
Hockley Parish Council

Internal Audit Report 2016-17 (Final)

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Background

All town and parish councils are required by statute to make arrangements for an independent internal audit examination of their accounting records and system of internal control and for the conclusions to be reported each year in the Annual Return. Auditing Solutions Ltd has provided this service to Hockley Parish Council since 2008-09.

This report sets out the work undertaken in relation to the 2016-17 financial year, during the course of our two visits to the Council, which took place on 7th November 2016 and on 2nd June 2017.

Internal Audit Approach

In undertaking our review for the year, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts/Annual Return. Our programme of cover has again been designed to afford appropriate assurance that the Council's financial systems remain 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' in the Council's Annual Return, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

We have concluded that, on the basis of the programme of work undertaken this year, the Council has again maintained adequate and effective internal control arrangements. We thank the Clerk and the Assistant Clerk for their assistance, which has ensured the smooth progress of our review process.

We have completed and signed the 'Annual Internal Audit Report' in the year's Annual Return, having concluded that, in all significant respects, the control objectives set out in that report were being achieved throughout the financial year to a standard adequate to meet the needs of the Council.

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. At the conclusion of the year under review, two additional supplementary bank accounts are in place. We note from minutes and verbal discussion with the Clerk during this second visit that officers have opened a new account with the Metro Bank.

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 and agreed the opening trial balance detail in the financial software for 2016-17 with the closing detail contained in the 2015-16 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;
- Checked and agreed detail in the Current Account cashbooks, examining three sample months’ transactions for May & September 2016 and for March 2017 in full to relevant bank statements;
- Checked and agreed detail in both the Business Premium and Base Rate Reward account cashbooks in full for the period to 30th September 2016, due to their relatively low volumes, to relevant bank statements;
- Checked and agreed detail in the Business Premium Base account cashbook in full for the six months to 31st March 2017, due to the relatively low volumes, to relevant bank statements; we were unable to check the Base Rate Reward account as no statements had been received for the six months to 31st March 2017;
- Checked and agreed detail on the month-end bank reconciliations, which continue to be prepared on a regular basis utilising the Omega software facility on all accounts as at 31st May and 30th September 2016 to ensure that no long standing, uncleared or other anomalous entries arise; and
- Checked and agreed detail on the month-end bank reconciliations, which continue to be prepared on a regular basis utilising the Omega software facility on all accounts excepting the Base Rate Reward account as at 31st March 2017 to ensure that no long standing, uncleared or other anomalous entries arise.

We note that, because no bank statement has been received in respect of the Base Rate reward account, interest earned in the annual accounts and the Annual Return is understated by approximately £14. We suggest that every effort be made to obtain bank statements as at the year end in future.

Conclusions

No issues have been identified in this area of our review process that warrant formal comment or recommendation. We have ensured the accuracy and accurate disclosure of the year-end balances in the Annual Return.

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: -

- Completed our review of the Council's minutes, examining those for the Full Council and its Standing Committee meetings (with the exception of Planning) for the year to 31st March 2017 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 do note, however, that certain works were instructed without the Council seeking the requisite number of quotations as stipulated in Standing Orders and Financial Regulations and recommend that Council ensure that this is done correctly in future; and
- Noted from this examination of minutes that both Standing Orders and Financial Regulations have been reviewed in the year to date with Standing Orders revised and adopted at the Council meeting held on 19th September 2016. We note that no amendment to the existing Financial Regulations was considered necessary.

Conclusions & Recommendations

We recommend that Council ensure that, in accordance with their own Governance documentation, they seek competitive quotations for works to be carried out.

RI. Competitive quotations should be sought for works to be carried out in accordance with the Council's Governance documentation.

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 completed testing in this area, reviewing a sample of all payments individually in excess of £1,500, together with a more random sample of every 20th cashbook transaction, irrespective of

value, for the year. Our sample comprised 36 payments in all totalling £109,110 and representing 57% of all non-salary expenditure to that date.

We have not undertaken any detailed testing in respect of VAT at either our first visit or at our final visit.

Conclusions

There are no formal recommendations in this area at present, although we would ask that the Clerk and members ensure that VAT reclaims are prepared and submitted at regular intervals.

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 from our examination of the current year's minutes that updated revisions to Risk Assessment Registers for 2016-17 were re-affirmed by the Resources and Management Committee on 22nd August 2016 and subsequently ratified by Full Council; and
- Examined the Council's current year's insurance policy schedule which is effective until 31st May 2018 and which continues to be provided by Zurich Municipal, to ensure that appropriate cover is in place. We note that Public Liability remains at £15 million, Employer's Liability remains at £10, million, Fidelity Guarantee stands at £500,000 and Business Interruption is in place at £12,000.

Conclusions

We are pleased to report that there are no issues arising in this area of our review warranting formal comment or 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 this objective, we have:

- Noted from our review of the minutes that members continue to be provided with regular management accounting information, based on reports generated from the Omega accounting system with over/under-spends and the level of earmarked reserves the subject of regular review;
- Noted that a detailed budget exercise was undertaken and approved by Council at a meeting on 23rd December 2016;

- Further noted that the precept has been agreed at £230,826;
- Considered the appropriateness of the level of general reserves to meet the Council's ongoing revenue spending requirements noting that the year-end balance of £153,734 includes earmarked reserves of £23,500, the balance of general reserves in the amount of £130,234 equating to over five months' revenue expenditure, which is within the CIPFA guideline of between three and six months' expenditure; and
- Reviewed the year-end budget outturn for any significant unexplained variances with none in evidence.

Conclusions

We are pleased to report that there are no issues arising in this area of our review warranting formal comment or 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 note that this exercise was undertaken as part of the budget process.

We have reviewed the hall bookings entered in the computer system for the month of August 2016, comparing these with the invoices issued, receipts issued and monies banked; at our first visit we reported that there did not appear to be objective control in respect of this aspect of the Council's income in that cancellations were not entered on the system, invoices were not sequentially numbered, receipts were not cross referenced to invoices and monies banked were not easily identifiable; we are pleased to report that these issues have now been satisfactorily addressed.

Conclusions and recommendations

We are pleased to report that 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 officers or members are reimbursed through the normal suppliers' payments procedures.

Limited use has been made of a corporate Barclaycard but we understand that this card was cancelled in September 2016; we further understand that the Assistant Clerk has been issued a debit card on the new Metro Bank account.

Conclusions

We are pleased to report that there are no issues arising in this area of our review warranting formal comment or 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 2015 in relation to the banding rates of deduction. To meet that objective, we have: -

- Ensured that the Council reviews and approves pay scales for staff annually, noting the conclusion of the re-evaluation exercise for the Rangers in the current year;
- Noted that processing of the Council's monthly payroll has continued to be outsourced to 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; we noted at our first visit that there did not appear to be a Staff Establishment List in existence and are pleased to report that this has now been completed;
- Checked and agreed detail of the salaries and wages paid to, and deductions made from, the Council's staff by reference to the October 2016 payroll documentation provided for our review; and
- Checked and agreed the net amounts due from the payslips to the electronic payment schedule and subsequent cashbook transactions.

Conclusions

We are pleased to report that 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 note that the Council maintains an Asset Register.

We understand that the figure reported in the Annual Return has been provided by the external accountants appointed to prepare the Annual Accounts and Annual Return but note that the figure used by them does not agree to the total of the asset register maintained by the Council, the difference being £88,287. We recommend that this difference be identified.

We note that the figure reported in the Annual Return is the figure provided by the external accountants.

Conclusions and Recommendations

We recommend that the difference between the figure of fixed assets provided by the external accountants and the figure of fixed assets prepared by the Council be identified.

R2. The difference between the figure of fixed assets provided by the external accountants and the figure of fixed assets prepared by the Council be identified.

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 for the year under review being held in the two Barclays Bank account as mentioned previously in this report.

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

Conclusions

We are pleased to report that there are no issues arising in this area of our review warranting formal comment or recommendation.

Statement of Account and Annual Return

The 1996 Accounts and Audit Regulations required all Councils to prepare annually a detailed Statement of Accounts, together with supporting statements identifying other aspects of the Council’s financial affairs.

We have reviewed the Statement of Accounts and Annual Return detail prepared by the external accountants, as generated from the accounting software with no obvious errors or anomalies in the detailed content

Conclusions

No issues have been identified in relation to the verification of detail in the Statement of Accounts and Annual Return this year.

On the basis of our detailed work during the course of the year on the Council’s systems of financial control and content of the detailed Statement of Accounts and that summarised detail set out in the Annual Return, we have signed off the Internal Audit Report of the Return assigning positive assurances in each relevant area.

Rec. No.	Recommendation	Response
Review of Corporate Governance		
R1	Competitive quotations should be sought for works to be carried out in accordance with the Council's Governance documentation.	
Asset Register		
R5	The difference between the figure of fixed assets provided by the external accountants and the figure of fixed assets prepared by the Council be identified.	