
Hockley Parish Council

Internal Audit Report 2014-15 (Final)

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Background and Scope

The Accounts and Audit Arrangements introduced from 1st April 2001 and amended periodically 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 10th June 2015, and supplements the interim work undertaken in November 2014.

Internal Audit Approach

In concluding our audit review for 2014-15, 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 the level of improvement achieved with regard to financial processing, management and governance subsequent to the current Clerk's appointment. Consequently we have no formal recommendations to raise warranting further enquiry by officers: one or two minor items were discussed with the Clerk / RFO during the course of our previous interim visit, as embodied in the detail of this report with appropriate remedial action agreed at the time.

We have duly signed off the Internal Audit Certificate at Section 4 of the Annual Return, leaving the original documentation with the Clerk for completion and submission to members for approval prior to onward transmission to the external auditors.

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). There is now only one operational bank account currently maintained at Barclays plc, that separately in place for the Hall having previously been closed, although we note from minutes and verbal discussion with the Clerk during the previous visit that the Council was in the process of changing its bankers to Unity Trust: this remained outstanding as at 31st March 2015 and there are still two additional supplementary Tracker and Base Rate Saver Reward bank accounts are in place with no periodic Term deposits held.

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: -

- Checked the opening trial balance detail in the financial software with the closing detail contained in the 2013-14 Statement of Accounts and Annual Return. As discussed at the time, it would appear that the contractors had, in the course of the final Accounts production, entered a nominal ledger journal in their backed-up version of the software, although this was not effected in the Parish version at the time: consequently, we have provided detail to the Clerk for posting in the current period and this has been actioned;
- Ensured that the Omega ledger remains “in balance” at the financial year-end;
- Ensured that the cost centre and nominal ledger income and expenditure coding structure remains appropriate for purpose;
- Checked and agreed detail in the Current Account cashbooks, examining three sample months’ transactions (May & September 2014 and March 2015) in full to relevant bank statements;
- Checked and agreed detail in both the Tracker and Base Rate Reward account cashbooks for the full financial year, due to their relatively low volumes, to relevant bank statements. As discussed with the Clerk at the time, the Parish’s part-time accountant had yet to post interest income arising on the latter (albeit immaterial in financial terms): we note this was duly actioned prior to the year-end closedown;
- Checked and agreed detail on the month-end bank reconciliations, which continue to be prepared on a regular basis utilising the Omega software facility for the same three sample months on the Current Account and as at 31st March 2015 on the supplementary accounts to ensure that no long standing, uncleared or other anomalous entries arise; and
- Verified the accurate disclosure of the year-end cash and bank balances in the year’s Annual Return.

Conclusions

Other than the minor items identified and previously agreed and actioned in relation to the opening balances and bank interest omissions, no issues have been identified in this area of our review process that warrant formal comment or recommendation.

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: -

- 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 end March 2015 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; and
- Noted from this examination of minutes that both Standing Orders and Financial Regulations have been reviewed, revised and re-adopted by Full Council (in June 2014) following circulation of the revised NALC model documents: subsequently the Standing Orders have been further revised to incorporate the "Open Government" requirements for filming, recording of meetings etc.

Conclusions

There are no formal recommendations 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 extended our testing in this area, reviewing a sample of all payments individually in excess of £1,000, together with a more random sample of every 15th cashbook transaction, irrespective of value, to 31st March 2015. Our sample comprised some 70 payments, including the monthly charges for E-On and Chargecrest, totalling £122,000 and representing 73% by value of all non-pay expenditure for the year.

In respect of VAT, we had not previously undertaken any further detailed testing in this area subsequent to our previous verification of the March 2014 year-end debtor disclosed in the Statement of Accounts and Annual Return: however, we discussed with the Clerk the apparent non-submission of any recovery claims subsequent to that and are pleased to note this was duly addressed with repayment for the period to 30th September 2014 received from HMRC on 17th November. The detail for the six months to March 2015 was prepared by the accounting contractors as part of the year-end closedown process and will be recovered shortly.

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

Conclusions

There are no issues arising in this area to warrant formal recommendation.

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 presented the detail for re-affirmation by Full Council in June 2014; and
- Examined the Council's current year's insurance policy schedule (running to May 2015), which continues to be provided by Zurich Municipal to ensure that appropriate cover is in place. We note that Public Liability cover has been increased to £15 million, with Employer's Liability standing at £10 million, Fidelity Guarantee at £250,000 and Business Interruption at £12,000.

Conclusions

There are no issues arising in this area to warrant formal recommendation.

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. To meet these objectives, we:-

- Note that the deliberations of the Budget and Precept setting for 2015-16 were concluded at the Full Council meeting in December 2014, the latter being formally approved and recorded at £229,000, excluding the Support Grant of £13,050;
- Note that the Clerk continues to provide the Finance Committee or Full Council (depending on the cycle of meetings) with regular budget monitoring / management accounts; and
- Note that as at 31st March 2015, Total Reserves stood at £160,000, which comprised specific earmarked items of £31,000 and the residual General Fund of £129,000: the latter represents approximately six months' expenditure at current levels and is considered to be more than adequate to meet the needs of the Council at present.

Conclusions

There are no issues arising in this area to warrant formal recommendation

Review of Income

The Council receives very limited income in addition to the precept, primarily from hall lettings, minimal bank interest (in the current economic 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 prior year's minutes, with no changes introduced with effect from April 2014.

In the relatively limited time available, and in the absence of the Hall Manager on annual leave, no further detailed work was undertaken in this area at the previous interim visit: subsequently, at this final visit we were provided with all her documentation for the year and have checked and agreed a sample month's receipts for Hall hires to supporting cashbooks and self-generated paying-in slip control sheets with no issues identified. The general administration process remains largely unchanged from the previous year with an "open diary" available to all staff on the network server and the regular users being given first opportunity to ensure their requirements are met for the year ahead.

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

Conclusions

There are no issues arising in this area to warrant formal 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: at our interim visit, we examined a sample month’s transactions (September 2014) noting that one payment for workshop supplies (£110) was not properly supported by a supplier’s invoice; consequently no VAT had been separately identified and no further action has been taken here (the amount being considered to be completely immaterial at £18, if applicable).

Conclusions

There are no issues arising in this area to warrant formal recommendation.

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 2014 in relation to the banding rates of deduction and to apply to actual salaries paid and not the whole time equivalent rates. To meet that objective, we have: -

- Ensured that the Council reviews and approves pay scales for staff annually, noting that an increase of 1% had been implemented “across the board” including those staff paid in accord with the formal spinal point scales. Subsequently, we have noted completion of the final NJC negotiations for the two years 2014 to 2016 and have verified this was duly implemented prior to the year-end;
- Noted that processing of the Council’s monthly payroll has continued to be 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;
- Checked and agreed that the appropriate LGPS salary banding deduction rates are being applied for the current year in accord with the revised scales;
- Checked and agreed detail of the salaries and wages paid to, and deductions made from, the Council’s staff by reference to the September 2014 payroll documentation provided for our review, noting that the bureau provider is now supplying appropriate payslips; and
- Checked and agreed the net amounts due from the payslips to the electronic payment schedule and subsequent cashbook transactions.

Conclusions

We have previously noted and discussed with the Clerk one minor anomaly identified with regard to the computation of income tax based on pre and post LGPS deduction, of

which he was fully aware and had determined that the “status quo” be retained due to his personal taxation position arising from self-employment income elsewhere: consequently, no formal recommendation is considered necessary in this respect.

Asset Registers

The Governance and Accountability Manual requires all Councils to maintain a register of assets and we are pleased to note that the Clerk continues to prepare suitable documentation to meet this requirement.

We are also pleased to note that, in accord with the recently revised above Manual’s guidance in this area, these schedules have been appropriately revised by the accounting contractor to reflect the current year’s additions and disposals, with no depreciation or “uplift” in value to reflect insurance policy inflationary increases.

As a result, we have verified the disclosure value of fixed assets at Box 9, Section 1 of the Annual Return to the total of the registers.

Conclusions

No issues arise in this area of our audit review 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.

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

The Council has no loans either payable by, or to, it.

Conclusions

No issues arise in this area of our audit review to warrant formal recommendation.

Statement of Accounts & Annual Return

The Council continues to engage the services of third party accountancy contractors (DCK Beavers Ltd) for its year-end closedown processes with part of this work including the preparation of the detailed annual financial Statement of Accounts and data for inclusion at Section 1 of the Annual Return.

We have checked and agreed the detail therein from the underlying Omega trial balance and other documentation provided with no errors or omissions identified.

Conclusions

No issues arise in this area of our audit review to warrant formal recommendation and, as noted in the opening overall conclusion to this report we have “signed off” the Internal Audit Certificate of Section 4 of the Annual Return.