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# **Shrewton Parish Council**

*Internal Audit Report 2018-19*

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AUDITING SOLUTIONS LTD

*For and on behalf of*  
*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 two apparent areas of concern relating to the apparent absence of any review of risk registers in the year and the continued and inappropriately high level of retained reserves: 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 2018-19 at Section 1, Boxes 5 and 7.

# 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. 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 1<sup>st</sup> April 2018 to the prior year's closing balances. Finally, in this area, we have checked and verified the 2018-19 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 following the recommendation made in our previous year report that both the Standing Orders (SOs) and Financial Regulations (FRs) have been revised, based on NALC model documents, and readopted in July 2018 meeting of the Full Council. We also note that the Council's extant FRs require formal tenders to be sought for any purchase or service delivery in excess of £25,000 which is in line with the current EU legislation.

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*

*There are no issues arising in this area of our review warranting formal comment or recommendation.*

## 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**

*There are no issues arising in this area of our review warranting formal comment or recommendation.*

## **Assessment and Management of Risk**

We note that although members have stated that the council has reviewed its Financial Risk and Risk Assessment in the Full Council meeting of April 2018. However, the 'Risk Register' that the council is actually maintaining, is, in fact an asset condition inspection report and not Risk Register. It is a mandatory requirement that all councils keep and maintain both a Health & Safety and a Business Risk register (which may be maintained in a single document). 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 2019-2 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, Officials Indemnity at £500 thousand and Business Interruption cover set at £10 thousand.

### **Conclusions and recommendations**

*Whilst we note that the council is inspecting the condition of its assets and recording its findings in an Asset Condition report, this is only one aspect of a proper Risk Management process. As stated above the maintenance and adoption of a Health & Safety and Business Risk Register is a mandatory function described in the Governance and accountability Manual that requires a council's Risk Registers to be reviewed and re-adopted at least once annually by the council. As a proper Risk Register has not been produced by the council in the 2018-19 Financial year, a negative assertion has been given to Internal Control Objective 'C' in the Annual Internal Audit Report section of the 2018-19 Annual Governance and Accountability Return.*

*An example Risk Register has been provided with the electronic copy of this report.*

- R1. *The Council is required to maintain a Financial and Health & Safety Risk register, which is kept current and up-to-date at all times. 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 2018-19 has necessitated a negative response at Item 5, Section 1 of the year's AGAR.*
- R2. *Members should consider using a format similar to the example Risk Register supplied to the Clerk with this report.*

## Budgetary Control and Reserves

The Council's minutes, together with the supporting papers provided to Council, indicate that members conducted a robust Budget setting and Precept determination process, resolving to set the latter at a reduced value of £20,000 (£30,780 FY 2018-19) at the December 2018 meeting of the Full Council. The reduction was agreed, to begin to rectify the high level of reserves held by the 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 and have noted a 35% reduction in the council's income which was the result of a reduced VAT claim congruent with the previous year's expenditure.

Overall reserves at 31<sup>st</sup> March 2019 have been increased to £61,207 (46,300 as at 31<sup>st</sup> March 2018) including Earmarked Reserves identified as in excess of £46,285 leaving a General Reserve of £14,922, which equates to approximately ten months net revenue expenditure based on current levels, which is higher than the generally recognised guideline of between three and six months' revenue spending.

We are concerned both in the lack of movement in the individual EMRS and that the some of the EMRs in place have been properly constituted. For example, we are advised that the EMR of £5,000 was constituted for repairs and maintenance to a building identified as the 'Round House'. The Round House, however, is not owned by the Council and subsequently the council has no power to make any expenditure on the building's upkeep, repairs or maintenance. Therefore, the EMR should be closed and the £5,000 returned to the Council's General Reserve.

### *Conclusions and recommendation*

*Further to the recommendations made concerning the high level of reserve in our 2017-18 Internal Audit report, we once again, draw the high level of Council reserves to the Member's attention. There appears to be little liquidity in the Council's constituted EMRs and, additionally, we have identified an EMR, in the amount of £5,000 constituted for repairs and maintenance to a building that the Council does not own: As the Council is not the owner of the building, it has no power to make any expenditure on it. Resultantly, the EMR should be closed and the £5,000 returned to the General Reserve.*

*We remind members, once again, that the level of General Reserve funds should ideally be maintained at between three and six months' revenue spending. Returning the £5,000 currently held in an EMR for the Round House would add an additional 3.5 months General Reserve to the existing 10 months giving a balance equivalent to over 1.1 years months expenditure at the 2018-19 levels which is not an appropriate General Reserve for this Council to hold.*

*As we had reported our conclusion in the 2017-18 Internal Audit Report that the Council was holding inappropriately high levels of reserve, and given recommendation to review the level of the Council's reserves, trimming them appropriately during the Budget setting and Precept determination process, a negative assertion has been given to Internal Control Objective 'D' in the Annual Internal Audit Report section of the 2018-19 Annual Governance and Accountability Return.*

R3. *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.*

- R4. *The Council should ensure that it only constitutes EMRs for proper purposes and has the Power to make the expenditure for which the EMR has been constituted.*
- R5. *The Council should close the EMR constituted to provide repairs and maintenance to the Round House and return the £5,000 contained therein to the Council's General Reserve.*

## **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**

*There are no matters arising in this area of our review warranting formal comment or recommendation.*

## **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. Resultantly, there are no matters arising in this area of our review warranting formal comment or recommendation.*

## **Salaries and Wages**

We note the Clerk continues to be the sole employee of the council. The original employment date being the 31<sup>st</sup> January 2017 with a formal employment contract issued, and pay awards recorded in confidential minutes of the council which we have inspected. We 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, we have noted that the NJC salary spinal point payable, the 2018-19 national pay award has been correctly applied and the resultant deductions have been properly recorded and reported.

### **Conclusions**

*There are no matters arising in this area of our review warranting formal comment or recommendation.*

## **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 31<sup>st</sup> March 2019 remains as that recorded in the 2017-18 Annual Return.

We note that whilst the council continues to maintain a very basic Asset Register, that our recommendation made in the 2017-18 Internal Audit Report has not been implemented. 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 claim 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.***

- R6. *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.*
- R7. *The Asset Register should be amended to incorporate columns for the following: 1) purchase date 2) description of item 3) location of item 4) Be recorded net of VAT 5) column for insurance purposes 6) date of disposal.*
- R8. *All disposals must be recorded at the date the item was disposed of; members must have resolved to dispose of the asset and that resolution recorded in the minutes.*

## **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, again, 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 and the management of reserves, as detailed earlier in this report, which will also require the Council to give a negative assurance at Boxes 5 and 7 of the Governance Section of the AGAR.***

# Action Plan

Rec. No.	Recommendation	Response
<b>Assessment and Management of Risk</b>		
R1	The Council is required to maintain a Financial and Health & Safety Risk register, which is kept current and up-to-date at all times. The Registers <b>must</b> be revised, then formally reviewed and adopted during a meeting of the Full Council, the adoption being recorded in the council's minutes.	
R2	Members should consider using a format similar to the example Risk Register supplied to the Clerk with this report.	
<b>Budgetary Control &amp; Reserves</b>		
R3	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.	
R4	The Council should ensure that it only constitutes EMRs for proper purposes and has the Power to make the expenditure for which the EMR has been constituted.	
R5	The Council should close the EMR constituted to provide repairs and maintenance to the Round House and return the £5,000 contained therein to the Council's General Reserve.	
<b>Asset Registers</b>		
R6	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.	
R7	The Asset Register should be amended to incorporate columns for the following: 1) purchase date 2) description of item 3) location of item 4) Be recorded net of VAT 5) column for insurance purposes 6) date of disposal.	
R8	All disposals must be recorded at the date the item was disposed of; members must have resolved to dispose of the asset and that resolution recorded in the minutes.	