
Hinxton Parish Council

Internal Audit Report 2015-16

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for Auditing Solutions Ltd

Background

All town and parish councils are required by statute to make arrangements 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 Return. Auditing Solutions Ltd has been appointed to provide this service to Hinxton Parish Council from 2015-16.

This report sets out the work undertaken in relation to the 2015-16 financial year, during our visit on 20th April 2016, together with the matters arising and recommendations for action, where appropriate.

Internal Audit Approach

In undertaking our review for the year, we have had regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts/Annual Return. We have employed a combination of selective sampling techniques (where appropriate) and 100% detailed checks in a number of key areas in order to gain sufficient assurance that the Council's financial and regulatory systems and controls are appropriate and fit for the purposes intended.

Our programme of cover has been designed to afford appropriate assurance that the Council's financial systems are 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 'Annual Internal Audit Report' in the Council's Annual Return, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

We have concluded that, on the basis of the programme of work we have undertaken, the Council has maintained adequate and effective internal control arrangements during the year, except in the area of salaries and related payments. Details of matters identified during the course of this year's audit visit are set out in the body of the report, with the recommendations arising further summarised in the appended Action Plan. We ask that members consider the content of this report and respond in due course to the recommendations set out in the Action Plan, indicating, where appropriate, the actions to be taken and the likely timescale for their implementation.

We have completed and signed the 'Annual Internal Audit Report' in the 2015-16 Annual Return. Other than in respect of salaries and related payments (internal control objective G), we have concluded that, in all significant respects, the control objectives set out in that report were being achieved throughout the financial year to a standard adequate to meet the needs of the Council.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

Our objective in this area has been to ensure that accounting records are being maintained accurately and on a timely basis, and that no anomalous entries appear in cashbooks or financial ledgers.

The accounting records are maintained using an Excel spreadsheet, which we consider is appropriate for a council of Hinxtion's size. The Council operates two main bank accounts with Lloyds TSB; a Treasurers (current) Account for day to day transactions and a Business Bank Instant (instant access saver) account. Another Treasurers Account is maintained which holds a small reserve for Bridge Repairs. The records also show that two further Treasurers Accounts with nil balances are held, which were dormant during 2015-16 – the Playground account and JAG account. It was not clear whether these have been closed.

In order to ensure the appropriateness and accuracy of the recording of transactions, we have:

- Confirmed that there was an accurate carry-forward of prior year closing balances to 2015-16;
- Verified that the accounts remain “in balance” at the financial year-end;
- Ensured that an appropriate cost centres are used for analysing receipts and payments;
- Checked and agreed the cashbook details in full, by reference to supporting bank statements;
- Verified the bank reconciliation detail on each bank account as at 31st March 2016, also ensuring the accurate disclosure of the combined balance in the year-end Accounts, and
- Confirmed that the spreadsheet record is backed-up periodically using a memory stick.

Conclusions and recommendations

In overall terms, the internal control arrangements appear to be reasonable and to be operating effectively. However, we noted that in a number of instances the cash book had only been made-up after receipt of bank accounts and did not record the actual date that cheques were signed or income received/banked. We also noted that allotment income was recorded in the cash book as one sum, when it had actually been received through several internet payments by individuals followed by banking of cheques received by the Clerk.

The other matter we would raise is regarding the number of bank accounts held. It appears that it has been the Council's practice to open accounts for specific projects that arise. This is not necessary, as the “earmarking” of funds for particular purposes can be achieved through the accounting records, without the need for separate accounts. If the two dormant accounts are still open and no longer required, they should be closed. Consideration should also be given to transferring the balance of the Bridge Repairs account to the main Treasurers Account.

- R1 *The accounting spreadsheet should record the actual date that cheques are signed and income received/banked. (We appreciate that this is not possible for some types of payment (direct debits and standing orders), or direct payments into the bank account by allotment tenants. It is also important to ensure that all individual payments and receipts are separately recorded.*
- R2 *The Council should review its banking requirements, to ensure that any accounts that are not necessary are closed, or balances transferred to the main Treasurers account.*

Review of Corporate Governance

Our objective is to ensure that the Council has a robust regulatory framework in place; that Council meetings are conducted in accordance with the adopted Standing Orders and that, as far as we are able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation.

Our audit work has involved:

- Review of the minutes of the Council meetings held during 2015-16, the principal aim being to consider whether or not any issues exist that may have an adverse effect on the Council's financial stability in the short, medium or longer term, also that there is no indication that the Council may either be considering or have taken decisions that might result in ultra vires expenditure being incurred;
- Review of the Standing Orders and Financial Regulations currently in place;
- Consideration of the implications of the Transparency Code for Smaller Authorities on the Council

Conclusions and recommendations

We have been informed by the Clerk that the Council's Financial Regulations and Standing Orders were reviewed at the Council meeting in March 2016. From our review of the Financial Regulations, these appear to be in line with recent national guidance produced by NALC, although one recent update regarding tender limits is not reflected. However, the Standing Orders are out of date and appear to still be based principally on national guidance produced over ten years ago. As a consequence, they do not include reference to all of the current legislative and regulatory requirements or best practice that are set out in the latest model documents produced by NALC. For example, they make no reference to the requirement to appoint a "Proper Officer" and still refer to the accounts requiring formal approval by the end of September (this has been 30 June for several years). We also note that there is an inconsistency between the Financial Regulations and Standing Orders with regard to the financial limit above which formal tendering of contracts is required - stating £25,000 and £60,000 respectively.

We have reviewed the Council's minutes for the 2015-16 financial year to determine whether or not any issues exist that may have either a legal or financial impact on the Council and its future financial stability. We are pleased to note that all payments

approved and recorded in the minutes. However, there is scope to improve the clarity of the minutes. For example, in most cases they do not formally state that expenditure items presented for payment were actually approved and although there is reference to policies being approved in March 2016, the minute does not refer to which ones and whether any changes were required. Most important of all, the minute of approval of the Precept for 2016-17 in January 2016 only states that there will be a percentage increase from the previous year; it does not state the actual precept amount that was agreed to be requested from the District Council. It is our understanding that there is a requirement for the precept amount to be formally minuted.

Finally, we would draw the Council's attention to its responsibilities under the 'Transparency Code for Smaller Authorities', which has applied from 1 July 2015. Under this mandatory Code, all parish councils with income and expenditure below £25,000 per annum must publish certain information on its website annually (starting with information relating to the 2014-15 financial year) and must also ensure that minutes, agendas and papers for all formal meetings are published within a certain timescale. Whilst the Council's turnover in 2014-15 was above the threshold, this is not the case in 2015-16 and the Council must ensure that it is fully compliant.

- R3. *The Council should formally review its Standing Orders and Financial Regulations in the light of the most recent model documents produced by NALC, to ensure that any changes in legislation and regulatory requirements are reflected appropriately, and that the two documents are internally consistent.*
- R4. *In future years, the Council must ensure that it formally minutes the amount of the annual precept. We further recommend that this is minuted retrospectively for the 2016-17 precept.*
- R5. *The Council should also ensure that all decisions made at its Council meetings are clearly minuted. For example, the minutes should confirm that expenditure items presented for payment have been approved and where "policies" are approved, the minutes should clearly state which ones.*
- R6. *The Council must ensure that it complies with the reporting requirements of the Transparency Code for Smaller Authorities for the 2015-16 financial year and for subsequent years where its turnover is below £25,000. (A summary of the detailed requirements is attached to this report).*

Review of Payments

We reviewed the procedures in place for receiving invoices; checking their authenticity, accurate detail recording, processing by the Clerk and formal approval for payment by members. Our aim here was to ensure that:

- Payments have been made in accordance with the Council's approved procedures and budget for the financial year;
- Payments are supported by a trade invoice or acknowledgement of receipt;
- VAT has been calculated correctly and is recovered at appropriate intervals;
- The Council has formally approved each payment;

- Payments have been correctly analysed in the cashbook and year-end Statement of Accounts prepared for members; and
- Section 137 payments have been identified in the cashbook and are within the Council's spending limit.

Conclusions and recommendation

We were pleased to note that all payments were supported by appropriate documentation. However, there is scope for further improvement in the internal controls relating to the authorisation of cheque payments, as, from our review, we noted that not all cheque stubs have been initialled by the cheque signatories and there is no evidence to indicate that the supporting invoices have been examined.

We have confirmed that, with some minor exceptions, VAT was identified correctly for inclusion in the last VAT reclaim, which was made in January 2016 and in the cashbook spreadsheet. We have drawn the items requiring amendment to the Clerk's attention.

R7 In line with best practice, when signing cheques for payment, members should initial the cheque stubs and also the supporting invoices, as evidence of review.

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 operational/health and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks in order to minimise the opportunity for their coming to fruition. We have noted that:

- An appropriate Risk Register is in place, which was reviewed by the Council in March 2016.
- Hiscox Insurance Company Limited provides insurance cover for the Council, arranged through Came & Co. In our view, the current level of cover in place, with Public and Employers Liability both in place at £10 million and Fidelity Guarantee cover of £150,000, is appropriate to the size of the Council.

Conclusion

We are pleased to report that no matters have arisen from this area of our review that require formal comment or recommendation.

Budgetary Control and Reserves

As noted earlier in the report, the Council considered and agreed the precept for 2016-17 at its meeting in January 2016. From our discussions with the Clerk we have confirmed that information relating to the prior year budget and performance to date during 2015-16 was provided to inform the decision-making process.

We are pleased to note that members continue to receive regular updates of the financial position at each council meeting, with details of the bank balances, income received and

payments either made or due to be approved. However, we noted that no quarterly updates on progress against the budget were produced in 2015-16.

At the year end, the total balances and reserves stood at £17,300, compared to £15,700 at 31st March 2015. From the year end budgetary statement provided to us, we note that, of this total, £2,000 is earmarked for bridge repairs and the remaining balance of £15,300 is held as general reserves.

Conclusions and recommendation

In overall terms, the information provided to the Council on its financial performance is reasonable. However, we believe there would be benefit in reporting more regularly (quarterly) on budgetary performance, which is in line with the requirement set out in section 4.8 of the extant Financial Regulations.

The level of general (non-ear-marked) reserves held is in line with councils of a similar size. Whilst there is no prescribed level of general reserves that a parish council should hold, they are normally in the range of six months to one year's expenditure, depending on a council's assessment of the risks it faces).

R8 During the year, the Council should receive quarterly reports on budgetary performance, in accordance with the requirements of its financial regulations.

Review of Income

In 2015-16, the only income received by the Council, other than the annual precept, was allotment income, a small amount of bank interest and recoverable VAT. We have checked and agreed in full the cashbook transactions to bank statements and other underlying supporting documentation for the financial year.

In the case of allotment income, a simple register is maintained of the allotment sites and current holders. This is annotated when payments are received, but does not currently record the detail of when requests for payment have been made or the date of receipt, which can be reconciled back to the accounting records. We have suggested to the Clerk that the analysis be extended to include this information in future years.

Conclusion

We are pleased to report that no matters have arisen from this area of our review that require formal comment or recommendation.

Petty Cash

No petty cash account is operated by the Council, the clerk reclaiming any out-of-pocket expenses periodically, which are processed in the same way as supplier invoices

Salaries and Wages

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenue and Customs (HMRC) legislation as regards the deduction and payment over of income tax (PAYE) and National Insurance Contributions (NIC).

The payroll service to the Council is provided by Yorkshire Tax Bureau, who make the necessary returns to HMRC using the RTI software and provide details to the Council regarding the payments to be made to the Clerk. We reviewed the calculation of payments made to the Clerk in May 2015 and January 2016 and confirmed that these were in accordance with her contract of employment and that appropriate deductions have been made for Employee's NIC and PAYE due.

We have also confirmed that the Clerk has made appropriate arrangements to register the Council for 'auto enrolment', the staging date of which is 1 July 2016. It is important that the Council complies with the requirements of the Pensions Regulator, in terms of choosing a pension scheme and completing the declaration of compliance. We will review the approach taken at next year's audit.

Conclusion and recommendation

From our review of the HMRC RTI submissions made by the Payroll Bureau on behalf of the Council, we noted the inclusion of a credit, identified as "NIC Employment Allowance", to offset the Employer's NIC, reducing them to nil. On further investigation, we established that this allowance cannot be claimed by parish councils and, consequently, that the Employer's NIC payments to HMRC have been understated. The Clerk has raised this matter with the Payroll Bureau, who have confirmed that this was a misunderstanding on their part.

R9 The Payroll Bureau should be requested to provide the Council with confirmation of the amount of Employer's NIC underpaid due to the incorrect application of the NIC Employment Allowance. The Clerk, in conjunction with the Payroll Bureau, should then notify HMRC of the error and ensure that the amount due is paid as a matter of urgency.

Asset Registers

"Proper practice", as set out in the Practitioners' Guide, requires that all councils maintain a record of the assets they own, which identifies each asset and includes its original cost, which is required for reporting in the Annual Return.

Conclusion and recommendation

We have reviewed the Asset Register and noted that a number of assets are recorded at nil value. In accordance with the guidance set out in the Practitioners Guide, all assets should be valued at cost, or a suitable proxy value. However, where they are "community assets",

i.e. assets with no intrinsic value (such as the allotments), it is appropriate for these to be valued at a nominal £1.

R10 Values should be ascribed to the various assets currently listed in the asset register at nil cost/value. Where these are deemed to be “community assets”, a nominal £1 can be used. The revised total value of assets owned by the Council at 31 March 2016 must be included at Section 2, Box 9 of the Annual Return. (*Please note, whilst it is appropriate for a local council to list all assets it has an involvement with on its asset register, including any that are leased or held as trustees, it is only owned assets that are recorded on the Annual Return).*

Investments and Loans

The Council has no loans repayable either to or by it, nor are any funds held in long-term investments.

Statement of Accounts and Annual Return

We have examined the Receipts and Payments account which has been prepared by the Clerk and the figures included in the statutory Accounting Statements that the Council is required to complete as Section 2 of the Annual Return.

Conclusions

We have agreed the detail to the supporting accounting records and other related documentation, with no significant issues identified, other than the need to amend the assets figure as at 31 March 2016 as mentioned above.

On the basis of the work undertaken during the course of our review for the year, we have completed and signed the Annual Internal Audit Report in the Annual Return, assigning positive assurances in all areas of internal control with the exception of salaries and related payments (internal control objective G), for the reasons noted in this report.

Action Plan

Rec. No.	Recommendation	Response
Maintenance of Accounting Records & Bank Reconciliations		
R1	The accounting spreadsheet should record the actual date of cheque payments made and income banked. (We appreciate that this will not apply for other types of payment (direct debits and standing orders), or direct payments into the bank account by allotment tenants.	
R2	The Council should review its banking requirements, to ensure that any accounts that are not necessary are closed, or balances transferred to the main Treasurers account.	
Review of Corporate Governance		
R3	The Council should formally review its Standing Orders and Financial Regulations in the light of the most recent model documents produced by NALC, to ensure that any changes in legislation and regulatory requirements are reflected appropriately, and that the two documents are internally consistent.	
R4	In future years, the Council must ensure that it formally minutes the amount of the annual precept. We further recommend that this is minuted retrospectively for the 2016-17 precept.	
R5	The Council should also ensure that all decisions made at its Council meetings are clearly minuted. For example, the minutes should confirm that expenditure items presented for payment have been approved and where "policies" are approved, the minutes should clearly state which ones.	
R6	The Council must ensure that it complies with the reporting requirements of the Transparency Code for Smaller Authorities for the 2015-16 financial year and for subsequent years where its turnover is below £25,000. (A summary of the detailed requirements is attached to this report).	
Review of payments		
R7	In line with best practice, when signing cheques for payment, members should initial the cheque stubs and also the supporting invoices, as evidence of review.	
Budgetary control and reserves		
R8	During the year, the Council should receive quarterly reports on budgetary performance, in accordance with the requirements of its financial regulations.	
Salaries and wages		
R9	The Payroll Bureau should be requested to provide the Council with confirmation of the amount of Employer's NIC underpaid due to the incorrect application of the NIC Employment Allowance. The Clerk, in conjunction with the Payroll Bureau, should then notify HMRC of the error and ensure that the amount due is paid as a matter of urgency.	

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Appendix A: Transparency Code for Smaller Authorities

Parish councils, internal drainage boards, charter trustees and port health authorities with an annual turnover not exceeding £25,000 should publish:

Information title	Information which should be published
All items of expenditure above £100	<p>Annual publication no later than 1 July in the year immediately following the accounting year to which it relates.</p> <p>Publish details of each individual item of expenditure.</p> <p>Copies of all books, deeds, contracts, bills, vouchers, receipts and other related documents do not need to be published but should remain available for inspection.</p> <p>For each individual item of expenditure the following information must be published:</p> <ol style="list-style-type: none"> a. date the expenditure was incurred, b. summary of the purpose of the expenditure, c. amount, and d. Value Added Tax that cannot be recovered.
End of year accounts	<p>Annual publication no later than 1 July in the year immediately following the accounting year to which it relates.</p> <p>Publish signed statement of accounts according to the format included in the Annual Return form. It should be accompanied by:</p> <ol style="list-style-type: none"> a. a copy of the bank reconciliation for the relevant financial year, b. an explanation of any significant variances (e.g. more than 10-15 percent) in the statement of accounts for the relevant year and previous year, and c. an explanation of any differences between 'balances carried forward' and 'total cash and short term investments', if applicable.
Annual governance statement	<p>Annual publication no later than 1 July in the year immediately following the accounting year to which it relates.</p> <p>Publish signed annual governance statement according to the format included in the Annual Return form.</p> <p>Explain any negative responses to governance statements, including how any weaknesses will be addressed.</p>
Internal audit report	<p>Annual publication no later than 1 July in the year immediately following the accounting year to which it relates.</p> <p>Publish signed internal audit report according to the format included in the Annual Return form.</p> <p>Explain any negative response to the internal controls objectives, including how any weaknesses will be addressed. Explain any 'not covered' responses to internal controls objectives.</p>

Appendix A: Transparency Code for Smaller Authorities

Information title	Information which should be published
<p>List of councillor or member responsibilities</p>	<p>Annual publication of councillor or member responsibilities no later than 1 July in the year immediately following the accounting year to which it relates, including:</p> <ul style="list-style-type: none"> a) names of all councillors or members, b) committee or board membership and function (if Chairman or Vice-Chairman), and c) representation on external local public bodies (if nominated to represent the authority or board).
<p>Location of public land and building assets</p>	<p>Annual publication no later than 1 July in the year immediately following the accounting year to which it relates.</p> <p>Parish councils and port health authorities to publish details of all public land and building assets – either in its full asset and liabilities register or as an edited version.</p> <p>Internal drainage boards to only publish details of registered land and buildings that have a market value and appear in Fixed Assets Register.</p> <p>The following information must be published:</p> <ul style="list-style-type: none"> a) description (what it is, including size/acreage), b) location (address or description of location), c) owner / custodian, e.g. the authority manages the land or asset on behalf of a local charity, d) date of acquisition (if known), e) cost of acquisition (or proxy value), and f) present use.
<p>Minutes, agendas and papers of formal meetings</p>	<p>Publication of draft minutes from all formal meetings not later than one month after the meeting has taken place.</p> <p>Publication of meeting agendas and associated meeting papers not later than three clear days before the meeting to which they relate is taking place.</p>