

Westbourne Parish Council

Internal Audit

Year Ended 31st March 2017



Prepared by: Mulberry & Co
Date of Interim Visit: 20th December 2016
Date of Final Visit: TBC

Law and Regulation Regarding Internal audit

Regulation 6 of the Accounts and Audit (England) Regulations 2011 imposes a duty on local councils to ‘maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Internal audit is a key component of the system of internal control.

The purpose of internal audit is to review and report to the council whether its systems of financial and other internal controls over its activities and operating procedures are effective.

Internal audit’s role is to assist the council in fulfilling its responsibility to have and maintain proper internal control arrangements and those for the prevention and detection of fraud, error or mistakes

All internal audit work must be reported to the council. Any report by internal audit is addressed to the council, may recommend actions to be taken by the council, and should be treated as a document open to view by local taxpayers.

Two pieces of legislation set out how local councils should behave when accounting for the public funds they manage and what rights local taxpayers have in relation to those accounts. These are the **Audit Commission Act 1998** and the **Accounts and Audit Regulations issued from time to time under the Act**. The requirement for local councils to prepare accounts annually and to subject them to external audit comes from the Audit Commission Act 1998 (the Act). The Act describes the rights of taxpayers and other interested parties in relation to those accounts.

Under the regulations, all local councils must at least once a year conduct in accordance with proper practices a review of the effectiveness of their system of internal control and publicly report the outcome. The Annual Governance Statement in Section 2 of the annual return provides the means for local councils to report to local taxpayers on their system of internal control.

This report is prepared for the council and proper officers of the council named above, for use in fulfilling their obligations under the Audit Commission Act 1998 and the Accounts and Audit Regulations issued from time to time under the Act for preparing the Annual Return and reviewing the effectiveness of their system of internal controls. Mulberry and Co accept no responsibility for any action or inaction taken as a result of the findings of this report and accept no responsibility to any other party other than those named above.

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Summary Findings

I enclose my interim report for your kind attention and presentation to the council. My audit was conducted in accordance with current practices and guidelines and testing was conducted in line with the inherent risks assessment. Whilst I have not tested all transactions, my sample has where appropriate covered the entire year to date. Amongst others, the following areas were covered in my testing:-

- Review of the Financial Regulations & Standing orders
- Review of the Risk Assessments
- Review of the Budgeting process
- Proper Bookkeeping – review of the use of the EXCELL package.

It is my conclusion that the council has good policies and procedures in place that are fit for purpose and it has provided evidence to show it is following its own financial regulations and standing orders. In addition to this, the council has risk management strategies in place and policies that enable it to achieve its principle objectives and where there is a financial risk this is appropriately insured for.

Councillors are informed individuals and are provided opportunities for training and every effort is made by the council to ensure new members are given training and support.

The council staff are trained and demonstrate a good working knowledge of the council and actively seek to make continuous improvements for the betterment of the council.

I conclude that at the interim stage there are no significant matters that require attention and whilst my report does recommend a couple of improvements these are only to improve upon an already well ordered system.

A. BOOKS OF ACCOUNT

The council continues to use Excel for the manual day to day recording of its financial transactions, indeed the limited number of transactions lends itself to a simple system such as this. The clerk updates the cashbooks on a regular basis with entries that are posted in a clear and logical manner.

I have tested the brought forward balances and a random selection of items to the original source invoices. There were no errors.

On this basis I make no recommendation to change in this system.

B. FINANCIAL REGULATIONS, PROCEDURES & GOVERNANCE

The NALC model financial regulations were taken to full council in November 2016 and duly approved and adopted. It was noted in previous internal audit reports that the council should consider amending the financial regulations tender limited to £10-15,000. I confirm this is not a legal requirement, the public supply tender limit is now set at £25K to comply with the Public Contracts Regulations 2015, as set out in the NALC *LTN87 Procurement*.

The NALC model standing orders were taken to full council in December 2015 and duly approved and adopted. It is noted these will be taken to council again in January 2017, although there are no anticipated changes.

The members code of conduct is based on the Chichester District Council version and is dated 2012. The council should consider reviewing and if necessary updating this over the next year to bring in line with the very latest district council version.

The clerk could demonstrate that declarations of interest and acceptance of office were in existence and signed in accordance with regulations.

It was demonstrated that three clear days' notice is given of meetings and that all associated backing documents are included with agendas on the email. **The council is reminded to ensure backup papers are also posted to the website along with the agendas.**

The council has an open-door policy and an ethos to providing training and support to members throughout their term as councillor's. The council has a training budget in place and all councillors are given copies of policies and regulations as appropriate.

The council has nine member positions two of which are currently vacant. There are no familial relationships that could cause an influential risk. Full Council meets 11 times throughout the year and there are three committees.

The council has few policies in place, **there is a minimum list as published by SSALC in their November newsletter. I suggest these are introduced over the course of the next year.**

The council gives authority to spend via the annual budget process and this was minuted and approved in accordance with regulations. The minutes describe in detail the payments made since the last meeting and this is duly approved and signed. It was noted that a single payment was (Cheque 847) has not been approved by council. **Council must ensure all payments are at some point approved in the minutes. It will be necessary for a review to be carried out to identify any missing payments and retrospectively approve these.**

Payments are authorised on a dual signatory system.

There are no councillor allowances although councillors can claim expenses should they desire.

It is clear council has good robust systems, policies and regulations in place and takes seriously its responsibility in this regard.

C. RISK MANAGEMENT & INSURANCE

A review of risks has been carried out and I am satisfied that all appropriate risks are accounted for and documented properly. I was pleased to see the council has a good system of risk assessment and documentation that lends itself to forward planning.

The council is insured via Zurich on a standard local authority package. Money and asset cover appears adequate.

D. BUDGET, PRECEPT & PLANNING

The council has prepared budgets for 2017/18 which have been signed off. It is noted the precept will be increased.

The council has circa £126k of bank and cash balances, earmarked reserves are circa £60k. It is anticipated that net spending to the year-end will be circa £16k therefore general reserves are anticipated to be circa £50k by the council year end. This equates to circa 11 month's cover. I would suggest this is a little high and that the council should aim for six month's general reserve cover i.e. £25 - £30k being equivalent to circa 50% of precept.

It was noted that that the council has commenced the process of putting in place a five-year business plan following training from SSALC and a visioning exercise. It is anticipated this will eventually dovetail with a three year budget and earmarked reserves. I am especially pleased to see this in place and commend the council for its forward thinking in this regard.

E. INCOME

In addition to the annual precept and support grant, the Council receives income from allotments, various grants and donations. This is not a high risk area.

F. PETTY CASH

There is a limited petty cash account with a separate cashbook maintained to record detail of transactions, which in the main consist of stamps and minor stationery purchases.

It was noted that the petty cash cashbook is combined with the main bank account cashbook, whilst this is an unorthodox way of reporting, it is not incorrect and the bank reconciliation is not effected by this.

G. PAYROLL

The payroll is performed internally by the clerk using HMRC software, PAYE is paid quarterly in accordance with regulations and the council approves the salary and tax payments in the usual manner.

The question of whether a clerk should calculate their own pay was raised and this depends on the level of complexity and risk the council is willing to bear. If the council is happy to review the wages on a regular basis to ensure the correct gross pay is used for the calculation and that the net pay, pensions and taxes are consistent each month, then it can maintain the current system.

If on the other hand the council wishes to remove the risk of error or misstatement, then it can seek to outsource this function to an external firm. The costs for this are circa £50pcm.

H. ASSETS AND INVESTMENTS

The asset registers were complete and up to date. Assets were correctly stated on the register at cost or proxy cost.

I. BANK RECONCILIATIONS

The bank reconciliations for all accounts are properly prepared and presented to council and committee for verification and approval. IA has noted hard copies in evidence and minutes references of the same. **It was noted however that the monthly reconciliation in the minutes could be clarified to make the reading easier for the councillors. I have given a template to the clerk for this purpose.**

J. YEAR END ACCOUNTS

TBC at year end

K. TRUSTEESHIP

N/A

Mark Mulberry

Internal Auditor

20th December 2016

Points Forward – Action Plan

Point Forward / Action needed	Auditor notes	Council response
Governance	The council is reminded to ensure backup papers are also posted to the website along with the agendas.	
Internal Policies	there is a minimum list as published by SSALC in their November newsletter. I suggest these are introduced over the course of the next year.	
Payments Process	Council must ensure all payments are at some point approved in the minutes. It will be necessary for a review to be carried out to identify any missing payments and retrospectively approve these.	
Bank Reconciliation	It was noted however that the monthly reconciliation in the minutes could be clarified to make the reading easier for the councillors. I have given a template to the clerk for this purpose.	

Overview of Council

	Work Task	Schedule Ref	Notes/Results
Terms of Engagement			
1	Review terms of engagement letter and confirm appropriate to this year		New engagement letter issued Engagement letter is kept on the correspondence file.
2	Confirm that the professional independence and competence questionnaire has been completed and agreed with the client	1.2	Yes – confirmed and attached
3	Complete Budget	1.3	Completed & Agreed with Client
4	Complete Timetable	1.4	Completed & Agreed with Client
Planning Notes – Understanding the Town & Parish Council			
	Number of electors and size of precept		2016/17 Precept £59,235 2015/16 Precept £59,811 2014/15 Precept £55,297
	Key personnel		Clare Kennet Clerk and RFO
	Type of financial accounting in place i.e. Manual books, computerised system		EXCELL Accounts system –
	Does the council carry out an annual risk assessment, and is it documented.		Yes
	Does the council have a good control environment (evidence of internal reviews and counter signing of cheques etc)		Yes
	Any significant changes since prior year (staff or procedures)		No changes from last year
	Any there any matters arising from last year's audit and/or management letter		None
	Matters arising from discussions with council, including whether there is any evidence of fraud or material misstatement.		None
	Payroll		Internal
	Petty cash		Yes
	Trusts		No
	Internet banking		No

Professional Independence and Competence Questionnaire

The internal audit function must be sufficiently independent from the management of financial controls and procedures of the council which are the subject of review. The person or persons carrying out internal audit must be competent to carry out the role in a way that meets the business needs of the council.

There are two key principles, which all local councils must follow in setting up their internal audit function, regardless of how procured: **independence and competence**.

INDEPENDENCE	
Do you have any specific reliance on the fee to be earned from this assignment	No
Overdue fees	
Does the client/group of clients owe the firm any money which exceeds our normal credit terms?	No
Litigation	
Is there any actual or anticipated litigation between us and the client in relation to fees, audit work or other work?	No
Associated firms	
Are you or your staff associated with any other practice or organisation which has had any dealings with the client council?	No
Family or other personal relationships	
Do you or any of your staff have personal or family connections with the council or its officers?	No
Mutual business interest	
Do you or any of your staff have any mutual business interests with the client or with an officer or employee of the client?	No
Financial involvement	
Do you or your staff, or anyone closely related to you or any of your staff, have any financial involvement in the client in respect of the following:	
Any beneficial interest in shares or other investments?	No
Any loans or guarantees?	No
Goods and services: hospitality	
Have you or any of your staff accepted materials, goods or services on favourable terms or received undue hospitality from the council?	No
Ex-partners or senior staff	
Has any senior officer of the council been a partner or senior employee of the practice?	No
Is the partner or any senior employee on the audit team in negotiations to join the client?	No
Long association	
Have you been acting for more than 10 years? If yes, then consider rotation/engagement quality review. 1st Year of auditing	No
Provision of other services	
Do we provide any of the following services to the client:-	
Accounting services, book-keeping or payroll services	No
Staff secondments	No
IT services where we are involved in the design, provision or implementation of systems	No
Specialist valuations which are included in the accounts	No
Tax compliance work or tax planning	No

Corporate finance activities	No
Any advocacy services e.g. Tax commissioner hearings	No
Any services relating to the management of the council	No
Any other services that may cause a threat to the firm's objectivity or independence	No
Where any of the above have been answered 'yes', then specify below what safeguards are proposed to maintain integrity and independence:-	
Competence	
Consider the following matters prior to deciding to accept appointment/re-appointment as auditors:	
Are there any particular challenges and risks associated with this client?	No
Do we have sufficient expertise available to undertake this audit engagement?	Yes
Are there sufficient resources available to undertake this audit engagement?	Yes
Having regard to the safeguards identified, I am satisfied that we are independent and competent to perform this audit.	

Budget

		Hours
Planning & Systems Work	Interim Visit	3
File Review and reporting	Interim Visit	1
Financial Procedures	Final Visit	3
File review	Final Visit	1
Total Budget Hours		8
Hourly Rate		£50
Time Cost		£400
Other costs	Mileage	£50
Total Budgeted Cost		£450
Total Budgeted Fee		£500

Timetable

Autumn 2016	Planning and Interim Audit work
June 2017	Final Audit work
June 2017	Issue Audit Report & Letter

Inherent Risk Assessment

Based on the above findings and discussions with council it is my opinion that the inherent risk within the systems of the council is categorised as follows

Work Task	notes	
Are standing orders and financial regulations regularly reviewed	Yes these were on site and were current and reference to a minute	Low Risk
Is council following its written Financial regulations & standing orders	Yes	Low Risk
Does the council have risk assessments in place and are these reviewed at least annually	Yes	Low Risk
Does the council have a committee or working party responsible for internal checking	Yes	Low Risk
Is there evidence of hierarchical review (counter signing bank rec, invoices etc)	Yes	Low Risk
Is there regular reporting against budget?	Yes	Low Risk
Are books and records maintained on a regular basis	Yes	Low Risk
Is the clerk under time pressure	No	Low Risk
Are there complicated transactions?	No complicated transactions	Low Risk
Any changes to key staff	No	Low Risk
Any changes in systems or procedures	No	Low Risk
Is all info on site and to hand?	All info on site and to hand	Low Risk
Any problems in the past	No problems in past	Low Risk
Are there any other factors to consider?	Records neat and tidy	Low Risk

Conclusion & Opinion

I discussed the system above with the RFO and reviewed an invoice picked at random, which contained all the details mentioned above.

The system in place is robust and entirely fit for purpose for a Parish Council of this size. There are good internal controls, policies and procedures in place which are reviewed on an annual basis.

I am of the opinion that the inherent risk in the system is low and would recommend a sample size of 10 when testing in detail and would also state that the internal controls can be relied upon.

Specific Audit Plan

Audit Area Section 4 Annual Return	Notes	Risk of error or misstatement	Tests	Ref
Appropriate books of account have been kept properly throughout the year.	EXCELL package in place, limited and uncomplicated transactions	Low	Review transactions in cashbook make verbal enquiries. Test arithmetic.	A
The council's financial regulations have been met, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.	Good, simple system	Low	Review invoices and reconcile to cash book in detail. Review minutes and cheque books for authorisations	B
The council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.	Risk assessment policy written risk assessments carried out	Low	Review and comment	C
The annual precept requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate	EXCELL and excel package used	Low	Review minutes for evidence of council discussion of the same	D
Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.	Precept, grant	Low	Test to precept application and other documentations as necessary. Analytical review on other items	E
Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.	limited Petty cash	Low	Review and comment	F
Salaries to employees and allowances to members were paid in accordance	Payroll processed using HMRC system	Low	Test rates and hours are authorised Test net wages to payments due	G

with council approvals, and PAYE and NI requirements were properly applied.				
Asset and investments registers were complete and accurate and properly maintained.	Fixed asset register in place	Low	Review insurance schedule and cashbook for missing items off the register	H
Periodic and year-end bank account reconciliations were properly carried out.	Regular reconciliations on EXCELL	Low	Test reconciliation in detail	I
Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, were supported by an adequate audit trail from underlying records, and where appropriate debtors and creditors were properly recorded.	Income and expenditure – although not required.	Low	Test audit trail sufficient for electors rights	J
Trust funds (including charitable) The council met its responsibilities as a trustee.	N/A			K

End of interim report