

Polegate Town Council

Internal Audit

Year Ended 31st March 2015



Prepared by: Mulberry & Co
Date of Interim Visit: 4th November 2014
Date of Final Visit: 11th May 2015

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 final report for your kind attention and presentation to the council. I am pleased to report that overall the systems and procedures you have in place are entirely fit for purpose and I would go so far as to say are a model of good practice; I therefore make no recommendation for change at this stage.

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 has 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 RBS package.
- Review of Income
- Review of Salaries
- Review of Fixed Assets
- Review of Annual Accounts
- Review of Trust information

A. BOOKS OF ACCOUNT

The RBS system was tested to verify the brought forward balances and to review the entries made to the cashbooks. Entries were posted in a clear and logical manner and the brought forward balances were correct. I make no recommendation to change this system

B. FINANCIAL REGULATIONS

The Financial Regulations and Standing Orders were reviewed in year and council agreed and minuted these properly. These documents are current and I make no recommendation to change at this time. I selected at random items to test from the financial regulations and am pleased to report these were being followed properly.

Payment procedures, including invoice authorisation, purchase order matching and cheque signing are satisfactory; and in accordance with financial regulations. I make no recommendation to change.

C. RISK MANAGEMENT & INSURANCE

A Regular review of risks is 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.

D. BUDGET & PRECEPT

Budgets are reported against regularly and there is sufficient detail to show if a deficit is going to be created. Council is aware that the budget is a form of control and minutes show where approval is sought prior to additional spend as already noted above.

E. INCOME

Income was tested to documentary evidence; it is banked properly and recorded correctly on the annual return.

F. PETTY CASH

There is a minimal float – no errors.

G. PAYROLL

Council approves the wages scale annually and this is minuted properly. Payroll calculations were checked and paye and national insurance deductions were tested – there were no errors. Councillors are paid allowances via the payroll. Expenses were properly approved and minuted.

H. ASSETS AND INVESTMENTS

The asset registers are up to date and properly maintained. These are a model of good practice..

I. BANK RECONCILIATIONS

The bank reconciliations for all accounts are properly prepared and presented to council and committee for verification and approval. The year-end reconciliation was correct with no adjustments other than for three un-cleared items. The system of reconciliation is working correctly.

J. YEAR END ACCOUNTS

Accounts were prepared on the income and expenditure basis. Debtors and creditors are properly shown and agreed to documentary evidence. Boxes 7 & 8 on the annual return are reconcilable. The variance analysis report showed reasons for the changes from the prior year.

K. TRUSTEESHIP

No trusts.

Mark Mulberry
Internal Auditor
11th May 2015.

Points Forward – Action Plan

Point Forward / Action needed	Auditor notes	Council response
Other		
None		

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		8,800 (2012/13: 8,800) Precept £261,421 Grant £25,743 = £287,164 (2012/13: Precept £215,530 Grant £30,286 - £246,156)
	Key personnel		Jo Ognjanovic – clerk and Rfo Chris Hale – admin Sue Godfrey– Admin and committee clerk
	Type of financial accounting in place i.e. Manual books, computerised system		RBS Omega Accounts system, RBS perform year end
	Does the council carry out an annual risk assessment, and is it documented.		Standing Orders – May 2014 Financial Regs – May 2014 – To be updated again prior to year end for new Frs Risk Assessments – continuous on going process
	Does the council have a good control environment (evidence of internal reviews and counter signing of cheques etc)		Yes – we have reviewed the system and made notes and recommendations for the future.
	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		External auditor made comment regarding internal control was in their opinion was inadequate
	Matters arising from discussions with council, including whether there is any evidence of fraud or material misstatement.		None
	Key high risk or expected problem areas,		None

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. 6th 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	2
File Review and reporting	Interim Visit	1
Financial Procedures	Final Visit	2
File review	Final Visit	1
Total Budget Hours		6
Hourly Rate		£50
Time Cost		£300
Other costs	Mileage	£20
Total Budgeted Cost		£320
Total Budgeted Fee		£350

Timetable

Autumn 2014	Planning and Interim Audit work
May 2015	Final Audit work
May 2015	Issue Audit Report & Letter

Systems Notes

Polegate Town Council is located in a local shopping area in its own self-contained offices, which comprise a suite of rooms (also used as council meeting room), toilet facilities. The offices are freehold owned. The offices are open daily from 9.00 am to 1.00pm Monday to Friday. There are two members of staff on site during these times, the Clerk & RFO, admin assistant.

Expenditure:

Clerk will identify that expenditure is required, clerk will order goods or services, clerk is generally responsible for ensuring goods or services are completed and will authorise and check orders raised by the admin assistant.

Invoices arrive by post, the invoice is date stamped. Clerk will verify invoice details; invoice is labelled and annotated with nominal ref, cheque number and amount, date and sign off. Invoices then filed in signing off folder

A cheque is then completed in readiness for payment and signature. Invoices are posted to the system, once the cheque has been signed off. Cheque numbers are used to ensure that no invoices are missing. Statements are reconciled to the system to ensure either paid or received.

Quotes are obtained depending on the expense type and amount, for those amounts over £2,000 three quotes are obtained. However, if deemed appropriate or significant a quote will be obtained even if below the £2,000 limit. The public tender limit £60,000

Expenditure has to be authorised by the council before payment can be made; however, the Clerk has a pre-authorised limit of £2,000.00.

Payment:

The council pays all suppliers as soon as possible which is generally every two weeks. In readiness for each meeting the RFO prints the payments list from RBS and prepares cheques for signature.

At a fortnightly meeting two signatories sign the cheques, initial the cheque book stubs, counter sign the invoice. The RFO issues the cheques by post.

There are direct debits for electricity, district council, telephone, PWLB & water. There is also a visa credit card in the name of the council. There is one card issued to the RFO and maintenance – both are kept in locked safe. Full council authorises the payments made by credit card.

There are six signatories. Lead Councillor of finance and 5 councillors. When there are changes the mandates are updated.

Petty Cash:

There is a petty cash system, with a total float of £100.

General Controls

The council has good general controls

- Specified opening hours
- Report against budget at each PC meeting
- Locked offices
- Passwords on computers
- External PC back up – daily
- Finance committee – bi monthly

Finance Committee

The finance committee is scaling back its responsibilities and will be responsible for reviewing budgets, all other decision making is being returned to full council which meet monthly.

Income

The council has three streams of income :-

1. Precept 75% - bacs

2. Rent & Hire 15% - cheques and cash
3. Amenities } - cheques and cash
4. Finance } 10% - interest income - bacs

Staff

There are personnel files on all members of staff.

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.	RBS 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	RBS 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.	Only income is precept	Low	Test to precept application	E
Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.	No Petty cash	Low	Nothing to test	F
Salaries to employees and allowances to members were paid in accordance with council approvals, and PAYE and NI requirements were properly applied.	Payroll processed using HMRC system	Low	Test rates and hours are authorised Test net wages to payments due	G
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	Regular reconciliations on RBS	Low	Test reconciliation in detail	I

reconciliations were properly carried out.				
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 & Expenditure	Low	Test audit trail sufficient for electors rights	J
Trust funds (including charitable) The council met its responsibilities as a trustee.	No Trusts	Low	Review and comment	K

Audit Findings

(A) Proper Bookkeeping

Objective	To confirm that appropriate books of account have been properly kept throughout the year
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The basic record of receipts and payments is always the starting point of an accounting system; the majority of internal controls will work back to that original record. It is essential that the system requires that the **basic cash book is kept up to date** and **balances are regularly verified against a bank statement** or the actual cash in the petty cash tin. This record will also **agree with the supporting vouchers**, invoices or receipts. Even though the arithmetic may be automatic on a computer based system it is necessary to **check that the additions and balancing are correct**. The level of checking will depend on who does what and with what frequency. Where there is a **computer based system**, the reliability of information reported by the system depends on the quality and accuracy of data input, and how it is then processed, and **so tests of the integrity of data input and processing should be considered**. A councillor or member of staff may do the checking or verification; internal audit will test that the checking verification within the system has been undertaken.

Test		Comments / Conclusions / Points Forward
1	Using the previous year's annual return agree the current year's brought forward balances in the cash book.	The RBS system has automatically transferred the closing to opening balances. The cash book balances b fwd agrees to the 2013/14 cwfd balances.
2	Review the nominal ledger/cashbook for large and unusual entries and agree to supporting documentation	There were no unusual or rounded amounts all entries are referenced and can be traced to supporting documentation.
3	Verify arithmetic by casting a sample of the cash book, if this is maintained electronically check one month only	RBS is an electronic system, I have verified the arithmetic by testing the bank rec at month 1. There were no errors.
4	Is the cashbook maintained and up to date	Cashbooks are maintained almost on a daily basis
5	Is the cashbook regularly balanced	Evidence seen to show bank reconciliations are produced on a regular basis
6	Is the data input by the RFO checked internally	There is no evidence of hierarchical review; however my own view is such that data input appears to be robust.

OVERALL CONCLUSION (Subject to points carried forward in final notes)

Satisfactory – I am of the opinion that the RBS package is being used properly, and that it is fit for purpose for a council of this size. I was pleased to see that the books and records on RBS are regularly maintained and clerk/RFO has a positive attitude to keeping these up to date.

(B) Financial Regulations, Standing Orders & Payment Controls

Objective	To confirm The council’s financial regulations have been met, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.
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The first step in establishing a financial system is to identify the general rules applicable at council or committee meetings and in carrying out the council’s business. The Standing Orders, Financial Regulations and other internal instructions do this. **Internal audit should have a copy of the current Standing Orders, Financial Regulations and any internal instructions.** Internal audit’s report to the council will include any recommendations for improvement in these documents arising as a result of their work during the year. The level of checking will depend on the content of the Standing Orders and Financial Regulations. The amount of work may well vary, and more extensive testing of compliance may be needed from time to time, but as a minimum, having established whether the **council has within the year reviewed its Standing Orders and Financial Regulations** for continued relevance, internal audit will test.

In purchase order procedures:

- that the **correct number of estimates, quotes or full tenders** depending on estimated value of contract **have been obtained** (Standing Orders will state the value at which tenders are required; Financial Regulations or Standing Orders will show the value where estimates or quotes only are required);
- that **proper purchase authority by council, a committee or officers** (under clear delegated powers) **is in place**; and
- that a **proper legal power has been identified** for the expenditure.

In purchase payments:

- that the supporting paperwork confirms that there is a **fully approved invoice and authorisation for payment**; and
- that **VAT is identified** appropriately for reclaim.

In most councils these checks can be limited to a sample of transactions selected at random, plus those which are large or unusual, such as each payment for a value in excess of £1,000, or some other figure appropriate to the level of activity of the council. The aim is for **internal audit to check that the systems put in place by management are working and are appropriate.**

Standing Orders and Financial Regulations may well repeat the statutory requirement to maintain ‘a separate account’ of expenditure and income under Local Government Act 1972 section 137 and Local Government Act 1986 section 5. **Internal audit should check annually that such an analysis is kept** and that the **cash limit in section 137 is not exceeded.** Internal audit may scrutinise the resulting list of expenditure and should consider whether the power is being properly used but would not check through for the correct analysis of every item.

Internal audit should also check that **payments of interest and principal** in respect of loans (and investments if any are held) are **in accordance with an agreed schedule.**

Test		Comments /Conclusions /Points Forward
1	Has the council formally adopted standing orders and financial regulations?	Copy given to IA on arrival. These was reviewed and commented upon. These are based on the NALC published model and will be reviewed and updated annually There are no changes to the original documents.
2	Has a Responsible finance officer been appointed with specific duties?	Yes the Clerk is the appointed RFO.
3	Have items or services above the de minimus amount been competitively purchased?	Not applicable

4	<p>Are payments in the cashbook supported by invoices, authorised and minuted?</p> <p>Test a random sample of items to verify that internal controls are operating as described:-</p> <p>Purchase order procedures:</p> <ul style="list-style-type: none"> that the correct number of estimates, quotes or full tenders depending on estimated value of contract have been obtained that proper purchase authority by council, a committee or officers (under clear delegated powers) is in place; and that a proper legal power has been identified for the expenditure. <p>Purchase payments:</p> <ul style="list-style-type: none"> that the supporting paperwork confirms that there is a fully approved invoice and authorisation for payment; and that VAT is identified appropriately for reclaim 	<p>Tested 4.4 Adequate and effective system of internal control. New committee created for internal control and review. Will meet bi annually. Written report to full council annually. The committee has been given detail from Fr and GA regarding what is suitable and they will then determine plan to test.</p> <p>Tested 5.2 Schedule of payments prepared for approval – approved system working correctly</p> <p>Tested 5.3 & 5.4 Cheque stubs are initialled twice. Invoices are signed off and annotated per Fr's</p> <p>Tested 6.2- 6.3 I reviewed an invoice drawn at random and was able to verify this to the cashbook and the nominal ledger.</p> <p>VAT is properly accounted for by the RBS system, the workings agreed to the Tb and the refund.</p> <p>Tested 6.5 petty cash float £100 – counting showed £44 of cash and receipts</p>
5	Has VAT on payments been identified, recorded and reclaimed?	Yes
6	Is s137 expenditure separately recorded and within statutory limits?	Yes – however none in council year
7	Note down if council is registered for VAT or if they use the annual reclaim method	Council is registered for VAT
8	<p>Review VAT returns for supporting documentation and verify a sample of transactions to</p> <ul style="list-style-type: none"> Invoices Other third party evidence Correct rate of VAT Correct treatment of VAT 	<p>Council used RBS system to record VAT</p> <p>VAT returns submitted quarterly – evidence noted of refunds received. No late returns</p>
9	Review bank account for payments or receipts of VAT	Receipts of refunds in evidence
10	Reconcile VAT returns to cash book	Reconciles
11	Ensure Returns are made on a prompt basis	Yes quarterly – as above

OVERALL CONCLUSION (Subject to points carried forward in final notes)

Satisfactory – The nominal ledger balances are brought forward correctly and the postings to the nominal accounts are properly made

(C) Risk Management

Objective	To confirm the council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.
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The greatest risk facing a local authority is not being able to deliver the activity or services expected of the council. The council is likely to be managing many of those risks when it **reviews its insurance** and its systems. **The minutes are an essential record of such reviews. Budget setting and insurance review are annual activities;** the review of systems may be less frequent.

It is suggested that **systems should be reviewed** in some detail, unless triggered by external or internal audit reports, or change in risk, at least **every four years** or **on the change of Clerk/RFO**. This might be more appropriate for larger councils on a cyclical basis.

Minutes should be checked by internal audit for any suggestion of unusual activity and evidence that risks are being identified and managed.

Test		Comments / Conclusions / Points Forward
1	Does a review of the minutes identify any unusual financial activity?	No
2	Do minutes record the council carrying out an annual risk assessment?	Yes
3	Is insurance cover appropriate and adequate?	Council is insured by Zurich, assets are listed and can be related to the register of assets. The asset register is adequate for a council of this size.
4	Are internal financial controls documented and regularly reviewed?	There are no internal financial controls other than financial regulations and standing orders. Council would not benefit from additional regulations at this stage.
5	Review financial & Other risk assessment and ensure up to date, note down any significant risks facing the council	Risk assessments are carried out and reviewed on an on-going basis; these are kept electronically and minuted. The council has a good attitude to risk assessment and the recording thereof I am of the opinion that the council considers risks very carefully and has controls and or insurance in place.
6	Document retention & Data Back up	The council is aware of the LTN 40 in this respect and this is being taken to the next F&P meeting. Council has good awareness of the current regulations.

OVERALL CONCLUSION (subject to points carried forward in final notes)

Satisfactory – The council has a positive attitude to risk assessment and documents the assessments and reviews in a logical manner

(D) Budgetary Controls

Objective	To confirm the annual precept requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.
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Internal audit will not check the budget but will verify that a budget has been properly prepared by the council and adopted in setting the precept. The regular reporting of expenditure, and variances from budget, is an important part of the proper control of public money. **Internal audit will expect to see the regular reports to council and the variance analysis.** That variance analysis and the decisions of council or committee taken as a result may suggest areas for additional analysis by internal audit. Part of budgetary control is to ensure **adequate but not excessive reserves** or balances. **Progress against budgets should be regularly monitored.** It is particularly helpful when determining the likely precept that will be required for the following year. **Internal audit will be keen to establish that this has taken place.**

Test		Comments /Conclusions /Points Forward
1	Has the council prepared an annual budget in support of its precept?	yes
2	Note how client prepares budget	Agreed full council – December/January
3	Is actual expenditure against the budget regularly reported to the council?	Line by line detailed review comparing to prior years and known future expected spend
4	Are there any significant unexplained variances from budget?	There are no significant variances at month 6 that need to be reported on – council is very aware of rules regarding budget reporting
5	Review council’s reserves and reserves policies and make a note of how many months cover they have and whether this is sufficient for this particular council	Precept & grant £260k x50% = £130k Expenses £200k x 4/12ths £133k General overhead ideally circa £131k Councils general reserves are £125k – this is reasonable. Council has detailed plan on use of reserves and general reserves are being reduced to a lower level. The council has very good budgeting and reserves process.

OVERALL CONCLUSION (subject to points carried forward in final notes)

Satisfactory – The council has budgets in place and evidence suggests performance against budget has been reviewed on at least one occasion. Reserves are reasonable and no evidence of capital and revenue reserves being mixed.

(E) Income Controls

Objective	To confirm expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.
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Internal audit will look for evidence that the precept and grant income is properly and promptly received. In value this is usually the largest item of income. **Internal audit is more likely to focus on other income particularly where it is unusual or cash-based.** Cash income brings higher risks, in turn requiring greater control by ticket issues, receipt issues, segregation of duties of the cashier and the invoice-raising clerk. **The need for greater control implies a need for internal audit to verify the operation of all checks and balances.**

If the council has let property or holds investments, then the council should have established a system to ensure regular income collection; a diary of expected dates of income etc. **Internal audit will look for evidence of such activity and any necessary progress or invoice chasing.**

If the income is from quoted investments there is a clear risk to be addressed in terms of identifying the investment policy to be followed, controls over who can initiate a change of investment and an awareness of the investment risks being accepted.

Test		Comments /Conclusions /Points Forward
1	Is income properly recorded and promptly banked?	Precept and grant received by bacs properly recorded in cashbook and annual return. Other receipts banked and recorded properly in accordance with regulations
2	Does the precept recorded agree to the Council Tax authority's notification?	Yes – agreed to application as seen by IA
3	Are security controls over cash and near-cash adequate and effective?	Cash is very minimal less than £100 per annum
4	Is VAT correctly applied at the correct rates	Council is registered for Vat and RBS system calculates VAT properly – not VAT on rents – VAT on selected items, clerk and staff are knowledgeable in this area.
5	Is there income from sale of investments or investment income	No

OVERALL CONCLUSION (subject to points carried forward in final notes)

Satisfactory – The income process is carried correctly in accordance with documented procedures.

(F) Petty Cash Procedure

Objective	To confirm Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.
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Internal audit will be looking to see that there is an established system in place rather than ad hoc reimbursement. If the clerk is reimbursed for all small cost expenses or there is a separate cash float, a regular payment must be made to keep up to date. **Internal audit would be looking to see that reimbursement is regular and evidence that on occasions an independent person has physically counted the cash balance and checked to be in agreement with the up-to-date record.** The council should have a system for the regular approval of petty cash expenditure.

Test		Comments/Conclusions
1	Is all petty cash spent recorded and supported by VAT invoices/receipts?	Yes – petty cash is minimal
2	Is petty cash expenditure reported to each council meeting?	Yes – minimal
3	Is petty cash reimbursement carried out regularly?	Annually
4	Review petty cash records for unusual amounts	None
5	Test count the petty cash and agree to accounting records at today’s date if not conducted at the year end.	Petty cash float £100.
6	Select a sample of petty cash payments and receipts and agree to supporting documentation, verifying <ul style="list-style-type: none"> • Amounts • Authorisations • VAT analysis 	No benefit – minimal transactions – petty cash no longer used.

OVERALL CONCLUSION (subject to points carried forward in final notes)

Satisfactory – Petty cash is processed in accordance with financial regulations.

(G) Payroll Controls

Objective	To confirm Salaries to employees and allowances to members were paid in accordance with council approvals, and PAYE and NI requirements were properly applied.
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Internal audit will be seeking reassurance that the system is delivering the correct payments for wages and salaries and that PAYE/NIC is correctly deducted from the gross pay and paid to HM Revenue and Customs. Historically, one of the greatest areas of risk for local councils has been the improper payment of wages and salaries, together with the lack of proper deduction of income tax and national insurance contributions.

There are some simple tests to establish whether a person is employed by a local authority or can be regarded as a contractor. **The clerk is always regarded as an employee – as an ‘office holder’. As an employer, the council must operate PAYE/NIC.** If correct deduction for tax or national insurance is not made by the employer, HM Revenue and Customs has the right to seek the lost tax and contributions from the employer as if the payments made were after deduction of the appropriate amounts (i.e. the amount sought is ‘grossed up’). There may also be a liability for interest and penalties that can increase the sum significantly. The clerk, even at the smallest of councils, will need to be able to produce evidence that the correct tax treatment of salary has been arranged with HM Revenue and Customs. HM Revenue and Customs often seek to avoid setting up a PAYE scheme for a single employee whenever possible, so will seek to ‘code out’ any parish council salary through other income, pension scheme or by direct assessment. The council should have an up to date letter from HM Revenue and Customs (addressed to the Council) confirming that arrangements to their satisfaction have been made for the particular employee. Internal audit may verify that evidence each year as part of the annual statement forming part of the annual return.

Changes to contracts of employment (whether annual salary change, or other) require formal agreement by the council as well as being evidenced by a written statement to the employee. The council should record evidence of approved changes in employment contracts in employee records. **Internal audit should check that this evidence is in place and agree sums paid to those sums shown as payable.** The purpose of specifically investigating the PAYE/NIC system recognises the risks inherent in these items, either through fraud or error, and the risk of significant management time and penalties in making corrections if errors arise.

Test		Comments/Conclusions
1	Do all employees have contracts of employment with clear terms and conditions?	Yes
2	Do salaries paid agree with those approved by the council?	Council approves salary scales and changes to payroll – and minutes this – IA has seen minutes. Councillor allowances paid via payroll Payroll calculated by external bureau
3	Are other payments to employees reasonable and approved by the council?	Yes – generally for mileage – forms part of the normal routine of payment authorisations. IA seen evidence of approved expense claim for clerk.
4	Have PAYE/NIC been properly operated by the council as an employer?	Yes this is calculated and paid on a monthly basis.
5	Check a sample of payroll deductions. Verifying calculation of PAYE & NIC	Payroll deductions tested on annual basis for employee selected at random – no errors. Deductions are correct.
6	Check employee existence by physical verification or by reference to documentation (e.g. personnel files, coding notices etc).	Employees are bonafide

7	Check payroll is signed by a responsible official.	Payroll signed off by clerk and council as part of a new process
8	Test check net wages & PAYE per the cash book to the payroll	Nominal ledger shows where applicable 12 monthly payments of wages, pension and NI
9	Review cash book for unusual payments not put through the PAYE/NI system (e.g. casual labour, round sums, private bills etc).	No unusual amounts to report.

OVERALL CONCLUSION (subject to points carried forward in final notes)

Satisfactory – salaries and processing of salaries are correct. There are no errors.

(H) Asset Control

Objective	To confirm asset and investments registers were complete and accurate and properly maintained.
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The Council is required to maintain an asset and investment register. In the smallest councils, this may only be a note produced for members and local electors. **Internal audit will be interested in seeing that there is evidence that the continuing existence of owned and managed assets is checked on a regular basis.** In a larger council the register may be hand written, typed or computer produced; the essence is the same in that the system should be verified on a regular basis. This verification **should include confirmation that insurance cover is adequate and sufficient.** If investments are held, the asset register will be a more active record; it should include details of cost, values, and expected income that can be checked against the actual income. Dates and references to minutes of the members’ review of the investments against the investment policy might also be included.

Test		Comments/Conclusions
1	Does the council maintain a register of all material assets owned or in its care?	Yes – detailed fixed asset register maintained in electronic format.
2	Are the assets and Investments registers up to date?	Yes registers are up to date and complete. No investments.
3	Do asset insurance valuations agree with those in the asset register?	Sample testing was able to relate this to the current insurance schedule.
4	Obtain details of additions and select items to test to invoice or other supporting documentation, having regard for VAT element	Movement on register was verifiable
5	Conduct physical verification of selected assets to make sure that they are in regular use and check to fixed asset register	Reviews of office equipment – assets were physically noted to be in use. Value per register is reasonable.
6	Check title for properties to documents of title and land registry and obtain details of any charges (NB: this may require confirmation from third parties)	Not applicable

OVERALL CONCLUSION (subject to points carried forward in final notes)

Satisfactory. Council maintains and records assets properly.

(I) Bank Reconciliation

Objective	To confirm Periodic and year-end bank account reconciliations were properly carried out.
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In most councils, the bulk of the financial records will be concerned with a current account and a form of deposit account at a bank or building society. A regular feature of the financial system will be the reconciliation of the balances shown on the statements with those calculated in the council’s financial records. **It is strongly recommended that on receipt of a bank statement, there should be a reconciliation of the appropriate cash book record. Internal audit will wish to see that this has been done**, but should not undertake the reconciliation unless it requires re-performance. **It may be appropriate for the year end balances and the reconciliation to be checked in detail.**

The basic cash book record must not be written up from the bank statements. That approach does not provide any form of control. The cash book record is written up from the council’s records: cheque counterfoils and the paying-in books, together with the known direct payments and credits. It is the cash book record that is checked regularly against the bank statements to provide control.

The bank reconciliation should include a note of the historic cost of current investments held by the council, if any, so that this can also be monitored to ensure that these funds are performing in the way planned by the council and also so that the council can have, each time this is reviewed, as complete a picture as possible of its liquidity and available funds.

As part of internal control, a member may be appointed to review the bank reconciliation in detail and to evidence that review by signing the reconciliation form and the bank statements.

Test		Comments/Conclusions
1	Is there a bank reconciliation for each account?	Yes
2	Is the bank reconciliation carried out regularly and in a timely fashion?	Yes - monthly
3	Are there any unexplained balancing entries in any reconciliation?	None in evidence.
4	Is the reconciliation signed off by a member	Yes – signed off by council
5	Test check the year end reconciliation in detail	No errors – March 2015 reconciliation checked by IA
6	Prepare or obtain a schedule of investments showing all movements in the year and agree opening balances.	N/A
7	Test check value of listed investments at year end for disclosure in financial statements.	N/A
8	Test purchases and sales with agreements, contract notes and minutes	N/A
9	Is the value of investments held summarised on the bank reconciliation?	N/A
10	Check income has been received on all income yielding investments on a consistent basis and ensure tax has been correctly accounted for.	N/A

OVERALL CONCLUSION (subject to points carried forward in final notes)

Satisfactory – bank reconciliations are carried out and reviewed properly.

(J) Year - End Procedures

Objective	To confirm 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.
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It is the duty of the council and the RFO to produce the year-end accounting statements. **Internal audit will be looking to see that the appropriate accounting basis is used, that the figures can be followed through on working papers and adjustments, transfers, contra entries etc. are fully explained and justified.** Internal audit would not be expected to check all figures but will probably verify a small sample and the totals.

Councils accounting on an Income and Expenditure basis will have a system in place for identifying outstanding amounts (receivable and payable) and then for deciding on their materiality for inclusion in the accounting statements. **Internal audit will scrutinise the lists of creditors and other balances to ensure that the system is working adequately and that the RFO has correctly identified transactions in the one year that may in whole or part relate to another.**

Test		Comments/Conclusions
1	Are year-end accounts prepared on the correct accounting basis (Receipts and Payments or Income and Expenditure)?	AR completed correctly and casts correctly. Income and expenditure basis used.
2	Do accounts agree with the cashbook?	Yes – RBS package has full integrated audit trail. NL verified to annual return summary.
3	Is there an audit trail from underlying financial records to the accounts?	Yes – as noted above RBS very robust system in this regard.
4	Where appropriate, have debtors and creditors been properly recorded?	Yes – Boxes 7 – 8 reconciliation prepared and verified. Debtors and creditors appropriate with documentary evidence seen by IA.
5	Has the Annual governance statement been signed off	Yes – will be taken to council in May
6	Has the annual return been completed in full	Yes
7	Has the council got a system in place for reviewing the effectiveness of internal controls	Yes – council reminded to ensure minute referring to approval of section 2 of annual return is detailed enough to show work undertaken by council throughout the year.

OVERALL CONCLUSION (subject to points carried forward in final notes)

Satisfactory – accounts properly prepared.

(K) Trust funds (including charitable)

Objective	To confirm the council has met its responsibilities as a trustee
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Test		Comments/Conclusions
1	Is the council a sole trustee and is it responsible for managing trust fund assets	
2	Note down names of trusts council is a trustee of	
3	As sole trustee has the council properly carried out its duties in respect of financial reporting and or audit.	
4	Carry out any other tasks deemed necessary	

OVERALL CONCLUSION - (subject to points carried forward in final notes)

No trusts