

Chiseldon Parish Council

Internal Audit Report

27 June 2018

Chiseldon Parish Council

Internal Audit Report

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Scope of internal audit

Sansum & Co Limited have been engaged to carry out a limited internal audit to meet the minimum requirements of the Annual Return for the year ended 31 March 2018.

The areas examined were:

- A. Have appropriate accounting records been kept properly throughout the year?
- B. Has this smaller authority met its financial regulations, payments are supported by invoices, all expenditure was approved and VAT was appropriately accounted for?
- C. Has this smaller authority assessed significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these?
- D. Has the precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate?
- E. Has expected income been fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for?
- F. Are petty cash payments properly supported by receipts, all petty cash expenditure is approved and VAT appropriately accounted for?
- G. Are salaries to employees and allowances to members paid in accordance with this smaller authority's approvals, and PAYE and NI requirements properly applied?
- H. Are asset and investments registers complete and accurate and properly maintained?
- I. Are periodic and year-end bank account reconciliations properly carried out?
- J. Have accounting statements prepared during the year, prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate debtors and creditors were properly recorded?

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Overall conclusion

The audit trail from the accounting statements 2017/18 to the supporting documents is well organised and overall the accounts are a true and fair reflection of the transactions that have occurred during the year to 31 March 2018. There are no areas of concern over the control procedures currently in place. We have however made some minor recommendations to enable more efficient processes.

Recommendations

- It was noted that review of risk matrices are not being minuted and would recommend that this is included in the future.
- It was noted that the employee's pension contribution was not posted to salary cost but had been included in pension cost. We would recommend that the monthly pension payment is split appropriately. Employee contributions should be allocated to staff wages whilst employer contributions should be allocated to pension cost.
- We identified a couple of instances where the customer had been charged the 2015/2016 rate instead of the lower '2016/17/18' rate. It was clear that the customer had agreed the rate in advance and the difference was only a few pounds. To avoid this error in the future it would be sensible to maintain a price list with only the current prices on it so the incorrect figure cannot be selected.

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Detailed Report

A - Have appropriate accounting records been kept properly throughout the year?

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.

Section Conclusion

The accounting records have been kept up to date throughout the year on Xero as evidenced by the reports prepared for the various committee meetings during the year.

Bank reconciliations are being reviewed monthly for the current account and every three months for the savings account.

Invoices are being approved by the chair of the committee and the responsible financial officer prior to payment.

We are able to confirm that the internal control objective has been met.

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B - Has this smaller authority met its financial regulations, payments are supported by invoices, all expenditure was approved and VAT was appropriately accounted for?

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.

For purchase order procedures:

- the correct number of estimates, quotes or full tenders depending on estimated value of contract should be 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);
- the proper purchase authority by council, a committee or officers (under clear delegated powers) is in place; and
- the proper legal power has been identified for the expenditure.

For purchase payments:

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

Section Conclusion

We obtained a copy of the 'Financial Regulations of Chiseldon Parish Council' which had been recently amended in January 2018 and approved by the council on 16 March 2018. The regulations referred to the Accounts and Audit Regulations 2015, the current regulations. The Accounts and Audit Regulations 2015 came into force on the 1st April 2015 and superseded the Accounts and Audit Regulations 2014.

It was noted that the expenditure was given adequate review in the full council meetings and possible discrepancies identified and challenged.

We selected a number of expense transactions which showed that VAT was being recorded and recovered appropriately and that there was documentary evidence to show that the invoice had been checked by the RFO and that the invoice had been authorised for payment by the appropriate committee chairperson and budget holder.

We confirm that the internal control objective has been met.

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C - Has this smaller authority assessed significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these?

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.

Section Conclusion

We have viewed a number of risk matrices and observed that they have been signed by the chair of the parish council and that they are reviewed every six months.

It has been noted that review of risk matrices are not being minuted and would recommend that this is included in the future.

We confirm that the internal control objective has been met.

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D - Has the precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate?

It is important that the 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. 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.

Section Conclusion

We have reviewed the minutes for approval of the budget and annual precept dated 19th January 2018. We have also reviewed an example of the financial information prepared for council meetings.

It was noted that the increased budget and precept was suitably discussed and challenged prior to final approval

No significant issues have been identified in this area. We are able to confirm that the internal control objective has been met.

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E - Has expected income been fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for?

It is important that precept and grant income is properly and promptly received. In value this is usually the largest item of income.

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.

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.

Section Conclusion

We selected a number of items from order documents and ensured that these had all been collected and banked in a timely manner. No issues were identified with the collection of amounts due and the timely banking of receipts.

We identified a couple of instances where the customer had been charged the 2015/2016 rate instead of the lower '2016/17/18' rate. It was clear that the customer had agreed the rate in advance and the difference was only a few pounds.

To avoid this error in the future it would be sensible to maintain a price list with only the current prices on it so the incorrect figure cannot be selected.

Outstanding debts are tracked on Xero and have been appropriately adjusted to take account of cash accounting.

Cash receipts and payments are no longer accepted.

We are able to confirm that the internal control objective has been met.

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F - Are petty cash payments properly supported by receipts, all petty cash expenditure is approved and VAT appropriately accounted for?

It is important that a petty cash float is maintained rather than simply reimbursing the clerk for small cost expenditure. The petty cash float should be regularly reimbursed 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.

Section Conclusion

A petty cash float is no longer maintained. Expense claims are submitted by an expense form and approved and paid in the same way that other invoices are approved.

We are able to confirm that the internal control objective has been met during the year.

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G - Are salaries to employees and allowances to members paid in accordance with this smaller authority's approvals, and PAYE and NI requirements properly applied?

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.

Recent changes in employment law have introduced auto-enrolment for pensions and as such anyone earning more than £10,000 annually and aged between 22 and retirement age must be enrolled into a pension scheme.

Section Conclusion

Payroll is calculated using HMRC's Basic PAYE Tools. Payroll has been correctly applied with monthly payroll journals being entered on Xero and the balance sheet checked regularly to ensure that wages and PAYE/NI have been paid correctly.

A pension scheme has been setup with NEST and pension contributions are being paid monthly by direct debit.

It was noted that the employee's pension contribution was not posted to salary cost but had been included in pension cost. Whilst this is a minor error it could lead to misunderstandings concerning the council's contribution to pensions and staff wage cost. Therefore we would recommend that the monthly pension payment is split appropriately between staff wages and pension cost.

We can confirm that the internal control objective has been met.

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H - Are asset and investments registers complete and accurate and properly maintained?

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.

Section Conclusion

The asset register is now being maintained and has been for the complete year, thereby meeting the requirements above. In combination with the risk assessment the asset register is reviewed twice yearly.

A minor recommendation to aid in the reconciliation of the asset register to prior and current year annual reports would be analyse the total column into columns for additions in the year, disposals and value s brought forward and carried forward.

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I - Are periodic and year-end bank account reconciliations properly carried out?

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.

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.

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.

Section Conclusion

Bank reconciliations are being reviewed monthly for the current account and every three months for the savings account, including the year end reconciliations.

We can agree that the internal control objective has been met.

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J - Have accounting statements prepared during the year, prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate debtors and creditors were properly recorded?

For councils with turnover of less than £200,000 the annual return can be prepared on a receipts and payments basis, or, if the council so wishes, it may be prepared on an income and expenditure basis.

The receipts and payments basis requires councils only to consider their actual bank and cash transactions. The entries for the annual return will usually be taken straight from the summary totals in the cash book.

Section Conclusion

The parish council has less than £200,000 income per year and is therefore entitled to prepare the Accounting Statements on a receipts and payments basis.

We have agreed the totals included in the Accounting Statements to those of the profit and loss report from Xero and the comparative numbers to those submitted in the 2016/17 return.

The audit trail is very clear and well organised and it is easy to follow income included in the Accounting Statements to the cashbook, the bank, the invoice and lastly to order documentation. Likewise expenses are easily traced through to the cashbook and to their supporting invoices.

We can confirm that the internal control objective has been met.

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Internal audit procedures

Internal audit is an on-going function reporting to the council at least once a year. It is, however, a function that should not only be carried out once each financial year; nor should it be carried out only at the completion of each financial year-end. It is good practice for internal audit to be undertaken regularly throughout the financial year to test the continuing existence and adequacy of internal controls.

Further guidance relating to the appointment of an internal auditor, the scope and requirements of an internal audit can be found in Governance and Accountability for Local Councils: A Practitioners Guide (England) which can be found on the internet.

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Appendix A – Notes to accompany the annual internal audit report

Additional notes

Section F

No work has been carried out during the internal audit on petty cash payments as the parish council no longer receives or pays for expenses with cash and therefore does not maintain a petty cash float.

This is not expected to change in the future and therefore no work is planned in this area for the future.