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# **Hannington Parish Council**

*Internal Audit Report 2014-15*

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## **Background and Scope**

The Accounts and Audit Arrangements introduced from 1<sup>st</sup> April 2001 require all Parish Councils to implement an independent internal audit examination of their Accounts and accounting processes annually. The internal auditor has then to provide the Council with a report covering 10 key areas associated with the transactions and management of the Council's affairs.

The attached detailed report sets out the areas of work covered this year during our review of the Council's financial and other relevant records, together with recommendations for improved controls, where deemed appropriate, in order that we may "sign-off" the Annual Return for 2014-15.

## **Internal Audit approach**

In undertaking our review, we have had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts and Annual Return. However, in view of the low number of annual transactions, we have undertaken direct substantive testing of all receipts and payments for the financial year, verifying detail to such underlying documentation as is available.

This report summarises our conclusions on each of the key areas set out in the Internal Audit Certificate embodied in the Annual Return. Issues requiring attention are summarised in the appended Action Plan. We request that, as in previous years, the Clerk and Council consider the detail of those issues arising and, where deemed necessary, take appropriate steps to address them.

## **Overall Conclusion**

We are pleased to conclude overall that the Council continues to have effective controls in place to ensure that transactions are accurately reflected in the Statement of Accounts / Annual Return. However, our work has highlighted a few areas where we consider action is required to further strengthen controls, although none have any significant financial impact on the results for the year and we have duly signed off the Internal Audit Report at Section 4 of the Annual Return assigning positive assurances in each relevant area.

## **Detailed Report**

### **Maintenance of Accounting Records and Bank Reconciliations**

The cashbook continues to be maintained in manuscript format, which we consider more than adequate given the level of annual transactions, although consideration might be given to the use of a spreadsheet format, as this would assist the clerk in preparing the year-end Account's detail for inclusion in the Annual Return. We have checked and agreed the detailed entries therein for the year to the Council's Lloyd's Bank account statements.

We have reviewed the year-end bank reconciliation prepared by the Clerk and appearing on the Statement of Accounts for the financial year, noting that no long-standing unrepresented cheques or other anomalous entries exist.

#### *Conclusion*

*We are pleased to report that there are no issues arising in this area of our work.*

### **Review of Corporate Governance**

The Standing Orders were last reviewed and re-approved by the Council at its April 2013 meeting with the Financial Regulations last approved in September 2014. We have examined the content of the documents and consider that they are more than adequate for the Council's needs, with no issues identified, although we would commend the latest update of the NAL|C model documents to the Council, as they take account of recent legislative changes including the filming and recording of meetings.

We have examined the minutes of the Council's meetings for the year (held approximately quarterly) to ensure that no issues have arisen or are developing that might have an adverse affect on the Council's financial stability now or in the future, also that there is and has been no indication of any unlawful expenditure or activity in the year or planned for the future.

We note that the Council has formally considered the repeal of Section 150(5) of the LG Act 1972 that previously required all payable orders to be signed by two members and resolved to make no changes to payment methods at this time.

#### *Conclusions*

*We are pleased to record that no significant issues exist at present affecting our sign-off of the year's Annual Return.*

### **Review of Expenditure & VAT**

Given the relatively low number of payments made during the course of the financial year, we have examined all 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; and
- Section 137 payments have been identified in the cashbook and are within the Council's spending limit.

We note that in accordance with the detail in the 2013-14 cashbook, a VAT reclaim for £243.12 was submitted to HMRC on 29<sup>th</sup> April 2014 and subsequently repaid. VAT incurred in 2014-15 totals £588.58 per the cashbook: we have seen no evidence that this has yet been reclaimed.

### ***Conclusions and recommendations***

*We are pleased to note that cheques are always signed by two designated signatories with supporting paperwork provided and checked accordingly. However, as noted last year, we found that both Councillors signing the cheques do not always initial the cheque stubs as evidence of their review (cheque stubs 308 to 311 only have one initial and cheque stub 312 has none). Ideally and in line with best practice, invoices should also be initialled by the cheque signatories to prevent any opportunity for their resubmission and the chance for duplicated payments to occur. We again note that this was not always the case.*

*We also noted that, of sixteen payments processed during the year, two were not formally recorded in the 2014-15 minutes as approved for payment (cheque numbers 310 and 311).*

- R1. *In order to further strengthen controls, the two cheque signatories should also initial the invoices and cheque counterfoils in order to confirm their review of the documents and prevent any potential resubmission possibly resulting in duplicated payment.*
- R2. *All payments should be formally recorded as approved for payment in the minutes of the Council's meetings.*

## **Assessment and Management of Risk**

The Council prepared a Risk Assessment document during 2012-13 which was adopted by the Council at the meeting on 18<sup>th</sup> September 2012. We are pleased to note that it has been subject to further review and formal re-adoption at the Council meeting on 29<sup>th</sup> April 2014 as indicated on the document, although the minutes of that meeting do not appear to explicitly confirm completion of the review and re-adoption. We would draw the clerk and members attention to the now mandatory requirement ("Governance and Accountability Manual - The Practitioner's Guide" 2014 edition) that financial risk assessments must be the subject of annual review and formally minuted adoption.

Allianz continues to provide the Council with insurance cover. Examination of the policy's content indicates that an appropriate level of cover exists for the Council, with Fidelity Guarantee standing at £250,000.

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

***No significant issues arose in this area of review other than in relation to the formal adoption of risk registers annually.***

*R3. The Council should ensure that the risk register is reviewed with minutes confirming the adoption at least once annually in line with mandatory requirements.*

## **Budgetary Control & Reserves**

The Council's minutes, together with the supporting papers provided to Council, indicate that members have considered and agreed the 2015-16 budget and formally minuted the 2015-16 precept at the meeting in December 2014.

We are again pleased to note the detailed reporting of actual spending against approved budget during the year.

We have reviewed and assessed the appropriateness of the Council's retained reserves to meet ongoing spending requirements, noting that the year-end balance at 31<sup>st</sup> March 2015 has increased to £10,202 (£5,898 at 1<sup>st</sup> April 2014). However this includes a £5,000 legacy so the general fund balances are more fairly stated at £5,202. This equates to approximately eleven months' revenue expenditure at 2014-15 levels (down from 17 months in 2013-14). Despite the decrease, this balance still appears quite high in relation to the Council's spending requirements with no indication that any funds have been set aside as earmarked for future projects.

### ***Conclusions***

***No significant issues arise from this area of our review, apart from noting the high level of retained reserves: whilst we do not wish to make a formal recommendation in this respect, we would ask that members continue to monitor the level of retained reserves ensuring that it remains appropriate for ongoing spending requirements.***

## **Review of Income**

The Council receives income from limited sources, primarily by way of the annual precept and grant, plus periodically recovered VAT and, in 2014-15, a legacy bequest. We have verified detail of these amounts as part of our cashbook review referred to previously in this report.

### ***Conclusions***

***No matters arise in this area of our review.***

## **Petty Cash Account**

*The Council does not operate a petty cash account. Any out-of-pocket expenses incurred by the clerk in connection with her work for the council are reclaimed periodically and paid by separate cheques, which are minuted and approved as with ordinary trade invoices.*

## **Salaries and Wages**

The Clerk left the Council during 2014-15 and a new Clerk was employed. We have reviewed the employment contracts of both and are pleased to note they were signed and dated by the employee and the Chair and contained details of basic salary and working hours.

We have not been provided with copies of any payslips or invoices for either clerk's salary payments. However, we have confirmed the two salary payments for the former Clerk against the approved payment levels by review of the relevant cashbook transactions and payments. We note that the new Clerk does not appear to have been paid any salary as yet (just expenses), which we assume is due to the fact that he was a councillor and is barred from claiming a salary for the first year following his resignation as a councillor. As part of our review, we have also checked and agreed the salary costs disclosed in the Annual Return at Box 4.

We note that no tax or NI payments were due to HMRC in 2014-15, as the first Clerk's earnings were under the relevant thresholds and the second Clerk has yet to receive any salary payment. Finally we note that the Council discovered that they should have been submitting monthly nil returns to HMRC under the new RTI arrangement. The current Clerk has now resolved this issue.

### ***Conclusions***

*We are pleased to report that no issues arise in this area warranting formal comment or recommendation.*

## **Asset Registers**

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. We are again pleased to note compliance with this requirement, the Clerk maintaining a suitable register. Extant guidance now requires that asset values are reported in the Annual Return at purchase cost or, where that value is unknown at the previous year's Return level uplifted or decreased to reflect the acquisition of any new assets or disposals.

The asset value disclosed in the Annual Return at Section 1, Box 9 matches that in the Asset Register (£18,694) appropriately supported by a clear audit trail from the 2013-14 Return value. The value of the 2014-15 asset acquisition has been correctly added net of VAT.

We have also reviewed the Council's insurance cover against detail of assets owned and note that all assets are suitably covered.

### ***Conclusions***

***The Council has continued to comply with requirements to maintain a fixed asset register and to ensure all assets detailed on it are reflected in their Annual Return.***

## **Investments and Loans**

***The Council has no funds in investments and there are no loans in existence.***

## **Statement of Accounts and Annual Return**

We have examined and agreed the content of the Statement of Accounts and Annual Return for 2014-15 to the underlying records maintained by the Council with no issues arising.

### ***Conclusions***

***We are pleased to record that no issues have arisen from our review of the Accounts or Annual Return. Consequently, we have "signed off" the Internal Audit Report at Section 4 of the Annual Return assigning positive assurances in each relevant area.***

***We would remind the clerk that he will have to provide the external auditors with appropriate explanations of the fairly significant variances that have arisen in the Annual Return this year when compared with the detail for 2013-14.***

Rec. No.	Recommendation	Response
<b>Review of Payments and VAT</b>		
R1	In order to further strengthen controls, the two cheque signatories should also initial the invoices and cheque counterfoils in order to confirm their review of the documents and prevent any potential resubmission possibly resulting in a duplicated payment.	
R2	All payments should be formally recorded as approved for payment in the minutes of the Council's meetings.	
<b>Assessment and Risk Management</b>		
R3	The Council should ensure that the risk register is reviewed with minutes confirming the adoption at least once annually in line with mandatory requirements.	