
Shrewton Parish Council

Internal Audit Report 2017-18

Stuart J Pollard

*Director
Auditing Solutions Ltd*

Background

Statute requires all town and parish councils to arrange 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 Governance and Accountability Return (AGAR).

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 Statement of Accounts / AGAR. Our programme of cover has 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 Council's AGAR process: this requires independent assurance over ten internal control objectives.

Overall Conclusion

We have concluded that, on the basis of the satisfactory conclusion of our annual programme of work, the Council has maintained adequate and effective internal control arrangements, with one apparent area of concern relating to the apparent absence of any review of risk registers in the year: we have also identified a few areas where we consider controls could be further improved: detail of these is set out in the body of the report with resultant recommendations further summarised on the appended Action Plan.

We wish to thank the clerk for the very clear way transactions are recorded and for her assistance in providing all necessary documentation for our review so promptly after the financial year-end.

Consequently, we have completed and signed the year's 'Internal Audit Report', having concluded that, in all significant respects, the control objectives set out in the Report have been achieved throughout the financial year to a standard adequate to meet the needs of the Council, other than in relation to the assessment and management of risks, where we have seen no indication or evidence confirming that such a review was undertaken. Consequently, the Council will need to assign a negative assurance in the AGAR for 2017-18 at Section 1, Box 5.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Clerk maintains the Council's accounting records in spreadsheet format, which we consider more than adequate in view of the number of annual transactions: we are also pleased to note the use of appropriate columnar analysis to assist in budget monitoring and production of information for inclusion in the Council's AGAR.

Two bank accounts are in operation with Lloyds. This being the first year of our appointment to review the Council's records and in view of the relatively low number of annual transactions, we have verified the spreadsheet detail for the full financial year to both current and deposit bank account statements, also verifying the accuracy of the brought forward balances as at 1st April 2017 to the prior year's closing balances. Finally, in this area, we have checked and verified the 2017-18 year-end bank reconciliation, also ensuring the accurate transfer of that detail to the AGAR at Section 2 Box 8.

Conclusions

No issues arise in this area of our review process and we wish to thank the Clerk for maintaining and providing a very clear set of records for our examination.

Review of Corporate Governance

We note that both Standing Orders (SOs) and Financial Regulations (FRs) are in place and have reviewed the documents also noting that the SOs were reviewed and re-adopted in February 2018. However, in examining their content, we note that they are very limited in scope. NALC has only just issued a revised version of the model SOs, which the clerk has received a copy of from WALC, and we commend the document as a sound basis on which the Council should base its own document.

We have seen no indication that the FRs have been reviewed since early 2016, despite the document provided for our examination indicating that it was next due for review in October 2017. Whilst the FRs are generally in line with the NALC model document, we note that the Council's version refers to the Public Contracts Regulations 2006, rather than the 2015 revision; also, that no reference is made to the requirement to publish any tenders in excess of £25,000 on the Government's Contract Finder website. We also note that the Council's extant FRs require formal tenders to be sought for any purchase or service delivery in excess of £15,000, which value we consider potentially high for a Council the size of Shrewton. We draw the Clerk and Council's attention to the latest edition of the NALC model FRs which were issued to reflect the change in contracting legislation and have provided the Clerk with an electronic version to assist with any revision.

We have reviewed the Council's minutes for the financial year to determine whether any issues exist or may be developing that might have an adverse effect on the Council's future financial stability, whilst also ensuring that, as far as we may reasonably be expected to determine, no decisions have been made or are being considered that might result in ultra vires expenditure being incurred.

We are pleased to note that the Council is complying with the disclosure requirements of the Transparency Code, posting all required information on its web site except for detail of the Council's stock of assets.

Conclusions and recommendations

Whilst we are pleased to record that no significant issues exist in this area, we consider that the Council's governance documentation would benefit from suitable enhancement bringing it into line with best practice and, where deemed appropriate, the NALC model documents.

In examining the minutes, we noted that the powers being relied on for approval of the payment of grants and donations to local bodies were not being identified. Until the Council meets the criteria for and adopts the General Power of Competence, the approving minutes should identify the powers relied on for such payments, be they specific or under the "Free resource – Section 137"

- R1. Both Standing Orders and Financial Regulations should be reviewed and updated to reflect recent legislative changes, ideally also bringing them fully into line with the latest NALC model documents.*
- R2. Consideration should be given to determining a lower value at which formal tender action is required: we suggest a level between £5,000 and £10,000 would be appropriate.*
- R3. Care should be taken to ensure that the Council is fully compliant with the disclosure requirements of the Transparency Code.*
- R4. Minutes approving the payment of grants and donations should record the powers relied on for approval of such payments.*

Review of Payments

We have reviewed all payments made during the year to ensure that the following criteria were met:

- Payments were supported by a trade invoice or acknowledgement of receipt.
- VAT has been calculated correctly and is recovered at appropriate intervals.
- The Council at a Council meeting approved each payment.
- Payments have been correctly analysed in preparation of the year-end Statement of Accounts.
- Section 137 payments have been identified in the cashbook and are within the Council's spending limit.

We have also examined the procedures in place for processing trader payments and consider them sound with members now providing clear indication of their scrutiny of the payment documentation.

Conclusions and recommendations

We are pleased to record that the above criteria were met appropriately in every case with greater evidence of members initialling invoices in the latter months of the year. However, we

note that the initialling of cheque book counterfoils has ceased and suggest that, in line with best practice and the former Audit Commission requirement, the initialling of counterfoils be reintroduced, together with continuation of members initialling the invoices.

R5. The practice of initialling cheque counterfoils should be re-introduced, together with the continuance of members initialling each and every invoice.

Assessment and Management of Risk

From the information provided, it appears that the Council last reviewed and re-adopted its Financial and other Risk Registers on 6th July 2016, with the comment that it was next due for review in March 2017. We have seen no indication in the 2017-18 minutes or those for March 2017 that the intended review took place. We remind the Clerk and Council that the Governance and Accountability Manual (G&AM) requires risk registers to be reviewed and re-adopted at least once annually by the Council.

The Council is insured with Hiscox. We have reviewed the content of the 2017-18 insurance schedule and consider that it is appropriate for the Council's current needs with Employer's and Public Liability cover both in place at £10 million and Fidelity Guarantee cover set at £150,000.

Conclusions and recommendation

The Council must ensure that it complies with the requirements of the G&AM formally reviewing and re-adopting risk assessments at least once in each financial year. The failure to comply with this requirement will necessitate a negative response at Item 5 of Section 1 of the year's AGAR.

R6. The Council must ensure compliance with the Governance and Accountability Manual formally reviewing and re-adopting all risk registers at least once annually; the failure to do so in 2017-18 will necessitate a negative response at Item 5, Section 1 of the year's AGAR.

Budgetary Control and Reserves

The Council's minutes, together with the supporting papers provided to Council, indicate that members have considered and agreed the 2018-19 budget and precept, setting the latter at an unchanged value (to that for 2017-18) of £30,780 at the December 2017 meeting of the Full Council.

We note that members are routinely provided with budgetary performance information at each Council meeting, together with bank reconciliation detail: we have reviewed the year-end performance position, noting an overall underspend of some £10,000.

Overall reserves at 31st March 2018 have increased significantly to £46,300 (£32,300 as at 31st March 2017) including Earmarked Reserves identified as in excess of £20,000 leaving a General Reserve of £26,000, which equates to approximately a year's net revenue expenditure based on current levels, which is higher than the generally recognised guideline of between three and six months' revenue spending.

Conclusions and recommendation

We are pleased to record that no significant issues arise in this area although we remind members that the level of General reserve funds should ideally be maintained at between three and six months' revenue spending.

R7. The Council should ensure that it retains appropriate balances to ensure the continued efficient running of the Council, whilst making sure they do not reach excessive levels.

Review of Income

The Council receives, in addition to the annual precept, limited income from bank interest, occasional grants and donations (including CIL moneys), bank interest and recoverable VAT. We have checked and agreed detail of all income recorded in the cashbook to supporting bank statements and other available documentation for the financial year with no issues arising.

Conclusions

We are pleased to record that no matters have been identified in this area warranting formal comment or recommendation this year.

Petty Cash Account

The Council does not operate any form of petty cash account or float, with any out-of-pocket expenses incurred reclaimed and paid accordingly in line with normal trader payment procedures.

Salaries and Wages

We note the appointment of the current Clerk on 31st January 2017 with a formal employment contract issued and have reviewed the monthly salary paid to her, together with ensuring the appropriate deduction of any tax or NI payable to HMRC.

In examining the monthly salary payments to the clerk, which have not varied throughout the year, we note that, despite her employment contract identifying the NJC salary spinal point payable, the 2017-18 national pay award has not been applied resulting in an underpayment of her salary, albeit a relatively small sum. As the clerk's contract requires her to work 10 hours per week, the monthly salary should be calculated based on 10 / 37ths of the annual spinal salary point divided by 12. The resultant calculated underpayment for 2017-18 should be paid with her next month's salary.

Conclusions and recommendation

As indicated above, the clerk has been effectively underpaid throughout 2017-18, as the national pay award applying from 1st April 2017 has not been implemented.

R8. The clerk's salary should be adjusted in line with the 2017-18 national pay scale with the underpaid arrears added to her next monthly salary payment in 2018-19.

Asset Registers

The G&AM requires all councils to maintain a record of all assets owned. We note that the asset value recorded on the asset register as at 31st March 2018 has been increased in value by £132 over that recorded in the 2016-17 Annual Return to include the value of newly acquired Road signs during 2017-18.

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 recommendation

No significant issues arise in this area. As indicated above, we suggest that consideration be given to the development of a photographic register of the Council's asset stock.

R9. Consideration should be given to the development of a photographic register of assets to assist in the event of any insurance claim or police investigation becoming necessary.

Investments and Loans

The Council has no funds in investments, any surplus cash being held in an interest-bearing deposit account at Lloyds: no loans are in existence either repayable by or to the Council.

We take this opportunity to draw the Clerk and Council's attention to a current change in the requirement for production of a formal Investment Strategy: whilst this only becomes mandatory for Councils with retained funds in excess of £100,000, current NALC guidance indicates that, again in line with best practice, all Councils holding funds in excess of £10,000 should also develop an appropriate Strategy.

Statement of Accounts and AGAR

We have reviewed the content of the financial data reported at Section 2 of the year's AGAR agreeing it to the underlying financial records.

Conclusions

No additional issues arise in this area. Based on the satisfactory conclusion of our review for the year, we have duly signed off the Internal Audit Report assigning positive assurances in each relevant area, other than in relation to risk assessments, as detailed earlier in this report, which will also require the Council to give a negative assurance at Box 5 of the Governance Section of the AGAR.

Action Plan

Rec. No.	Recommendation	Response
Review of Corporate Governance		
R1	Both Standing Orders and Financial Regulations should be reviewed and updated to reflect recent legislative changes, ideally also bringing them fully into line with the latest NALC model documents.	
R2	Consideration should be given to determining a lower value at which formal tender action is required: we suggest a level between £5,000 and £10,000 would be appropriate.	
R3	Care should be taken to ensure that the Council is fully compliant with the disclosure requirements of the Transparency Code.	
R4	Minutes approving the payment of grants and donations should record the powers relied on for approval of such payments.	
Review of Payments & VAT		
R5	The practice of initialling cheque counterfoils should be re-introduced, together with the continuance of members initialling each and every invoice.	
Assessment and Management of Risk		
R6	The Council must ensure compliance with the Governance and Accountability Manual formally reviewing and re-adopting all risk registers at least once annually: the failure to do so in 2017-18 will necessitate a negative response at Item 5, Section 1 of the year's AGAR.	
Budgetary Control & Reserves		
R7	The Council should ensure that it retains appropriate balances to ensure the continued efficient running of the Council, whilst making sure they do not reach excessive levels.	
Review of Staff Salaries		
R8	The clerk's salary should be adjusted in line with the 2017-18 national pay scale with the underpaid arrears added to her next monthly salary payment in 2018-19.	

Action Plan

Rec. No.	Recommendation	Response
Asset Registers		
R9	Consideration should be given to the development of a photographic register of assets to assist in the event of any insurance claim or police investigation becoming necessary.	