schedule of payments has been initialled.

Finally, in this area of our review we note that the VAT return is now prepared annually, due to the relatively low level of transactions. The VAT reclaim for the 2018-19 financial year had been prepared and was in the process of being submitted to the HMRC as at the 31st May 2019.

Conclusions

Members are reminded that they only need to sign the council's Schedule of payments once, and not for each transaction contained upon it. Members must ensure that they reference each payment document to the schedule and initial each of the payment documents to indicate their authorisation.

*R1. The Schedule of Payments should be redesigned to include a signature box at the end of the report which contains text such as "Members resolved to approve the above listed payments at the **date month** meeting of the Parish Council" and contain two boxes for the designated Members to sign.*

R2. A Certification Stamp should be applied to each payment document. This should include fields for nominal and cost centre coding, the Clerk's authorisation and two members' authorisation.

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 identified in order to minimise the opportunity for their coming to fruition.

It is noted that the Council's Risk Assessment was reviewed by members and adopted in November 2018 meeting of the Parish Council under Minute reference 157/18. The Clerk/RFO and members are reminded that all the Council's Risk registers must be reviewed and readopted by the Full Council in each Financial Year, and that the adoption must be formally minuted, as required by the Governance and Accountability Manual.

The Council's insurance schedule for the 2018-19 financial year has been examined, noting that the Council's cover is provided by Axa: Public, & Products Liability, and Employer's Liability are both in place at £10 million, Hirers Liability at £5 million, Officials Liability at £500,000, Liable & Slander Liability at £500,000, Data Protection Liability at £250,000 together with Business Interruption - Loss of Revenue at £10,000. This level of cover is considered appropriate for the Council's present needs.

Finally, in this area of our review, we note that the Council is responsible for a playground and recreation area: We note that the Council has implemented an inspection regime: Weekly visual inspections are undertaken by a Councillor and a Playground inspection form is completed for the areas examined. The forms are passed to the Clerk/RFO for action and retention. Further, RoSPA conduct an annual independent inspection of the playground and recreation area, and a formal report is submitted to the council.

Conclusions and recommendation

The Council has existing playground facilities which it is considering upgrading. These are, as stated above, inspected by a Councillor on a weekly with resultant inspection forms submitted to the Clerk for any remedial action to be taken and the Council's retention. An annual risk-based inspection of the playground is conducted by a qualified playground inspector from RoSPA with its again with the report submitted to the Clerk for any necessary remedial action to be taken and for the Council's retention. However, we note that the Council does not have a playground inspection in place currently.

We have made a number of recommendations concerning the management of risk in the playground as it is incumbent for all organisations that are responsible for managing playgrounds to have a reasonable and proportionate playground management policy in place.

R3. A Playground Management Policy should be developed by the Council which identifies the Legal requirements associated with running a playground; gives a statement balancing the Risks and Benefits of the playground; defines the Playground Inspection Methodology and inspection routines; defines the Council's approach to assessing the Level of Risk and establishes the Risk Rating; associated actions and a statement about how this feeds into the Council's overarching Health & Safety Risk assessment.

- R4. *All personnel conducting playground inspections must attend a RoSPA Playground Inspector (RPI) certificated course or equivalent, certificated to national standards, also attending update / CPD courses, which are usually held every two years or so.*
- R5. *Weekly inspection forms and annual inspection reports must be kept for a minimum period of 21 years as the Statute of Limitations allows a person sustaining an injury in a playground to make a claim for compensation up to 21 years of age. (Records may be stored electronically).*

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 Approved the precept for the 2019-20 financial year at £39,254 (£30,170.78 prior year) with the budget being set at £39,254 at the January 2019 meeting of the Parish Council based on a detailed budget prepared by the Clerk. The deficit is to be made up from the Council's Reserves. We note that the Council is now being provided with monthly budget monitoring reports which now provide a means of measuring actual performance against an approved budget.

We note that the Council's Reserves at the 31st March 2019, taking account of the year's budget outturn, stood at £32,169 (£33,530 prior year). The Council currently maintains no Earmarked Reserves. The General Reserve Fund balance of £32,169 represents slightly over 10 months' revenue expenditure at 2018-19 financial year levels, sitting only above the current CiPFA guidance in this area of between 3 and 6 months of reserve at current levels of expenditure.

It is further noted that the Council continues to maintain funds set-aside for specific purposes as Earmarked Reserves, EMRs, and that these are subject to proper management and reporting.

Conclusions and recommendations

We have noted above the Council's actions to reduce the level of its Reserves in its 2019-20 Budget. However, we also note that the Council does not currently hold any Earmarked Reserves for predicted expenditure such as the replacement of IT and playground equipment or capital projects. As the life expectancy of IT equipment is between 2 and 5 years, Playground equipment between 10 and 15 years, Members should consider developing a business plan and building up Earmarked Reserve funds to ensure these and other items for which the Council has responsibility can be replaced as required.

- R6. *Members should consider developing a rolling 5-year business plan to assist it in planning for future expenditure and projects.*
- R7. *Members should consider establishing Earmarked Reserves to support future planned expenditure.*

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. We have ensured that for the single interment occurring in 2018-19, an appropriate undertaker's application has been received and that the appropriate fees have been charged.

We note that no advertising revenue has been payable to the Council during the 2018-19 Financial Year.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation

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

In examining the Council's payroll function, we aim to ensure 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) in relation to the deduction and payment over of income tax and NI contributions.

To meet these objectives, we have examined the payroll procedures in place and the physical payments made to staff in 2018-19 by reference to the July 2018 and December 2018 payroll documentation, which is now produced "in house" utilising the HMRC PAYE tools, the services of the previous outsourced payroll provider having been dispensed with. Our review has included: -

- Ensuring that the Council has approved employee pay rates for the financial year and that these have been duly and accurately applied;
- Checking to ensure that appropriate PAYE tax codes are being applied for the year;
- Checking to ensure that national insurance deductions have been computed accurately;
- Verifying detail of the net salary and third-party payments of PAYE / NI contributions by reference to payslips and payroll summary reports and the subsequent cheque / BACS payments issued;
- Verifying the detail of pension contributions by reference to payslips and payroll summary reports and to the subsequent cheque / BACS payments issued; and,
- Ensuring that monthly payroll submissions are being properly submitted to HMRC in accordance with current legislation.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation.

Asset Register

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. We have noted that various issues have been identified in prior year Internal and External Audit reports. Having examined the Council's current Asset Register we found that it did not meet the requirements of the Practitioner's Guide. We identified that an asset that is not in the ownership of the Council had been included on the register, that several assets which had previously been disposed of still appeared on the Register, formulae were incorrect leading to a lower Fixed Asset Value being reported than was accurate. Additionally, that several acquisitions in the 2018-19 financial year had not been added to the register.

As far as it has been possible to ascertain, working with the new Clerk, the 2017-18 Fixed Asset Value has been corrected and must be restated on the FY 2018-19 Annual Return, the Fixed Asset Value for FY 2018-19 has been agreed, as far as it is possible to do so without a physical inspection of the Council's assets being undertaken by this auditor.

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 recommendations

It is a requirement of the Practitioner's Guide that all Council's maintain a formal and accurate Asset & Inventory Register. All the Council's Assets must be recorded on this register at the purchase date, net of VAT and maintained on that register without depreciation, until the Asset is disposed of. The date and method of disposal must be recorded in the Register. In addition, any funds received in relation to the disposal must be recorded in the Council's Income accounts.

A template spreadsheet Asset Register which meets the requirements of the Practitioner's Guide has been e-mailed to the Clerk under separate cover.

- R8. *The 2017-18 Fixed Asset Value must be corrected and marked as Restated in the FY 2018-19 Annual Return.*
- R9. *The Clerk must maintain a proper Asset Register which meets all the requirements of the Practitioner's Guide.*
- R10. *A physical check of all the Council's assets must be undertaken during the 2019-20 financial year to ensure, as far as it is possible to do so, that all Assets recorded in the Register are extant.*
- R11. *Only assets that are proven to be in the ownership of the Council are to be recorded on the Asset Register.*

Investments and Loans

It is noted that council continues to maintain a current and deposit account with the Unity Trust Bank. Currently, the council does not hold funds in excess of £85,000 which will ensure that it is covered under the Financial Services Compensation Scheme.

The Council has no loans either repayable by, or to it, as at the 31st March 2019.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation.

Statements of Account and Annual Governance & Accountability Return

The Council's annual Statements of Accounts have, as in previous years, been prepared from the Rialtas accounting software, together with detailed supplementary supporting notes. We have checked and agreed, by reference to the accounting system's closing Trial Balance and other relevant documents, the content of the Statement of Accounts and the supporting notes, detail of which is transferred to Section 2 of the Annual Return.

We have also reviewed the process for identifying and verified the accuracy of year-end debtors and creditors, as disclosed in the Balance Sheet to appropriate supporting documents.

Conclusions

On the basis of our detailed programme of work undertaken during the course of the year on the Council's systems of financial control and satisfactory conclusions drawn from our examination of the content of the detailed Statement of Accounts and the summarized detail set out in Section 2 of the Annual Governance & Accountability Return, we have duly "signed off" the Internal Audit Certificate assigning positive assurances in each relevant category.

Action Plan

Rec. No.	Recommendation	Response
Review of Payments and VAT		
R1	The Schedule of Payments should be redesigned to include a signature box at the end of the report which contains text such as “Members resolved to approve the above listed payments at the date month meeting of the Parish Council” and contain two boxes for the designated Members to sign.	
R2	A Certification Stamp should be applied to each payment document. This should include fields for nominal and cost centre coding, the Clerk’s authorisation and two members’ authorisation.	
Assessment and Management of Risk		
R3	A Playground Management Policy should be developed by the Council which identifies the Legal requirements associated with running a playground; gives a statement balancing the Risks and Benefits of the playground; defines the Playground Inspection Methodology and inspection routines; defines the Council’s approach to assessing the Level of Risk and establishes the Risk Rating; associated actions and a statement about how this feeds into the Council’s overarching Health & Safety Risk assessment.	
R4	All personnel conducting playground inspections must attend a RoSPA Playground Inspector (RPI) certificated course or equivalent, certificated to national standards, also attending update / CPD courses, which are usually held every two years or so.	
R5	Weekly inspection forms and annual inspection reports must be kept for a minimum period of 21 years as the Statute of Limitations allows a person sustaining an injury in a playground to make a claim for compensation up to 21 years of age. (Records may be stored electronically).	
Budgetary Controls & Reserves		
R6	Members should consider developing a rolling 5-year business plan to assist it in planning for future expenditure and projects.	
R7	Members should consider establishing Earmarked Reserves to support future planned expenditure.	
Asset Register		
R8	The 2017-18 Fixed Asset Value must be corrected and marked as Restated in the FY 2018-19 Annual Return.	

Action Plan

Rec. No.	Recommendation	Response
R9	The Clerk must maintain a proper Asset Register which meets all the requirements of the Practitioner's Guide.	
R10	A physical check of all the Council's assets must be undertaken during the 2019-20 financial year to ensure, as far as it is possible to do so, that all Assets recorded in the Register are extant.	
R11	Only assets that are proven to be in the ownership of the Council are to be recorded on the Asset Register.	