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# **Hockley Parish Council**

*Internal Audit Report 2013-14 (Final)*

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## **Background and Scope**

The Accounts and Audit Arrangements introduced from 1<sup>st</sup> April 2001 and amended periodically (the latest being in 2011) require all Town and Parish Councils to implement an independent internal audit examination of their Accounts and accounting processes annually. The Council complied with the requirements in terms of independence from the Council decision making process appointing a local person to undertake this work from the outset of the revised Regulations.

Subsequently, we at Auditing Solutions Ltd were contacted and appointed to undertake the work for 2008-09 and thereafter.

This report sets out those areas examined during the course of our final visit to the Council, which took place on 22<sup>nd</sup> April 2014 and supplements that undertaken at the interim stage in December 2013.

## **Internal Audit Approach**

In concluding our audit review for 2013-14, we have continued to have regard to the materiality of transactions and their susceptibility to potential mis-recording or mis-representation in the year-end Statement of Accounts and Annual Return, examining the Council's fundamental financial and other governance control systems to provide assurance to members and the local electorate that they continue to operate effectively.

## **Overall Conclusion**

We have previously been pleased to note a number of improvements with regard to financial processing, management and governance subsequent to the Clerk's appointment and this continues to be the case in 2013-14.

This visit was prior to the attendance of the Council's third party accounting contractor (DCK Beavers Ltd) to undertake the Omega year-end closedown and, subsequently, the preparation of the Annual Statement of Accounts. Consequently, we have been unable, at this stage, to complete our work for the year but do not anticipate any further issues to arise. We have requested that the contractor provides the necessary detail to us directly when produced and will undertake any further testing as considered necessary in our offices in due course.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

The Council is continuing to use the bespoke Omega software to maintain its accounting records, with periodic support and advice provided by third party contract accountants (DCK Beavers Ltd). Two operational bank accounts are maintained at Barclays plc, each with separate cashbooks for the Hall and Parish Council: these are supplemented by a Business Rate Tracker deposit account.

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 have consequently: -

- Agreed the opening trial balance detail in the financial software with the closing detail contained in the 2012-13 Statement of Accounts and Annual Return;
- Ensured that the financial ledger remains “in balance” at the present date;
- Ensured that the cost centre and nominal ledger income and expenditure coding structure remains appropriate for purpose, noting that the Clerk has, in conjunction with DCK Beavers, updated the coding structure in order to improve the Committee reporting processes;
- Checked and agreed detail in the Current Account cashbooks, examining three sample months’ transactions (May & September 2013 and March 2014) in full to relevant bank statements;
- Checked and agreed detail in the Hall Account cashbooks, similarly examining three sample months’ transactions (April & September 2013 and March 2014) in full to relevant bank statements;
- Checked and agreed detail in the Tracker account cashbook for the year to 30<sup>th</sup> September 2013 (due to the relatively low volume) and also for March 2014; and
- Checked and agreed detail on the month-end bank reconciliations for each account, which continue to be prepared on a regular basis utilising the Omega software facility for the same three sample months to ensure that no long standing, uncleared or other anomalous entries arise: no such entries exist.

### *Conclusions*

*We are pleased to record that no issues have been identified in this area of our review process that warrant any further comment or officer’s attention.*

## Review of Corporate Governance

Our objective is to ensure that the Council has a robust series of corporate governance documentation in place; that Council and Committee meetings are conducted in

accordance with the adopted Standing Orders and that, as far as we are able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation. We have: -

- Noted previously, from examination of minutes at a prior year's visit that the Full Council had re-affirmed both Standing Orders and Financial Regulations in 2011-12 and now note the further work recently undertaken with minor revisions adopted in September 2013;
- Continued our review of the Council's minutes, examining those for the Full Council and its Standing Committee meetings (with the exception of Planning) held throughout the financial year with a view to identifying whether or not any issues exist that may have an adverse effect on the Council's future financial stability, both in the short and longer term. No such issues appear to exist at present, with the flood damage repairs being covered by insurance.

### ***Conclusions***

***There are no issues to warrant formal comment or recommendation in this area.***

## **Review of Expenditure**

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and approved budgets;
- 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;
- That members are provided with, and approve, the regular schedules of payments made;
- 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.

We have concluded testing in this area, reviewing a sample of all Administration and Hall payments individually in excess of £1,000 together with a more random sample of every 15<sup>th</sup> cashbook transaction, irrespective of value, to 31<sup>st</sup> March 2014. Our sample comprised some 80 payments (including the monthly charges for E-On and Chargecrest) totalling more than £122,000 and representing 71% of all non-pay expenditure to date.

We also note that one periodic, manual VAT reclaim (to January 2014) had been submitted and funds received prior to the financial year-end.

## *Conclusions*

*We are pleased to report that no significant issues have been identified in this area.*

## **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 in order to minimise the opportunity for their coming to fruition. We have: -

- Noted previously that, in addition to the event specific and play area related Health and Safety risk assessments, a wider Risk Assessment Register was also in place, the Clerk having re-presented the detail for affirmation by Full Council at their meeting in March 2012. Subsequently, our examination of the current year's minutes indicated that updated revisions were presented for consideration by the Finance Committee (July 2013) and subsequently by Full Council, which meets the current requirements of the revised Accounts and Audit Regulations; and
- Examined the Council's current year's insurance policy schedule (running to May 2014), which continues to be provided by Zurich Municipal to ensure that appropriate cover is in place. We note that both Employer's and Public Liability remain at £10 million, Fidelity Guarantee stands at £250,000 with Business Interruption cover in place at £12,000; all of which we consider more than adequately meets the needs of the Council.

## *Conclusions*

*There are no significant matters arising in this area at present.*

## **Budgetary Control & Reserves**

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and level of precept to be drawn down from the District Council: also, that an effective reporting and monitoring process is in place. We also aim to ensure that the Council retains appropriate funds in general and earmarked reserves to finance its ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure. Consequently, we have:

- Noted that an appropriate exercise to determine the required budget for 2014-15 took place with the final Precept requirement being approved by members and recorded at £229,487, excluding the District's "support grant" of £15,368 (December 2013 meeting); and
- Previously noted that regular budget monitoring reports continue to be provided to members on a periodic basis, now utilising in full the Omega reporting facility at Committee level as a replacement to the out-moded Excel sheets of the past.

## *Conclusions*

*No issues arise in this area of our review process at present: we shall consider the closing outturns and levels of retained reserves as part of the checking of the Statements of Account and Annual Return when they are made available by the contractor accountants.*

## **Review of Income**

The Council receives very limited income in addition to the Precept, primarily from Hall lettings, minimal bank interest in the current climate, occasional grants & donations and periodic VAT recoveries.

Our objective is to ensure that robust procedures are in place to ensure that all income due to the Council is identified and invoiced (where applicable) appropriately with recovery effected within a reasonable time span.

We note from Financial Regulations that members are required to review the scales of fees and charges for all its activities annually and that this work was undertaken and formally documented in the minutes of the Hall Committee in May 2013.

As noted earlier in this report we have tested in full the Hall receipts from cashbooks to bank statements for the six months ending September 2013 and also March 2014 with no issues arising

Finally in this area, we have examined a sample month's Hall bookings diary (March 2014), which continues to be available for viewing and amendment electronically by all officers, and tested to ensure that an appropriate sales invoice had been issued for each activity: we also noted the covering register of regular hires now used by the Manager to ensure that all block booking users are charged on the correct basis.

## *Conclusions*

*No significant procedural changes have taken place since previous audit work was undertaken and no issues arise to warrant formal comment or recommendation.*

## **Petty Cash Account**

*The Council does not operate a petty cash account, any "out-of-pocket" expenses incurred by officers or members are reimbursed through the normal suppliers' payments procedures.*

*However, limited use is made of a corporate Barclaycard: we have checked detail of all expenditures incurred to September 2013 (14 transactions in all) and noted that occasional items of VAT did not appear to have been separately identified. However, at just £30 in all the amounts are considered immaterial.*

## Review of Salaries

In examining the Council's payroll function, we aim to confirm 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) legislation as regards the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme, as further amended from 1<sup>st</sup> April 2013. To meet that objective, we have: -

- Ensured that the Council reviews and approves pay scales for staff annually, noting adoption of the national pay award for 2013-14 of 1% for those staff paid in accord with the formal spinal point scales;
- Noted that the processing of the Council's monthly payroll has now been outsourced to a local bespoke bureau provider (J&M Payroll Services);
- Checked and agreed the staff and members' PAYE Tax Codes and National Insurance deduction Tables
- Noted that the Clerk has become a member of the Local Government Pension Scheme and checked and agreed that the appropriate salary banding deduction rate was being applied for the year;
- Checked and agreed detail of the salaries and wages paid to, and deductions made from, the Council's staff and members by reference to the October 2013 payroll documentation provided for our review, noting that the bureau provider is supplying proper payslips; and
- Checked and agreed the net amounts due from the slips to the electronic payments schedule and subsequent cashbook transactions.

### *Conclusions*

*At the previous interim audit visit, we noted and discussed with the Clerk one minor anomaly identified with regard to the computation of income tax based on pre and not post LGPS deduction, which was duly agreed: appropriate steps were to be taken to ensure amendment during the course of that visit but it would appear from further testing of the March 2014 payroll that the bureau provider had yet to be provided with the relevant information and it was again agreed with the Clerk that he would do so prior to the May computations being prepared.*

## Investments and Loans

Our objectives here are to ensure that the Council is investing "surplus funds", be they held temporarily or on a longer term basis, in appropriate banking and investment institutions, that an appropriate investment policy is in place, that the Council is obtaining the best rate of return on any such investments made, that interest earned is brought to account correctly and appropriately in the accounting records and that any loan repayments due to or payable by the Council are transacted in accordance with the relevant loan agreements.

### *Conclusions*

*The Council has no specific investments or term deposits: any “surplus” funds are held in the Base Rate Tracker account at Barclays plc, detail of which we have checked and agreed as detailed above.*

*Similarly, the Council has no loans either payable by, or to, it.*

## **Statement of Account and Annual Return**

The Accounts and Audit Regulations require all Councils to prepare annually a detailed Statement of Accounts, together with supporting statements identifying other aspects of the Council’s financial affairs.

### *Conclusions*

*As noted at the outset to this report, DCK Beavers will, as in previous years, prepare a formal Statement of Accounts and provide the relevant data for Section 1 of the Annual Return but, at the time of writing, this work has yet to be completed: we will examine and agree the content to the underlying Omega accounting and other relevant supporting documentation when the detail is provided to us as requested.*