

Report to Parham Parish Council

The Internal Audit of the Accounts for the year ending 31 March 2018

1. Introduction and Background

1.1 During the previous 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 an independent Internal Auditor.

1.2 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 the Council appointed Mrs Lydia Kirk as Honorary Clerk (Minute 8 refers).

1.3 The previous Internal Audit report (for the year 2016/17, dated 7 May 2017) noted that the control framework was being regularised by the Council and the Honorary Clerk.

2. Summary of 2017/18 Internal Audit findings

2.1 During the 2017/18 year the Council and the Clerk/Responsible Financial Officer have aimed to secure a governance and control framework that is both efficient and robust. A number of step-change improvements have been achieved during the year to secure improvement in the governance and financial controls operating within the Council.

2.2 The Council is now maintaining effective governance arrangements including a robust framework of financial administration and internal control. The Internal Audit review has confirmed the overall adequacy of the financial arrangements in place within the Council.

2.3 By examination of the 2017/18 accounts and supporting documentation it was confirmed that the current Clerk, in her role as the Council's Responsible Financial Officer (RFO), satisfactorily undertook the administration of the Council's financial affairs and produced appropriate financial management information to enable the Council to make well-informed decisions.

2.4 The Accounts for the year confirm the following:

Total Receipts for the year: £8,861.76
Total Payments in the year: £6,775.72
Total Reserves at year-end: £16,751.44 (of which £8,930.15 is earmarked)

2.5 The Annual Governance and Accountability Return (AGAR) was examined and the following figures can be displayed in Section 2 Accounting Statements 2017/18 (rounded for purposes of the Return):

<i>Balances at beginning of year (1 April 2017):</i>	<i>Box 1: £14,665</i>
<i>Annual Precept 2017/18:</i>	<i>Box 2: £5,300</i>
<i>Total Other Receipts:</i>	<i>Box 3: £3,562</i>
<i>Staff Costs:</i>	<i>Box 4: £930 (see 3.3 below)</i>
<i>Loan interest:</i>	<i>Box 5: nil</i>
<i>All Other payments:</i>	<i>Box 6: £5,845 (see 3.3 below)</i>
<i>Balances carried forward (31 March 2018):</i>	<i>Box 7: £16,752</i>
<i>Total cash/short-term investments:</i>	<i>Box 8: £16,752</i>
<i>Total fixed assets:</i>	<i>Box 9: £12,681</i>
<i>Total borrowings:</i>	<i>Box 10: nil</i>

2.6 Sections One and Two of the AGAR are due to be approved and signed at a forthcoming meeting of the Council. The Internal Auditor has completed the Annual Internal Audit Report 2017/18 within the AGAR.

2.7 The following Internal Audit work was carried out on the adequacy of systems of internal control in accordance with the Audit Plan. Comments and any recommendations arising from the review are made below.

3. Proper book-keeping (examination of entries in the Cash Book, regular reconciliation of books and bank statements and supporting vouchers, invoices and receipts).

3.1 The Cashbook Spreadsheet was found to be in good order and well presented. VAT payments are tracked and separately identified. Payments made under the Local Government Act 1972 (Section 137) are separately recorded (total payments in the 2017/18 year under Section 137 amounted to £18.37).

3.2 The Cash Book is well referenced and provides a good audit trail to the Bank Statements and Cheque Book counterfoils and the financial information prepared by the Clerk. These documents provided good evidence in support of the receipts and payments in the year. A sample of transactions was closely examined and was found to be in order.

3.3 The figure of £1,043 for Staff Costs in Box 4 of Section 2 of the draft 2017/18 Annual Return (AGAR) presented to Internal Audit includes salaries of £628.25, PAYE of £157.00, direct employment (training) costs of £145.00 and travel and general office expenses of £113.20. 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, employment taxes and direct employment or training costs) should be shown in Box 4. Accordingly, the following entries should be made:

	£
Box 4:	930
Box 6:	5,845

Recommendation: The Council should make the above amendments to the Annual Return (AGAR) prior to approval by the Council. An amendment should also be made to ensure that Box 7 equals (Boxes 1 + 2 + 3) less (Boxes 4 + 5 + 6). See amended figures displayed in item 2.5 above.

4. Financial regulations and Standing Orders (examination of Financial Regulations and Standing Orders, Tenders where relevant, appropriate payment controls including acting within the legal framework with reference to Council Minutes. Identifying VAT payments and re-claims. Cheque books, paying in books and other relevant documents).

4.1 Standing Orders and Financial Regulations are in place and both were reviewed by the Council at its meeting on 9 May 2017 (Minute 16 refers).

4.2 The Council formally appointed a new Clerk (Mrs Lydia Kirk) at its meeting on 11 January 2018 (Minute 7 refers) and approved the employment package as detailed in the Minute. The Council appointed the Clerk as the Responsible Financial Officer (RFO) at its meeting on 15 February 2018 (Minute 8 refers).

4.3 The Council's Minutes are currently well presented and provide clear evidence of the decisions taken by the Council in the year.

4.4 The claim to HMRC for £664.82 VAT paid during the period 16 April 2014 to 28 February 2017 was received at bank on 28 April 2017. The claim to HMRC for £334.58 VAT paid during the period 1 March 2017 to 28 February 2018 was received at bank on 9 April 2018.

4.5 The Council is correctly registered with the Information Commissioner's Office (ICO) as a Data Controller for the provision of council services under Data Protection legislation (Registration ZA240629, expiring 14 March 2018 refers).

4.6 The Council re-adopted the Suffolk Local Code of Conduct at the meeting held on 9 May 2017 (Minute 18 refers).

5. Internal Control & the Management of Risk *(Review by Council of the effectiveness of internal controls, including risk assessment, and minuted accordingly)*

5.1 The Council's Statement of Internal Control was reviewed by the Council at its meetings on 9 May 2017 (Minute 16 refers) and 12 September 2017 (Minute 9) and was considered by the Council to be sufficient and effective. The Statement was reviewed at the meeting held on 20 March 2018, when the Clerk/RFO reminded Councillors to prepare risk assessments for all events that are held by the Council.

5.2 The Council has a comprehensive Risk Assessment document in place; the document was reviewed and approved by the Council at its meeting on 9 May 2017 (Minute 17 refers).

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

5.4 Insurance was in place for the year of audit. The Clerk reported upon the insurance renewal at the Council meeting held on 12 September 2017 (Minute 7 refers). The Council subsequently approved the insurance renewal premium at the meeting held on 29 September 2017 (Minute 8 refers). Public Liability cover stands at £10m. The fraud and dishonesty (fidelity guarantee) cover stands at £150,000, which meets the current recommended guidelines which provide that the cover should be at least the sum of the year-end balances plus 50% of the precept/grants.

6. Budgetary controls *(Verification of the budgetary process with reference to Council Minutes and supporting documents)*

Precept 2017/18: £5,300.00

Precept 2018/19: £5,300.00

6.1 The Precept for 2017/18 was agreed in full Council and the precept decision and amount has been clearly Minuted (Council's meeting on 13 January 2017, Minute 10 refers).

6.2 Similarly, the Precept for 2018/19 was agreed in full Council and the precept decision and amount has been clearly Minuted (Council's meeting on 9 January 2018, Minute 10 refers).

6.3 The Clerk/RFO ensures the Council is aware of its responsibilities, commitments, forward planning and the need for adequate reserves. Budget papers are prepared to ensure Councillors have sufficient information to make informed decisions.

6.4 The Council has sound budgetary procedures in place. The Council discussed and approved the proposed budget for 2018/19 at its meeting on 9 January 2018 (Minute 8 refers); the budget had been previously discussed at the Finance Committee on 26 October 2017 and at the full Council meeting on 14 November 2017.

6.5 Examination of the accounts and supporting documentation for the year under review confirmed that the Council prepared detailed estimates of the annual budget and of receipts and payments. The estimates can be used effectively for financial control and budgetary control purposes.

6.6 As at the 31 March 2018 the Council maintained sufficient reserves and contingency sums to meet, within reason, any unforeseen items of expense. The Reserves at the year-end totalled £16,751.44 (of which £8,930.15 is earmarked). It is generally accepted that non-earmarked revenue reserves held will usually lie between three and twelve months of gross expenditure.

7. Income controls *(Regarding Precept and other income, including credit control mechanisms)*

7.1 Receipts recorded in the Cashbook Spreadsheet were cross referenced with the Council's Bank Statements and found to be in order.

8. Petty Cash *(Associated books and established system in place)*

8.1 A Petty Cash system is not in use; an expenses system is in place, with cheques being made out for expenses incurred.

9. Transparency Code (Compliance for smaller councils with income/expenditure under £25,000)

9.1 Under the provisions of the Transparency Code, Parham Parish Council can be designated as a 'Smaller Council'.

The Council's web-site is: <http://parham.suffolk.cloud/parham-parish-council/>

Smaller Councils should publish on their website:

- a) *All items of expenditure above £100. Yes, payments included within published Minutes of Council meetings.*
- b) *Annual Governance Statement: 2017 Annual Return Section One. Yes, published on web-site.*
- c) *End-of-Year accounts: 2017 Annual Return, Section Two. Yes, published on web-site.*
- d) *Annual Internal Audit report: 2017 Annual Return Section Four. Yes, published on web-site.*
- e) *List of councillor or member responsibilities. Yes, published on web-site.*
- f) *The details of public land and building assets (Asset Register). Yes, published on web-site.*
- g) *Minutes, agendas and meeting papers of formal meetings. Yes, published on web-site.*

9.2 The Council is complying with the requirements of the Transparency Code.

10. Payroll controls *(PAYE and NIC in place; Compliance with Inland Revenue procedures; Records relating to contracts of employment)*

10.1 The Council considered the employment situation of the Honorary Clerk, Mrs Lydia Kirk, at the meeting on 29 September 2017 (Minute 9 refers). The Council resolved to:

- a) move the present Clerk from a voluntary position to a paid employee
- b) use the Suffolk Association of Local Councils (SALC) to conduct a salary review for the Clerk's role
- c) request SALC to undertake monthly payroll duties
- d) adopt the national model contract of employment provided by SALC.

10.2 At its meeting on 9 January 2018 the Council approved SALC's recommendation that the Clerk should be employed on NALC's spinal point 20 plus one scale point for already having carried out the role for a year (Minute 8f refers).

10.3 Payroll Services are being operated by SALC in accordance with HMRC requirements, detailed pay-slips are produced and PAYE is in operation.

11. Asset control & valuation *(Inspection of asset register and checks on existence of assets; recording of fixed asset valuations; cross checking on insurance cover).*

11.1 A Fixed Asset Register is in place and displays each asset at its original purchase cost (a proxy cost is displayed in respect of Community Assets). The Register was reviewed by the Council at its meeting on 9 May 2017 (Minute 16 refers). The Council also agreed changes to the Fixed Asset Register (to include the new village sign) at the meeting held on 29 September 2017 (Minute 11 refers).

11.2 The difference in the total value of the Asset Register between the two years has been explained in the Explanation of Significant Variations 2017/18 document constructed by the Clerk/RFO. The value of £12,681 as at 31 March 2018 has been placed in Box 9 of Section 2 of the AGAR.

12. Bank Reconciliation (*Regularly completed and cash books reconcile with bank statements*)

12.1 The bank statements as at 31 March 2018 for the Barclays Community (Current) Account and the Barclays Business Premium (Deposit) Account reconciled with the End-of-year accounts and agreed with the overall Bank Reconciliation.

13. Year End procedures (*Regarding accounting procedures used and can be followed through from working papers to final documents. Verifying sample payments and income. Checking creditors and debtors where appropriate*).

13.1 End of Year accounts are prepared on a Receipts and Payments basis and were in good order. Sample audit trails were undertaken and were found to be in order.

14. Internal Audit Procedures (*That the Council has satisfactory internal financial controls in place and any previous recommendations implemented*).

14.1 The Council has satisfactory internal financial controls in place. The Clerk provides financial reports to Council meetings and Councillors are provided with information to enable them to make informed decisions. The Council's bank balances, bank statements and bank reconciliations are regularly reviewed by the Council during the year and Minuted to confirm that the review has taken place.

14.2 Cheque Book counterfoils are initialled by cheque signatories and payments are listed in the Council's Minutes as part of the overall financial control framework.

14.3 The Internal Audit Report for the previous year, 2016/17, was reported to the Council at its meeting on 9 May 2017 (Minute 15 refers).

15. External Audit (*Recommendations put forward or comments made following the annual review*)

15.1 The report by the External Auditors, BDO LLP, for the previous year (2016/17) was noted by the Council at its meeting on 29 September 2017. Two minor issues were raised by the External Auditors in their report as follows:

- a) The Minutes submitted for audit purposes were not initialled by the person signing the Minutes.
- b) The Annual Return had to be returned for amendment.

The Council agreed at the meeting to ensure that such matters would be attended to when completing the next Annual Return.

16. Additional Comments

16.1 The Annual Parish Council meeting was held on 9 May 2017. The first item of business was the Election of Chairman, in accordance with the requirements of the Local Government Act 1972.

16.2 I would like to record my appreciation to the Clerk to the Council for her assistance during the course of the audit work.

Trevor Brown

**Trevor Brown, CPFA
Internal Auditor**

26 April 2018