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# **Thornborough Parish Council**

*Internal Audit Report 2017-18*

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## **Background and Scope**

Statute requires all town and parish councils to arrange for an independent internal audit examination of their accounting records and system of internal control and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR). This report sets out the work undertaken in relation to the 2017-18 financial year.

## **Internal Audit approach**

In undertaking our review for the year, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts / AGAR. Our programme of cover is designed to afford appropriate assurance that the Council has appropriate and robust financial systems in place that operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Internal Audit Report' as part of the Council's AGAR process, which requires independent assurance over ten internal control objectives.

## **Overall Conclusion**

We have concluded that, based on the satisfactory completion of our programme of work for the year, the Council has again maintained adequate and effective internal control arrangements. We have identified a few issues which we believe warrant formal comment or recommendation, as detailed in the body of the report and further summarised in the appended Action Plan.

We have completed and signed the 'Internal Audit Report', having concluded that the control objectives set out in that Report have been achieved within the financial year to a standard adequate to meet the needs of the Council.

# Detailed Report

## Maintenance of Accounting Records and Bank Reconciliation

The Clerk has again used a spreadsheet to record detail of transactions during the year, which we consider appropriate given their relatively low volume. Two bank accounts continue in use with NatWest Bank plc. We have checked and agreed detail of all spreadsheet recorded transactions to the relevant bank statements for the full year.

We are pleased to note that the cashbook is routinely reconciled to bank statements and have checked and agreed the closing reconciliation as at 20<sup>th</sup> March 2018 to bank statements and the detail disclosed at Box 8, Section 1 of the AGAR. As bank statements covering the end of the financial year were also available, we completed a bank reconciliation as at 31<sup>st</sup> March 2018 with no issues arising, the only change to the Clerk's 20<sup>th</sup> March reconciliation being that the three unrepresented cheques had cleared by the year-end.

### *Conclusions*

*We are pleased to report that no significant issues have arisen in this area.*

## Review of Corporate Governance

We are pleased to note that both Standing Orders (SOs) and Financial Regulations (FRs) were subjected to scrutiny by the Council and re-adopted at the May 2017 meeting. We note that both identify a consistent value of £10,000 above which formal tender action is required.

We have continued our examination of the Council's minutes for the year to ensure that no legal or financial issues exist or are developing that may have an adverse affect on the Council's financial stability either currently or in the foreseeable future and are pleased to record that no such matters were identified.

The Council incurred expenditure in 2017-18 in excess of the £10,000 formal tender limit on the purchase of new play equipment. The FRs set out the following requirements for a formal tender:

- (a) Applications to be sent to the clerk in specifically marked envelope and remained sealed until the prescribed date for opening; and
- (b) Applications to be opened at the same time on the same date by the Clerk and at least one Councillor.

We have been provided with evidence that the Council obtained three quotes for this work. However, it is not clear whether the above, more formal tender requirements were adhered to, as minutes, etc give no indication of compliance.

We are pleased to note that the Council has met all of the requirements of the Transparency Code which came into effect from 1<sup>st</sup> April 2015.

## ***Conclusions and recommendation***

***Overall, we are satisfied that the Council has a strong corporate governance framework, although as and when future significant expenditure is to be incurred, the Council needs to ensure compliance with its own regulatory framework and also bear in mind the requirements of the Public Contracts Regulations 2015, which require that any contracts likely to exceed £25,000 must be advertised on the Governments Contract Finder website.***

*R1. The Council must ensure compliance with its own regulatory framework when embarking on major purchases or developments, also observing the requirements of the Public Contracts Regulations 2015 formally advertising any such items on the Government's Contract Finder website.*

## **Review of Payments**

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Payments are supported by appropriate documentation, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due and/or an acknowledgement of receipt, where no other form of invoice is available;
- The correct analyses have been applied in the cashbook to payments when processed; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

In view of their relatively low number, we have checked all payments in the year for compliance with the above criteria. We note that appropriate documentation was on file for all payments this year with two exceptions. The final payment to Komplan for the new play equipment (cheque number 867) was only supported by a statement not a VAT invoice. Similarly, no documentation was available for cheque number 853 and it is unclear what the payment was for. We are, however, pleased to note that the Council formally approves all payments at a Council meeting.

We have, by reference to the cashbook and invoices, checked that all recoverable VAT has been recorded, noting that seven invoices including recoverable VAT had not been identified as such in the cashbook or on the VAT prepared reclaim. Of these, we note that four were not addressed to the Parish Council and therefore not recoverable. However, we believe that the VAT on the remaining three invoices cheque numbers (794, 841 and 854) is recoverable with a total value £102.18.

We also reviewed the VAT reclaims to the cashbooks for both 2016-17 and the period from 1<sup>st</sup> April 2017 to 31<sup>st</sup> December 2017 noting one error: VAT has been recorded and reclaimed on the reclaim as £350 (cheque number 818), but was actually only for £3.50. we also note that this invoice was not addressed directly to the Parish Council and it would appear that £350 of VAT has been over-claimed.

### *Conclusions and recommendations*

*Care should be taken when acquiring goods and services to ensure that invoices are made out to the Council and not an individual, thereby guaranteeing that no issues will arise in the event of a VAT inspection.*

R2. *All payments should be supported by the original invoice/receipt.*

R3. *The Clerk should review the three payments identified where VAT has been incurred, but not reclaimed, with detail added to the next reclaim.*

R4. *The Clerk should adjust the next reclaim reversing the over-claimed £350.*

## **Assessment and Management of Risk**

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

We have made previous reference to the Council's formal assessment and documentation of potential risks and are pleased to note that members determined to re-adopt the previous comprehensive registers at the April 2017 meeting.

Aviva continues to provide the Council with its insurance cover. Examination of the policy documents and schedule indicates that an appropriate level of cover exists for the Council's current needs with both Public and Employer's Liability stand at £10 million and Fidelity Guarantee cover set at £150,000.

We are pleased to note that a full inspection of the new playground equipment was completed in the autumn it was installed with the next full inspection due in May 2018. In addition to this, the Council have Residents who were part of the Working Group who helped commission the re-furnished playground who regularly check as they remain interested and live nearby and their children use the Playground. This is an informal arrangement, but they report back to the Clerk. Any issues raised are then forwarded onto Councillors to be addressed, either by organising a repair, or where necessary being raised in a Council meeting. This arrangement of more frequent reviews is good practice although we would suggest that, if not already done, it is documented as there is no statute of limitation on time for a claim against a Council in the event of an injury sustained on Council play equipment).

### *Conclusions*

*No significant issues have been identified in this area this year.*

## **Budgetary Control and Reserves**

We note that members have again duly considered and agreed the budgetary and precept requirements for 2018-19, approving the latter at £18,600 at the December 2017 full Council meeting.

We are again pleased to note that detailed lists of all receipts and payments continue to be provided to the monthly Council meetings with detail recorded in the minutes, together with the agreed presentation of periodic bank reconciliations.

Total Reserves as at 31<sup>st</sup> March 2018 have decreased to £18,887 (£27,960 as at 31<sup>st</sup> March 2017) due to expenditure on new play equipment.

### *Conclusions*

*There are no matters arising to warrant formal recommendation in this area this year.*

## **Review of Income**

The Council has relatively limited sources of income, primarily the annual precept and recovered VAT, supplemented by nominal allotment rentals and sports field lettings to local clubs.

We are pleased to note that, in accordance with the Council's FRs (paragraph 9.2), charges for services have been reviewed with the allotment rent remaining unchanged, although fees for use of the sports field and pavilion rent have been increased.

Due to the low levels of income generated by the allotments and sports field, we have verified the detail in the cashbook to bank statements and third party documentation in relation to the allotments with no issues arising.

### *Conclusions*

*There are no matters arising to warrant formal recommendation in this area this year.*

## **Petty Cash Account**

*The Council does not operate a petty cash account: any out-of-pocket expenses incurred by the Clerk or members are reimbursed periodically on submission of an appropriate claim, supported by relevant invoices and approved in the same manner as all other supplier payment cheques.*

## **Salaries and Wages**

We have reviewed the accuracy of payments made to the Clerk during the year, noting that, the Council approved an increase in the clerk's salary in line with the nationally agreed pay award backdated to 1<sup>st</sup> April 2017.

We are also pleased to note that, a formal PAYE scheme is being operated by the Council's external payroll service provider with monthly payments made to HMRC in relation to the clerk's tax deductions (her earnings are below the level requiring NI contributions).

### *Conclusions*

*The Council's controls and procedures in this area continue to operate effectively.*

## Asset Registers

The Governance and Accountability Manual requires that all Councils establish and maintain inventories/asset registers of buildings, land, plant and equipment, etc. owned by them. The Council has complied with the Regulations with an appropriate register in place.

We have reviewed the content of the register noting that the change in value between 2016-17 and 2017-18 is an overall increase of £34,201 relating to the new play equipment and a printer/scanner offset by the disposal of a marquee and decommissioning of old play equipment. The additions have been correctly added at purchase cost less VAT including installation costs.

We have checked and agreed the accurate disclosure of the value of fixed assets per the Statement of Accounts and the AGAR, as prepared by the clerk noting that the value on the fixed asset register is lower as this appears to only reflect the value of each individual item of play equipment and not the total cost of the purchasing it (i.e. including installation costs etc).

### *Conclusions and recommendation*

*No significant issues arise in this area, although the asset register requires amendment to ensure that the full value, including installation costs, of the new play equipment are reflected in its content.*

*R5. The Clerk should revise the asset register to ensure that the full acquisition and installation costs of the new play equipment are recorded and that the total value agrees to that reported in the Statement of Accounts and AGAR.*

## Investments and Loans

**The Council do not currently have any investments or loans.**

## Statement of Accounts and AGAR

We have checked the data recorded in the detailed Statement of Accounts against that in the cashbook noting the following differences:

- (i) The incorrect value is recorded for “Clerks salary” (£97,358.11 (total payments) instead of £5,642.22);
- (ii) The incorrect value is used for “Publicity and Communications” (£252.23 (last year’s figures) instead of £488.59); and
- (iii) The value of “Stationery” is overstated as it includes audit fees (£525) and insurance (£1,498.48): they are already recorded separately elsewhere.

Consequently, the total payments figure is incorrect, although we note that the Accounts had been signed off as correct by the Clerk and the Chairman!

We have agreed the detail recorded in the cashbook to the AGAR with no issues arising apart from suggesting correction of a minor rounding error at Box 6, which should read £91,716 rather than £91,717.

Finally, we note that the total of capital expenditure on the prepared Receipts and Payments Account only includes the cost of the new printer/scanner: it should also include the cost of the new play equipment.

***Conclusions and recommendations***

***Based on our findings above, the detail in the prepared Receipts and Payments Account should be corrected appropriately. We have, based on the overall satisfactory position identified from our review, signed off the IA Report in the year's AGAR assigning positive assurances in each relevant section.***

- R6. *The Receipts and Payments account should be amended to correct the errors identified in the body of the report.*
- R7. *Box 6 on the AGAR should be amended to read £91,716.*
- R8. *The Receipts and Payments Account should also be amended to reflect the total of all capital expenditure incurred in 2017-18.*

| Rec. No.                              | Recommendation  | Response |
|---------------------------------------|---|----------|
| <b>Review of Corporate Governance</b> |   |          |
| R1                                    | The Council must ensure compliance with its own regulatory framework when embarking on major purchases or developments, also observing the requirements of the Public Contracts Regulations 2015 formally advertising any such items on the Government's Contract Finder website. |          |
| <b>Review of Payments</b>             |   |          |
| R2                                    | <u>All</u> payments should be supported by the original invoice/receipt.  |          |
| R3                                    | The Clerk should review the three payments identified where VAT has been incurred, but not reclaimed, with detail added to the next reclaim.  |          |
| R4                                    | The Clerk should adjust the next reclaim reversing the over-claimed £350.   |          |
| <b>Asset Registers</b>                |   |          |
| R5                                    | The Clerk should revise the asset register to ensure that the full acquisition and installation costs of the new play equipment are recorded and that the total value agrees to that reported in the Statement of Accounts and AGAR.  |          |
| <b>Statement of Accounts and AGAR</b> |   |          |
| R6                                    | The Receipts and Payments account should be amended to correct the errors identified in the body of the report.   |          |
| R7                                    | Box 6 on the AGAR should be amended to read £91,716.  |          |
| R8                                    | The Receipts and Payments Account should also be amended to reflect the total of all capital expenditure incurred in 2017-18.   |          |