
Crudwell Parish Council

Internal Audit Report 2017-18

Stuart J Pollard

Director
Auditing Solutions Ltd

Background

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 a report forming part of the Annual Governance and Accountability Return (AGAR)the Annual Return. This report records the work undertaken, together with any resultant recommendations, during our visit to the clerk's home on 20th April 2018.

Internal Audit Approach

In undertaking the 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 has been designed to afford appropriate assurance that the Council's financial systems remain robust and 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 AGAR process, which requires independent assurance over ten internal control objectives.

Overall Conclusion

We have concluded that, based on the satisfactory conclusion of our annual programme of work, the Council has again maintained generally adequate and effective internal control arrangements, with no significant issues identified, although we have identified a couple of issues that require action, detail of which is set out in the body of the report, together with the resultant recommendations summarised in the appended Action Plan.

We have completed and signed the 'Internal Audit Report' in the year's AGAR, having concluded that, in all significant relevant areas, the control objectives set out in that Report were being achieved throughout the financial year with one or two references to this report.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Clerk has maintained the year's accounting records in spreadsheet format, detail of which has been used to feed into the year-end financial report at Section 2 of the AGAR. Given their low volume, we have verified detail of all transactions for the year, as recorded in the cashbooks to both the Lloyds' current and deposit bank account statements, also verifying the accuracy of the brought forward balances as at 1st April 2017 to the prior year' closing balances.

We have checked and verified the year-end bank reconciliations, also ensuring the accurate disclosure of the year-end balances in the agar at Section 2, Box 8.

Conclusions

We are pleased to report that no issues have been identified in this are this year warranting formal comment or recommendation.

Review of Corporate Governance

We noted previously that Standing Orders (SOs) were in place, although they appeared to have been last reviewed and re-adopted in February 2012. We noted in last year's report the intention to review them in early 2017-18 following the local elections, but have seen no indication in the minutes of any such review being undertaken. NALC has just issued a revised set of SOs incorporating, inter alia, the changed legislation in relation to contracting and the current major issue for councils in relation to GDPR compliance. We note that the Clerk is aware of and has a copy of the revised document and urge members to consider its use as a basis for the next review and adoption of the Council's own documentation.

Whilst the model SOs and Financial Regulations (FRs refer to a formal tender limit of £25,000, which reflects the requirement to formally advertise any tenders in excess of that value in the Government's Contract Finder website, we consider that a lower value of between £5,000 and £10,000 would be more appropriate for a Council the size of Crudwell, as regards seeking formal tenders.

We have examined the Council minutes for the financial year to determine, as far as we are reasonably able to ascertain, whether or not any issues exist that may have an adverse effect, through litigation or other causes, on the Council's future financial stability, also that the Council has not undertaken nor is planning to undertake any work or decisions that may result in ultra vires spending. We are pleased to record that no such issues appear to exist at present or to be developing.

We thank the Chairperson for completing our Governance questionnaire, which serves to further clarify the Council's operative controls and afford us with further confirmation of their general soundness.

The requirements of the Transparency Code became mandatory for smaller councils from 1st April 2015. For a Council of under £25,000 turnover, the Code requires the following to be published on a publicly available website:

- Annual return

- Internal audit report
- Payments over £100
- Year end accounts
- Assets
- Councillor's responsibilities
- Minutes and agendas

Examination of the web site indicates that only some of the above detail is posted for 2016-17. Whilst we accept that the Council has exceeded the £25,000 turnover in 2017-18 for the first time, we consider that in line with best practice, all required information should be posted.

Conclusions and recommendations

Whilst no significant issues arise in this area this year, as indicated above, we consider that the Council's SOs and FRs should be further reviewed, the former being brought into line with the latest NALC model document, with both recording a lower, than £25,000 value for formal tender action.

- R1. The Council should review its Standing Orders ensuring they reflect recent / ongoing legislative changes, ideally basing any revision on the latest NALC model document.*
- R2. When next reviewing both Standing Orders and Financial Regulations, consideration should be given to the adoption of a more realistic value for formal tender action at between £5,000 and £10,000.*
- R3. The Council should ensure that it complies with the annual disclosure requirements of the Transparency Code.*

Review of Expenditure and VAT

Our objective in this area is to ensure that the Council has appropriate arrangements in place to monitor and control the incurring of expenditure, approval and authorisation of payment release. We have reviewed the procedures in place and consider them sound affording a good level of assurance of members' involvement in the expenditure approval and release of funds process.

In view of their low volume, we have reviewed all payments made during the year to ensure that the following criteria were met:

- Payments were supported by a trade invoice or acknowledgement of receipt;
- Payment documentation is appropriately annotated to evidence member review and authorisation;
- The Council minutes formally indicate approval of each payment;
- Payments have been correctly analysed in posting to the accounting software and thence in preparation of the year-end Statement of Accounts; and
- VAT has been calculated correctly and is recovered at appropriate intervals.

Conclusions

We are pleased to record that the above criteria were met appropriately in every case. We also note that VAT reclaims are prepared and submitted periodically to HMRC for recovery during

the year: we have verified the content of the two reclaims prepared and submitted during 2017-18 and reiterate our prior year suggestion that reclaims be prepared and submitted at half yearly intervals at the end of September and March.

Assessment and Management of Risk

The Governance and Accountability Manual requires all councils to consider, develop and adopt formally at least once annually a suitably designed financial risk assessment register: we are pleased to note the existence of such a document at Crudwell, which was subject to formal review and re-adoption at the March 2018 Council meeting.

We note that the Council's insurance cover is provided by Hiscox, via Came & Co, and have reviewed the content of the schedule and consider it appropriate for the Council's current needs: however, we noted that the 2017-18 schedule of cover did not include Fidelity Guarantee, which was in place previously at £150,000: the clerk contacted the insurers during the course of our visit, who confirmed that the cover was not in place, but could be added at no extra premium. The clerk has duly requested its inclusion at £50,000, which, given the current level of cash holding and precept we consider appropriate.

Conclusions

We are pleased to record that no issues arise in this area, other than in relation to Fidelity Guarantee insurance cover, which was resolved during our visit: consequently, we do not consider any formal recommendation is required in this respect.

Budgetary Control and Reserves

The Council's minutes, together with the supporting papers provided to Council, indicate that members have considered and agreed the 2018-19 budget and precept, setting the latter at £15,717 at the December 2017 meeting.

We are also pleased to note that members continue to receive periodic updates on the Council's financial standing and performance against budget throughout the year.

Overall reserves at 31st March 2018 have increased marginally to £31,600 (£30,800 as at 31st March 2017). We also note that members, at the March 2018 meeting, reviewed the level of retained reserves agreeing the maintenance / establishment of 14 earmarked reserves totalling £28,400, as minuted for the March 2018 meeting. The residual General Fund balance of approximately £3,200 equates to between 1 & 2 months' revenue spending at the 2017-18 level, which is on the low side, but could, if an urgent need arose, be "replenished" by a transfer from the earmarked reserves.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Review of Income

The Council receives, in addition to the annual precept, only limited income from bank interest, occasional grants and donations, allotment rents and recoverable VAT. We have reviewed and

agreed income received during the year by reference to the year's bank statements and other available supporting documentation.

We note that appropriate invoices had been raised to recover the allotment rents due in the early part of 2018-19 with most paid by 31st March 2018.

Conclusions

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

Petty Cash Account

We note the Council's policy not to maintain any form of cash float. Any out-of-pocket expenses incurred are reclaimed and paid accordingly in line with normal trader payment procedures. We also note that a Council bank account debit card is held by one councillor for any essential ad hoc purchases and have examined and ensured that appropriate documentation is held in respect of its use as part of our above "Review of Expenditure" with only one purchase made in the year by that means.

Salaries and Wages

We noted previously that the Clerk has an appropriate Employment Contract and have again checked the basis of her salary payments during the year, noting Council's acknowledgement of the national pay awards effective from 1st April 2016 & 2017. In examining the payments made to the clerk last year, we noted an apparent overpayment which the clerk has endeavoured to correct reducing the hourly rate payable in 2017-18. However, in accord with her contract, she is due an increment on 1st October annually, which has not been paid in 2017-18.

Given the apparent incorrect adjustment to her 2016-17 salary by reducing the hourly rate paid each month in 2017-18, it appears probable that an overall underpayment of salary has been made over the two years. Consequently, the clerk should recalculate her month-by-month salary from 1st April 2017 ensuring the correct scale point hourly rate is applied from 1st April and October 2016 and again on the same dates for 2017.

Members have signed off the monthly time sheets, confirming the hours and amount payable, although from the above, it is evident that no check has been made to ensure that the correct hourly rate is being applied.

We again note that the Clerk's salary is below the thresholds for deduction of tax and NI during 2017-18 and have consequently verified, subject to the above errors, the amounts paid to her each month.

Conclusion and recommendations

As indicated above, we have identified a few issues relating to the hourly rate paid to the clerk since 1st April 2017, which will require appropriate adjustment and payment of the under-calculated salary.

- R4. The Clerk and members should ensure that the correct hourly salary rate is applied in accordance with the Clerk's employment contract when signing off each month's time sheet and salary / expenses payment docket.*
- R5. Once the true value of the clerk's salary for 2017-18 is calculated, members should review the calculation ensuring its accuracy and approve payment of the calculated arrears / under-payment with the next monthly salary.*

Asset Registers

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. We are pleased to acknowledge the existence of an appropriate register, noting that the content has been the subject of formal review and verification during the year, following the external auditor's identification of a typographical error in the 2016-17 Annual Return with the asset value understated by £300.

We also note that the insurance schedule includes detail of the Council's assets, which include a significant number of street furniture items and the recently acquired SID.

Conclusions

There are no issues arising from this area of our review this year.

Investments and Loans

The Council has no funds in investments, other than the Lloyds deposit account on which a small amount of interest is received monthly. No loans in existence.

Statement of Accounts and AGAR

Data for inclusion in the 2017-18 AGAR has been based on the cashbook and asset register detail.

Conclusions

No additional issues have arisen in this area this year and we have duly signed-off the Internal Audit Report assigning positive assurances in each relevant area with one or two cross-references to this report.

Action Plan

Rec. No.	Recommendation	Response
Review of Corporate Governance		
R1	The Council should review its Standing Orders ensuring they reflect recent / ongoing legislative changes, ideally basing any revision on the latest NALC model document.	
R2	When next reviewing both Standing Orders and Financial Regulations, consideration should be given to the adoption of a more realistic value for formal tender action at between £5,000 and £10,000.	
R3	The Council should ensure that it complies with the annual disclosure requirements of the Transparency Code.	
Review of Salaries		
R4	The Clerk and members should ensure that the correct hourly salary rate is applied in accordance with the Clerk's employment contract when signing off each month's time sheet and salary / expenses payment docket.	
R5	Once the true value of the clerk's salary for 2017-18 is calculated, members should review the calculation ensuring its accuracy and approve payment of the calculated arrears / under-payment with the next monthly salary.	