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# **Sutton Bridge & Wingland Parish Council**

*Internal Audit Report 2017-18*

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## **Background**

Statute requires all town and parish councils to arrange for an independent internal audit examination of their accounting records and systems of internal control, and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR).

This report sets out the work undertaken in relation to the 2017-18 financial year, together with detail of any issues arising and recommendations for action, where applicable.

## **Internal Audit Approach**

In undertaking our review for the year, we have had regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts/AGAR. We have employed a combination of selective sampling techniques (where appropriate) and 100% detailed checks in a number of key areas to gain sufficient assurance that the Council's financial and regulatory systems and controls are appropriate and fit for the purposes intended.

Our programme of cover is also designed to facilitate our completion of the 'Annual Internal Audit Report', which requires independent assurance over ten internal control objectives.

## **Overall Conclusion**

We are pleased to conclude that, based on the programme of work undertaken, the Clerk and Council have maintained effective internal control arrangements during the year and that transactions are accurately reflected in the detailed Statement of Accounts and AGAR.

The detailed report which follows sets out the scope of our audit work this year and our findings with no significant recommendations arising, although we have identified one or two areas where we consider procedures could be further strengthened.

We have completed and signed the 'Internal Audit Report' as part of the year's AGAR process, 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

Our objective in this area is to ensure that accounting records are being maintained accurately and on a timely basis, and that no anomalous entries appear in cashbooks or financial ledgers.

The accounting records have been maintained using an Excel spreadsheet. Whilst affording scope for appropriate analysis of income and expenditure and reporting budgetary performance, we suggest that officers' time could be saved using a bespoke accounting package, such as that provided by the RBS Rialtas Omega or Alpha accounting packages, which have been designed specifically for the parish and town council market and are used by a number of our clients. These provide a formal cashbook, bank reconciliation, detailed nominal account transaction and budget performance reports, together with automatically generating VAT return information and a year-end Receipts and Payments / Income and Expenditure Account and Balance Sheet, together with detail for inclusion at Section 2 of the AGAR.

The Council operates two bank accounts with TSB; a Current Account for day to day transactions and a Business (instant access savings) Account.

To ensure the appropriateness and accuracy of the recording of transactions, we have:

- Verified that the prior year closing balances have been correctly rolled forward into 2017-18;
- Verified that the accounts remain "in balance" at the financial year-end;
- Ensured that appropriate analysis is in place to facilitate reporting of the Council's budgetary performance;
- Checked and agreed detail of the full year's financial transactions on each of the bank accounts, by reference to supporting bank statements; and
- Verified the bank reconciliation detail on the combined bank accounts as at 31<sup>st</sup> March 2018, also ensuring the accurate disclosure of those balances in the year-end Accounts / AGAR.

### *Conclusion*

*We are pleased to record that no issues arise in this area warranting formal comment or recommendation, although as indicated above, the Clerk and members may wish to consider acquiring a suitable accounting package which may reduce the time required inputting detail into and manipulating spreadsheets for reporting purposes.*

## Review of Corporate Governance

Our objective is to confirm that the Council has a robust regulatory framework in place; that Council meetings are conducted in accordance with the adopted Standing Orders (SOs) and that, as far as we may reasonably be expected to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation.

The Council's SOs and Financial Regulations (FRs) were reviewed and updated in January 2016 and July 2017 respectively. We are pleased to note that these take account of the latest national procurement guidance, specifically in relation to contracting, with the financial limit above which formal tendering is required set at £25,000. We are also pleased to note that the clerk is aware of the recently published revised NALC model SOs, which take account of the recent legislative change affecting data protection and suggest that these be used as a model for the future review and update of the Council's own document.

We note that the Council has recently approved a move to on-line banking, which will require the FRs being updated accordingly to reflect the impact of this move on working practices.

We have reviewed the minutes of Council and Standing Committee meetings held during 2017-18 to assess whether any issues exist that may have an adverse effect on the Council's financial stability in the short, medium or longer term, also that there is no indication that the Council may either be considering or have taken decisions that might result in ultra vires expenditure being incurred.

We thank the Chairman for completing our Corporate Governance Questionnaire, which provides us with additional assurance as to the soundness of the Council's overall governance arrangements.

### ***Conclusion***

*No matters arise in this review area that require formal comment or recommendation.*

## **Review of Payments**

Our objective here is to ensure that:

- Council resources are released in accordance with the approved procedures and budgets;
- Appropriate documentation supports payments, 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;
- Payments are correctly analysed in the accounting records and end of year accounts;
- VAT has been appropriately identified and coded to the control account for periodic recovery, and
- Section 137 payments have been identified accordingly and are within the Council's spending limit.

This is the first year of our appointment and consequently we have reviewed all payments made during the year to ensure compliance with the above criteria. We consider that the approach followed for the approval and release of funds is both adequate and effective with invoices and cheque counterfoils initialled by the cheque signatories as evidence of review in line with best practice. As indicated above, the Council is moving to online payments: consequently, we will review the procedures in place at next year's examination of the Council's records and, if appropriate, comment further at that time. To assist the Clerk and Council in ensuring the robustness of any revisions they make to procedures in this respect, we have provided the Clerk

with a NALC document – “Safeguarding Public Money”, which was issued following repeal of Section 150(5) of the Local Government Act 1972.

We note that a single VAT reclaim was prepared and submitted for 2017-18 and have verified its content to the supporting cashbook entries. We note that the Clerk intends to submit reclaims quarterly in future.

### ***Conclusions***

***No matters have arisen from this area of our review that require formal comment or recommendation.***

## **Assessment and Management of Risk**

Our objective is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and operational/health and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks to minimise the opportunity for their coming to fruition.

We are pleased to note that an appropriate financial risk assessment register is in place, supplemented by a file containing a raft of operational / health and safety risk assessments that are subject to formal review and re-adoption. The last formal review occurred in May 2017 with the Council confirming that no amendments were required to the content of the financial risk document.

We note that the Council’s insurance arrangements are subject to regular review with the 2017-18 policy arranged through Came & Co with “Ecclesiastical”. We have reviewed the schedule noting that Employer’s and Public Liability are both in place at £10 million, together with Fidelity Guarantee (FG) cover of £150,000, all of which we consider appropriate for the Council’s present requirements, although the FG cover is potentially low (the former Audit Commission issued guidance suggesting that FG cover should be set at the year-end balance plus a half-year’s precept).

### ***Conclusions and recommendation***

***No significant issues arisen in this review are, although in line with former Audit Commission guidance, we suggest that the level of Fidelity Guarantee cover be reviewed and increased marginally.***

***R1. The Council should review the level of Fidelity Guarantee insurance cover in place and, if deemed appropriate, increase it in line with the former Audit Commission Guidance.***

## **Budgetary Control & Reserves**

Our objective here is to ensure that the Council has robust procedures in place for identifying and approving its future budgetary requirements and level of precept to be drawn down from the District Council, and that effective budget reporting and monitoring arrangements are in place.

We have considered the procedures in place for preparation and adoption of the Council's annual budget and precept and, in conjunction with the assurances provided by the Chairman in our Governance questionnaire, consider them sound and appropriate for the Council.

Consequently, we note that the Council approved and adopted its budget and precept for 2018-19 at the December 2017 meeting setting the latter at £61,982.

We are pleased to note that members receive regular budgetary performance reports throughout the year and have examined the year-end outturn position with no unexplained / unanticipated significant variances existing warranting further explanation, the Clerk having also prepared for submission to the external auditors and provided us with detail of the year-on-year variances.

The Council's overall reserves at 31<sup>st</sup> March 2018 stand at £123,900 (£161,400 as at 31<sup>st</sup> March 2017) and include Earmarked funds of £59,200 (£111,200 as at 31<sup>st</sup> March 2017) leaving a General Reserve balance of £64,700 as at 31<sup>st</sup> March 2018 (£50,200 at the prior year-end). The General Fund balance equates to approximately 6 month's revenue expenditure and sits comfortably close to the generally recognised CiPFA guideline of between 3 and 6 months' revenue spending and is considered appropriate for the Council's ongoing spending plans.

### ***Conclusion***

*No matters have arisen from this area of our review requiring formal comment.*

## **Review of Income**

Other than the Precept, various grants (S.106 funding, etc), the main sources of income currently are from allotment rents, playing field hire and VAT re-claimed on expenditure. We note the recent work on commissioning a burial ground, which will start to generate income in 2018-19.

We have ensured that all allotment income due has been recovered, banked in a timely manner and recorded appropriately in the accounting records. We will, as part of our 2018-19 review examine the procedures in place from managing the cemetery and recovery of interment, memorial and other associated fees.

### ***Conclusion***

*No issues arise in this area this year: as indicated above, we shall examine the operative controls over the identification and recovery of fees relating to the cemetery as part of our 2018-19 review.*

## **Petty Cash Account**

*The Council does not operate a petty cash account: any incidental "out-of-pocket" expenses are repaid to the Clerk periodically in conjunction with ~~her~~his salary and are approved and minuted as part of the normal controls exercised over payments.*

## Review of Staff Salaries

In examining the Council's payroll function, our objective is to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HMRC legislation as regards the deduction and payment over of income tax and NI contributions, neither of which apply as the clerk's earnings are below the relevant thresholds.

We note that employment contracts are in place for the Clerk and Administration Assistant ~~Clerk~~, although that for the Assistant requires amendment to reflect the approved change in her employment terms during the year. We also note the recruitment of a litter picker at the close of the financial year and will review her employment contract as part of next year's audit. We note that both the Clerk and Assistant contribute to the Lincolnshire LG Pension fund.

We have reviewed payments made to the Clerk and Assistant during the year confirming that they were in accordance with the Council approved salary rates, also ensuring the application of the appropriate tax, NI and pension percentage contribution with no issues arising, other than noting that, due to an oversight, the incorrect tax code was applied to the Clerk's salary for much of the year, but corrected prior to the year-end with appropriate adjustment to his tax deduction.

### *Conclusions and recommendation*

*No significant issues arise in this area, although in line with best practice, we suggest that, where changes in staff employment terms arise, they either be issued with a revised employment contract or, as a minimum, with a confirmatory letter, which they should also sign confirming acceptance of the change in employment terms.*

*R2. Where staff employment terms are amended, either a replacement contract or confirmatory letter should be issued, both being signed by the employee, as well as either a Councillor or the Clerk.*

## Asset Register / Inventory

The reporting arrangements for assets in the AGAR require councils to report the value of each asset at purchase cost or at a suitable proxy where that value is not known, and for community assets to be valued at a nominal £1. The value of individual assets should not change from one year to another, other than for the inclusion of new assets or removal of any disposed of.

We are pleased to note that a comprehensive asset register is in place identifying the type of asset (i.e. by category), its position in the parish, detail of the asset, cost price (net of VAT). Insured value and, where known, acquisition date, all of which we consider represents best practice.

Many of our clients are now also developing a photographic register of assets, such as street furniture: we consider this a further example of best practice as it provides the Council with clear evidence of the condition of fixed assets and should 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 areas of concern have been identified in this area although, in line with best practice we suggest that consideration be given to the development of a photographic register of the Council's assets.***

***R3. 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 specific investments in place, nor any loans repayable by or to it.***

### **Statement of Accounts and AGAR**

We have examined the detailed Income and Expenditure accounts prepared by the Clerk agreeing the detail to the underlying financial records and ensuring the accurate transfer of that data to the AGAR at Section 2 with no issues arising.

### ***Conclusions***

***No matters have arisen from this area of our review. We ask that we be provided with a soft copy of the finalised Annual Return (Sections 1 and 2), once the Council has approved the document.***

***Based on the work undertaken during our review, we have completed and signed the Internal Audit Report, assigning positive assurances in all relevant areas.***



Rec. No.	Recommendation	Response
<b>Assessment and Management of Risk</b>		
R1	The Council should review the level of Fidelity Guarantee insurance cover in place and, if deemed appropriate, increase it in line with the former Audit Commission Guidance.	
<b>Review of Staff Salaries</b>		
R2	Where staff employment terms are amended, either a replacement contract or confirmatory letter should be issued, both being signed by the employee, as well as either a Councillor or the Clerk.	
<b>Asset Registers</b>		
R3	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.	