

HEELIS & LODGE

Local Council Services • Internal Audit

Internal Audit Report for Parham Parish Council – 2016/17

Receipts: £9,618.56

Payments: £7,467.67

Reserves: £14,665.40

Annual Return Completion:

Section One: *No*

Section Two: *To be signed/dated by Chair and Minute reference added*

Section Four: *Completed by Internal Auditor*

Introduction:

The Council has acknowledged that during the year 2016/17 breaches occurred in the Council's Internal Control arrangements. At the meeting of the Council on 14 March 2017, it was reported that for the last few years the Council has used a Councillor (who was a cheque signatory) as their Internal Auditor to complete the Internal Audit section of the Annual Return. This arrangement was a significant breakdown in the overall financial control process. The Council resolved on 17 March 2017 to address this matter by formally appointing Heelis & Lodge as independent Internal Auditors.

At the meeting of the Council on 13 January 2017, the Chair presented a confidential report to Council on staffing matters and briefed the Council on the resignation of the Clerk. At that meeting a former Councillor was appointed as an Honorary Clerk.

The Internal Control framework is currently being regularised by the Council and the Honorary Clerk. They are working towards a governance and control framework that is both efficient and robust. A step-change improvement has already been achieved since January 2017 and it is clear that the Council and the Honorary Clerk are committed to securing improvement in the governance and financial control operating within the Council.

The following Internal Audit was carried out on the adequacy of systems of control. The following recommendations/comments have been made:

Proper book-keeping Cash Book, regular reconciliation of books and bank statements. Supporting vouchers, invoices and receipts

The Cash Book is well referenced and provides a clear audit trail. Transactions within the Cash Book were examined and the following issues arose:

- a) The items within the Receipts & Payments Account should agree with the Payments detailed in the Cash Book. Although the main totals agree in the two sets of data there is a discrepancy between the VAT paid figure in the cashbook (£453.80) and the amount listed in the Receipts & Payments Account (£457.46).*

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- b) A correction is required in the Cash Book as follows: the payment of £60 to CAS on 11 October 2016 (cheque 101005) has been recorded as gross in the Cash Book and the £10 VAT element needs to be separately identified under the VAT heading in order to ensure that this amount will be re-claimed from HMRC.
- c) No payments under the Local Government Act 1972 Section 137 have been recorded in the year. However, the payments of £500 to Parham PCC and £500 to Parham Village Hall appear to have been made under this Section. Local councils are required to separately identify LGA 1972 Sect 137 payments in the Cash Book and End-of-Year accounts.

Recommendation 1: The above corrections should be made to the Cash Book and End-of-Year Accounts prior to the submission of the Annual Return and supporting information to the External Auditor.

The entries in the Annual Return were examined and the following issues arose:

- a) Box 2 in Section 2 should only include the Precept figure. Box 2 includes an amount of £37 grant which should be included in Box 3. Accordingly, the following entries should be made (rounded for purposes of the Annual Return):

Box 2: £5,600 (Precept for the year)
 Box 3: £4,018 (All other receipts)

- b) The figure of £2,280 in Box 4 of Section 2 of the Annual Return includes Clerk's General Expenses of £612. All general office and travel expenses should be shown in Box 6 and only items directly relating to the employee of the council (i.e. pay, employee training costs and employment taxes) should be shown in Box 4. Accordingly, the following entries should be made (rounded for purposes of the Annual Return):

Box 4: £1,928 (Clerk's salary (£1668), Hon. Clerk's training (£260))
 Box 6: £5,539 (All other payments)

Recommendation 2: The Council should make the above amendments to Boxes 2, 3, 4 and 6 at Section 2 of the Annual Return prior to the submission of the Return to the External Auditors.

Financial regulations

Standing Orders and Financial Regulations

Tenders

Appropriate payment controls including acting within the legal framework with reference to council minutes

Identifying VAT payments and reclamation

Cheque books, paying in books and other relevant documents

Standing Orders in place: *Standing Orders were reviewed and up-dated by the Council at its meeting on 14 March 2017 (Minute 12 refers).*

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Financial Regulations in place: *Financial Regulations were reviewed and updated by the Council at its meeting on 14 March 2017 (Minute 12 refers).*

Appointment of RFO: *The Chair presented a confidential report to Council on staffing matters at its meeting on 13 January 2017 and briefed the Council on the resignation of Mr Barry Cable as Clerk. Mrs Lydia Kirk took up duties as Honorary Clerk at the meeting on 13 January 2017 (Minute 8 refers).*

VAT reclaimed during the year: *It was reported to Council on 14 March 2017 that the Honorary Clerk is to submit backdated VAT re-claims to cover the previous 2 years (Minute 26 refers). The Council's records show that the VAT claim of £664.82 for the period 16 March 2014 to 28 February 2017 was submitted to HMRC on 21 March 2017.*

General Power of Competence: *Not Applicable.*

Data Protection registration: *The Council is registered with the Information Commissioner's Office as a data controller for the provision of council services (Registration ZA240629, expiring 14 March 2018 refers).*

Risk Assessment

Appropriate procedures in place for the activities of the council

Risk Assessment document in place: *The Risk Assessment documentation was reviewed by the Council on 14 March 2017 (Minute 14 refers).*

A Statement of Internal Control was approved and adopted by the Council at its meeting on 14 March 2017 (Minute 13 refers).

The Council accordingly complied with the Accounts and Audit Regulations, which require a review by the full Council, at least once during each financial year, of the effectiveness of the Council's system of internal control, including the arrangements for management of risk, with the review suitably Minuted.

It should be stressed that in the light of the recent breaches in Internal Control, frequent consideration by the Council of risk management and internal control practices is extremely important and should be the subject of a standing item on the Council's agenda.

Insurance was in place for the year of audit. The level of Fraud and Dishonesty cover is £150,000 which is in accordance with the recommended guidelines of year end balances plus 50% of the precept.

Transparency Code

Compliance for smaller councils with income/expenditure under £25,000.

Smaller Council: *Yes*

Website: <http://parham.suffolk.cloud/parham-parish-council/>

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Smaller authorities should publish on their website:

- a) all items of expenditure above £100
Published – Yes, within published Minutes of the Council
- b) end of year accounts (By 1 July)
2015/16 Annual Return, Section One Published – Yes
- c) annual governance statement (By 1 July)
2015/16 Annual Return, Section Two Published – Yes
- d) internal audit report (By 1 July)
2015/16 Annual Return, Section Four Published – Yes
- e) list of councillor or member responsibilities
Published – Yes
- f) the details of public land and building assets (By 1 July)
Published – Yes
- g) Minutes, agendas and meeting papers of formal meetings
Published – Yes

The Council currently meets the requirements of the Transparency Code.

Budgetary controls

Verifying the budgetary process with reference to council minutes and supporting documents

Precept (2016/17): *£5,600* Date: *8 December 2015 (Minute 9 refers)*

The Council's Minutes on 8 December 2015 state that the Council agreed to a precept of £5,300 for the 2016/17 year. However, a Precept of £5,600 was received from Suffolk Coastal D.C. in the year. The Honorary Clerk has advised Internal Audit that the Minute was incorrect and should have shown a figure of £5,600.

Precept (2017/18): *£5,300* Date: *13 January 2017 (Minute 10 refers)*

Satisfactory budgetary procedures are currently in place. The precept for 2017/18 was agreed in full Council and the precept decision and amount has been clearly Minuted. The current Honorary Clerk ensures the Council is aware of its responsibilities, commitments and the need for forward planning. Budget papers are prepared to ensure councillors have sufficient information to make informed decisions.

As at the 31 March 2017 the Council maintained sufficient reserves and contingency sums in order to meet, within reason, any unforeseen items of expense that may occur. Reserves at the year-end totalled £14,665.40 (of which £8,930.15 is earmarked).

Income controls

Precept and other income, including credit control mechanisms

Income controls were checked and income received and banked cross referenced with the Receipts & Payments Account and bank statements.

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Petty Cash	<p>Associated books and established system in place</p> <p><i>No Petty Cash is held, an expenses system is in place.</i></p>
Payroll controls	<p>PAYE and NIC in place where necessary. Compliance with Inland Revenue procedures Records relating to contracts of employment</p> <p>PAYE System in place: <i>No PAYE has been deducted from salary payments made to the previous Clerk, who was paid gross by the Council on the receipt of his invoices. Internal Audit was accordingly unable to confirm that the salary payments made by the Council to the previous Clerk were in accordance with HMRC regulations.</i></p> <p><i>No salary is paid to the current Honorary Clerk, Mrs Lydia Kirk, who only receives reimbursement of expenses incurred.</i></p>
Asset control	<p>Inspection of asset register and checks on existence of assets Cross checking on insurance cover</p> <p><i>An Asset Register is in place and as at 31 March 2017 displays a total value of £11,119. The Register reflects the acquisition of a laptop computer and dog bins in the year of account. The value has been correctly placed into Box 9 of Section 2 of the Annual Return.</i></p> <p><i>The Register complies with current requirements which provide that each asset should be recorded at its original purchase cost or where the original purchase price is unknown a current value is recorded, which acts as a proxy for the original cost and will remain unchanged until disposal.</i></p> <p><i>It is noted that the value of assets recorded in the Annual Return for the previous year (2015/16) was incorrect as it displayed £12,346, a value other than at cost/proxy cost.</i></p>
Bank Reconciliation	<p>Regularly completed and cash books reconcile with bank statements</p> <p><i>The Barclays Community (Current) Account and Business Premium Account bank statements presented to Internal Audit agreed with the End-of-year Accounts and the Bank Reconciliation.</i></p>
Year-end procedures	<p>Appropriate accounting procedures are used and can be followed through from working papers to final documents Verifying sample payments and income Checking creditors and debtors where appropriate.</p> <p><i>End-of-year accounts are prepared on a Receipts and Payments basis. Some amendments and corrections are required prior to the Council's approval of the End-of-Year Accounts (see the Proper Book-keeping item above).</i></p>

Sole Trustee

The Council has met its responsibilities as a trustee

The Council is not a sole trustee.

Internal Audit Procedures

At the Council's meeting on 14 March 2017 (Minute 20) it was reported that for the last few years the Council has used a Councillor (who was a cheque signatory) as their Internal Auditor. This arrangement was a significant breakdown in internal control and the Council resolved to formally appoint Heelis & Lodge as Internal Auditors for the year 2016/17.

External Audit

The External Auditor's report for the previous year (2015/16) raised the following issues:

- a) The Annual Return was not issued by the 30 September deadline. This matter will be addressed by the Honorary Clerk in respect of the 2016/17 Annual Return.*
- b) The Annual Return was not completed in all areas. This matter will be addressed by the Honorary Clerk in respect of the 2016/17 Annual Return.*
- c) Minutes were not signed and maintained in accordance with the Local Government Act 1972. This matter is being addressed.*

It should be noted that the External Auditors, who normally only require a completed Annual Return with supporting information, failed to identify the breach in Internal Control resulting from a Councillor completing the Internal Audit section within the Annual Return for the year 2015/16.

Additional Comments

- The Annual Parish Council meeting was held on 10 May 2016, within the required timescale. The first item of business was the Election of Chairman, in accordance with Standing Orders.*
- I would like to record my appreciation to the Honorary Clerk to the Council for her assistance during the course of the audit work.*

Trevor Brown

for Heelis & Lodge

7 May 2017

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