
Hockley Parish Council

Internal Audit Report 2012-13 (Final)

Prepared by Nigel Archer

Stuart J Pollard

*Director
Auditing Solutions Ltd*

Background and Scope

The Accounts and Audit Arrangements introduced from 1st 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 recent final visit to the Council, which took place on 5th June 2013, and supplements the interim work undertaken in November 2012.

Internal Audit Approach

In concluding our audit review for 2012-13, we have continued to have regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation 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 are pleased to note that the previously Acting Clerk (Mike Letch) has been formally appointed as the permanent post holder and now also as the Responsible Finance Officer: we are also pleased to record that a number of improvements are apparent compared with previously identified issues. Consequently, at the interim stage, we had no formal recommendations to raise and are pleased to note that no further significant issues arise, other than the brief comments noted in the paragraphs below with regard to budgets and precepts: any observations arising are embodied in the detail in the report (in bold type face) and have been verbally discussed with officers during the course of our two visits with assurances of appropriate remedial action being taken.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Council is continuing to use the bespoke Omega software (the third year of operation) to maintain its accounting records, with periodic support and advice being provided by third party contract accountants (DCK Beavers Ltd). As previously, three bank accounts are maintained at Barclays plc, each with a separate cashbook.

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 2011-12 Statement of Accounts and Annual Return;
- Ensured that the financial ledger remained “in balance” throughout the financial year;
- Ensured that the cost centre and nominal ledger income and expenditure coding structure remains appropriate for purpose, noting that DCK Beavers have been working with the Clerk to ensure that the revised committee management approach will be reflected in Omega for 2013-14;
- Checked and agreed detail in the Current account cashbooks, examining three sample months’ transactions (April & September 2012 and March 2013) in full to relevant bank statements;
- Checked and agreed detail in the Tracker and Hall Management account cashbooks in full (due to low volumes) for the full financial year; and
- Checked and agreed detail on the month-end bank reconciliations for all accounts, which continue to be prepared on a regular basis utilising the Omega software facility, as at 30th September 2012 and 31st March 2013 to ensure that no long standing, uncleared or other anomalous entries arise.

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. Unlike last year, no anomalous reconciliation items arose as it continues to be demonstrated that the Clerk and Hall Manager are working more closely together to ensure improved accountancy transaction processing.

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 can reasonably be expected to ascertain, no actions of a potentially unlawful nature have been or are

being considered for implementation. Consequently, we have undertaken the following work in this area: -

- We previously noted from examination of minutes at a prior year's visit that the Full Council had re-affirmed both Standing Orders and Financial Regulations at its meeting in February 2011: further work in this area would appear to be in progress currently with completion of work by the Policy and Procedures Working Group to review Standing Orders in July 2012 and the establishment of a more formal Finance Committee in October 2012;
- We noted that we would consider further developments in this area as part of our final audit work and, consequently, we can record that the structure of the Council has been reviewed and revised toward the end of this municipal year, with the introduction of full Standing Committees in areas such as Finance, Environment and Hall Management, Terms of Reference for which were agreed at the inaugural meetings of each such committee. We assume this will lead to a further requirement to review and update Standing Orders;
- Noted from our interim examination of minutes that an appropriately revised Members' Code of Conduct has been formally adopted (June 2012 meeting), based on the District Council's model;
- We have 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 to 31st March 2013 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. We are pleased to report that no such issues appear to exist at present.

Conclusions

There are no significant issues arising of which officers or members are unaware at present, although please refer to the comments recorded in the Budgets and Precept paragraphs later in this report.

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 our testing in this area, reviewing a sample of all Administration payments individually in excess of £1,000 together with a more random sample of each 15th cashbook transaction, irrespective of value, to 31st March 2013. Our sample comprised approximately 35 items, totalled just under £74,000 and represented 61% of all non-pay costs for the year.

We have separately checked and agreed all the Hall Management payments (due to their low volume) for the year to 31st March 2013.

We noted in our interim report that no VAT reclaims had been submitted since March 2012 and are pleased to record that this matter was addressed appropriately, with three quarterly returns having been submitted (and repaid) prior to the financial year-end. At the time of this final visit, the March 2013 reclaim was in the process of being produced.

Finally in this area, we have updated our year-on-year analysis of expenditure incurred across the range of Council activities with no unidentified variances to warrant further enquiry or explanation by officers.

Conclusions

We are pleased to report that no issues have been identified in this area of our review to warrant formal recommendation: all the above criteria being met.

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 consequently: -

- 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 represented the detail for affirmation by Full Council at their meeting in March 2012. Subsequently, our examination of the current year's minutes has given no indication of any further progress in this area during 2012-13; and
- Examined the Council's current year's insurance policy schedule (running to May 2013), 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 at present.

Conclusions

There are no significant matters arising in this area, although we would remind the Clerk that revised external audit recommendations in this area require risk assessments to be formally considered annually by full Council

Budgetary Control & Reserves

We aim in this area of our work to ensure that the Council has appropriate procedures in place to determine its future financial requirements leading to the adoption of an appropriate budget and the formal determination of the amount to be precepted on the District Council or local Unitary Authority (where applicable), that effective arrangements are in place to monitor budgetary performance throughout the financial year and that the Council has identified and retains appropriate reserve funds to meet future spending plans. To meet this objective, we:

- Note that the Council discussed in some detail its budget and precept requirements for 2013-14, with some minor delays arising from the late revisions to the national methodology of Council Tax base computations and the requirement for Rochford DC to agree on its way forward. The Finance Committee agreed, in principle, to the draft budgets for the year (subject to satisfactory outcomes from the District's deliberations) at its Committee meeting in December 2012. Subsequently in January 2013, also at a Finance Committee meeting the precept was approved for recommendation at £229,449, plus the "transition grant" of £17,721 to ensure the overall funding requirement remained unchanged. **When Full Council met later in January, the minutes of the Finance Committee were proposed and seconded and accepted in the normal manner: however, it is our understanding that the overall Precept value should be formally recorded in the minutes of the meeting at which it was adopted by Full Council;**
- Note that members continue to be provided with regular management accounting information by way of full detail of income, expenditure and bank balances at the monthly Full Council meetings. We understand that the migration to the full Omega package, with revised Committee structures will lead to continued improvement in 2013-14 with budget monitoring reports extracted directly from the Omega accounting system: we have reviewed those for the year to January 2013 with no unexplained variances arising to warrant further enquiry or explanation at present; and
- Note that, as at 31st March 2013, Total Reserves stood at more than £129,000 (a significant improvement on the opening position in April 2012 of £71,000), which comprised specific Earmarked items totalling £24,000 and the residual General Fund of £105,000. The latter represents approximately six to seven months' net expenditure at current levels, which is considered to be more than adequate with CiPFA advice in this area being three to six months.

Conclusions

We have previously entered into correspondence with the Clerk with regard to the levels of reserves held by the Council but, as can be seen from the above, the position has improved to an acceptable level through a combination of unspent contingency budget, savings in overhead expenditure and consistent levels of income from the Parish Hall.

As noted above, the Clerk has agreed to address the matter of the publication of the overall value of the Precept in the minutes in the future.

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 have obtained copies of those pertaining for 2012-13, as formally approved in October 2011.

Other than the 100% cashbook testing of Hall receipts to bank statements for the six months ending September 2012 noted earlier in this report no further work was undertaken in this area in the relatively limited time available at the previous interim visit. At this final visit we have examined various aspects of the Hall hires, including:

- Ensuring that all regular bookings and casual hires were supported by appropriately authorised and returned Terms and conditions / Booking Forms, with the former user groups being renewed on an annual basis;
- Noting that sound registers of sequentially numbered invoices are retained, which are cross referenced to the cashbook paying-in detail and (where applicable) the refund of the customers deposits;
- Noting that the Clerk and the Hall Manager have networked Google Calendar in place for managing / monitoring the bookings and that hard copies of these are periodically issued to all block hire customers to ensure they are maintained accurately and in a timely manner;
- Printing all relevant nominal ledger transaction reports for the year, testing examples of the entries therein to the underlying invoice and booking form to ensure that the correct fees and charges had been levied; and
- Updating our year-on-year analysis of income arising across the range of Council activities, with no unidentified variances to warrant further enquiry or explanation

Conclusions

There are no issues arising to warrant formal recommendation: we identified one extremely minor misposting of a Hall deposit (£75), which we discussed with the Hall Manager during the course of the visit: she has agreed to undertake periodic reconciliations of the control account (code 540) in the future to ensure matching of deposit receipts with subsequent cheque payment refunds in addition to the existing registers.

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.

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 1st April 2012. To meet that objective, we have: -

- Ensured that the Council reviews and approves pay scales for staff annually, noting again that no national pay award has been agreed for 2012-13: the appointment of the permanent Clerk (and spinal point scale) was formally agreed with an appropriate increase. We also understand that the Clerk is preparing a report for August 2013 recommending pay-rises and job enhancements for all staff;
- Noted that the salary computation work has, to date, continued to be prepared separately by the Council’s bookkeeper and the Hall Manager utilising the HMRC’s Basic Tools software;
- Noted that no employees are members of the employer’s local government pension scheme;
- Checked and agreed detail of the salaries and wages paid to, and deductions made from, the Hall staff by reference to the September 2012 payroll documentation that was provided for our review, with no issues identified;
- Unfortunately, the Administration staff detail was not so readily available (in the absence of the book-keeper at the time of the interim visit): consequently we have relied upon other documentation and verbal assurances from officers in this particular area; and
- Verified with the Clerk and book-keeper that appropriate steps were taken to ensure that the Council’s P14 / P35 PAYE Annual Returns had been submitted to HMRC in a timely manner ahead of their deadline of 19th May, also noting that the staff were properly issued with their P60s.

Conclusions

We have previously (at the interim visit) discussed with the Clerk the steps he has already taken to outsource this function in the future, particularly as a result of the forthcoming increase in workload stemming from HMRC's requirement that all employers' payroll detail be submitted to them electronically every time there is a payroll processing "run" (weekly, fortnightly or monthly) under their Real Time Initiative being introduced with effect from April 2013.

Some concern was expressed with regard to the payroll bureau Acumen (although this is quite widely used by Councils, the Clerk had encountered some initial communication difficulties with them): we also provided detail of other larger providers with whom we are familiar at other Councils, such as Safeguard World and Moorepay. We have no particular, formal recommendation, as a number of our clients also choose to use more local service providers and we understand from discussion at this final visit that the clerk has indeed followed this path with a local firm has been engaged and the initial processes have run smoothly, with all extant documentation being provided as required.

Asset Registers / Inventories

The Accounts and Audit Regulations 1996, as amended from time to time, require all Councils to maintain a comprehensive register of all assets owned and leased by the Council. We aim to ensure that such a register is in place, that it is comprehensive and contains all the basic information that should, ideally, be embodied in the record. We also aim to ensure that the register detail and financial values recorded are in line with the Council's insurance schedule, where appropriate.

We are pleased to note that a comprehensive register is in place for the Council, based as previously on the original cost, or the prior year's insurance valuation as a "proxy cost", and we are also pleased to note that, in accord with the revised Accounting Practitioners Guidance in this area, these values have been retained unchanged in the absence of any acquisitions or disposals during the year without depreciation or the annual "up-rating" in accord with the insurance inflation increases in levels of coverage

We have therefore verified the overall balance disclosed at Box 9, Section 1 of the Annual Return.

Conclusions

No issues have been identified in this area to warrant formal recommendation.

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 in full for the year. Similarly, the Council has no loans either payable by, or to, it.

Statement of Accounts & Annual Return

The Council has again used the services of DCK Beavers Ltd to close-down the accounting software at the financial year-end and to prepare a formal detailed Statement of Accounts. We have checked and agreed the detailed Accounts, as prepared by them, to the underlying records and subsequently to the Annual Return with no issues identified warranting formal comment or recommendation.

Conclusions

On the basis of the work undertaken during the course of our two visits to the Council for the year, we have signed off the Internal Audit Certificate at Section 4 of the Annual Return assigning positive assurances in each relevant area.