

Littlehampton Town Council

Internal Audit

Year Ended 31st March 2016



Prepared by: Mulberry & Co
Date of Interim Visit: 10th November 2015
Date of 2nd Interim Visit: 11th May 2016
Date of Final Visit: 21st June 2016

Law and Regulation Regarding Internal audit

Regulation 6 of the Accounts and Audit (England) Regulations 2011 imposes a duty on local councils to ‘maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Internal audit is a key component of the system of internal control.

The purpose of internal audit is to review and report to the council whether its systems of financial and other internal controls over its activities and operating procedures are effective.

Internal audit’s role is to assist the council in fulfilling its responsibility to have and maintain proper internal control arrangements and those for the prevention and detection of fraud, error or mistakes

All internal audit work must be reported to the council. Any report by internal audit is addressed to the council, may recommend actions to be taken by the council, and should be treated as a document open to view by local taxpayers.

Two pieces of legislation set out how local councils should behave when accounting for the public funds they manage and what rights local taxpayers have in relation to those accounts. These are the **Audit Commission Act 1998** and the **Accounts and Audit Regulations issued from time to time under the Act**. The requirement for local councils to prepare accounts annually and to subject them to external audit comes from the Audit Commission Act 1998 (the Act). The Act describes the rights of taxpayers and other interested parties in relation to those accounts.

Under the regulations, all local councils must at least once a year conduct in accordance with proper practices a review of the effectiveness of their system of internal control and publicly report the outcome. The Annual Governance Statement in Section 2 of the annual return provides the means for local councils to report to local taxpayers on their system of internal control.

This report is prepared for the council and proper officers of the council named above, for use in fulfilling their obligations under the Audit Commission Act 1998 and the Accounts and Audit Regulations issued from time to time under the Act for preparing the Annual Return and reviewing the effectiveness of their system of internal controls. Mulberry and Co accept no responsibility for any action or inaction taken as a result of the findings of this report and accept no responsibility to any other party other than those named above.

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Summary Findings

I enclose my final report for your kind attention and presentation to the council. I am pleased to report that overall the systems and procedures you have in place are entirely fit for purpose and the annual return is ready for submission to council and the external auditors.

My audit was conducted in accordance with current practices and guidelines and testing was conducted in line with the inherent risks assessment. Whilst I have not tested all transactions, my sample has where appropriate has covered the entire year to date. Amongst others the following areas were covered in my testing:-

- Review of the Financial Regulations & Standing orders
- Review of the Risk Assessments
- Review of the Budgeting process
- Proper Bookkeeping – review of the use of the RBS package.
- Review of Income
- Review of Fixed Assets
- Review of payroll
- Review of Bank reconciliation
- Review of year end accounts

A. BOOKS OF ACCOUNT

The brought forward balances were tested against last year's annual return and there were no errors. Accounting entries are entered regularly onto the RBS accounting system, and accounts are reconciled monthly, with hard copies printed off for the file. The system is tried and tested and entirely fit for purpose for a council of this size. I make no recommendation for change at this stage.

B. FINANCIAL REGULATIONS

The Financial Regulations and Standing Orders were on site and to hand, the RFO is very experienced and aware of the regulations and I can confirm these are regularly reviewed and updated with appropriate minute references to confirm council agreement. Financial regulations were last reviewed in October 2014 and standing orders March 2015.

I chose at random items to select from the Financial Regulations (FR) and report the following.

- Per FR 2.2. Bank reconciliations prepared, signed off and taken to council in accordance with regulations.
- Per FR 2.6. IA appointed and minuted verified for a two year period 2014/15 and 2015/16
- Per FR 3.2 Budgets in process of being reviewed by chairman of each committee – with a view to taking to committee for approval in December and full council in January. Council has taken into consideration additional costs in respect of auto enrollment.
- Per 6.2 schedules of payment are produced and verified by councilors – this is in accordance with Financial Regulations, although the minutes of the finance committee do not show or document this approval. Approval being given by virtue of the annual budget process. **I suggest that council at the final budget approval stage may want to consider adding to the minute a resolution to confirm the method of payment approval for the forthcoming year. This then shows for the avoidance of doubt that council is seen to be authorising council expenditure.**
- Per 6.6 Business charge card being used in accordance with regulation. **IA notes that clerk is in a position to self authorise use of charge card. Council may want to add that RFO has to sign off clerk's use of charge card.**
- Petty cash of £200 in the tin is correct. Float of £40 in the till was correct.

- Per 5.1 Till receipts in respect of allotments were verified to cash float and amounts posted to the RBS package. There were no errors.
- No Tenders
- IA has seen evidence to see council is following regulations in respect of quotations and reporting to council.
- Governance and Audit committee will perform internal checks in February.

C. RISK MANAGEMENT & INSURANCE

A Regular review of risks is carried out and I am satisfied that all appropriate risks are accounted for and documented properly. I was pleased to see the council has a good system of risk assessment and documentation. In addition to this, the council has good segregation of duties that lends itself to a reduction in the inherent risk of errors or misstatements within the financial accounts.

Council has insurance in place and appears to be comprehensively covered.

D. BUDGET & PRECEPT

The budget is drawn up in the correct and proper manner and regular reviews of income and expenditure against budget are carried out and reported to committee. The budgets are drawn up, monitored and managed in accordance with financial regulations and I make no recommendation to change this process. The council has an excellent system of recording and the monitoring of budgets and reserves. **However, IA is concerned that reserves should not be allowed to linger. Council encouraged to ensure earmarked reserves are spent as appropriate.**

E. INCOME

The council has a number of streams of income; namely precept, grants, lettings and interest. The precept and other grants were tested to 3rd party remittance advice notes and bank statements. There were no errors and the amounts are correctly shown on the annual return.

F. PETTY CASH

Petty cash was tested against receipts – and was reconcilable. Cash receipts are banked entire. Cash income matched to control sheets.

G. PAYROLL

Payroll is run in house using the Sage payroll package. The system automatically calculates the wages and tax based on the salary parameters entered into the system. The payroll is checked in house and faxed to Lloyds Telepay for bacs payment.

I reviewed the March nominal ledger and was able to verify the journals entered into the system agreed to the payroll file.

I am of the opinion the salary costs in the accounts agree to the payroll files and are correctly stated.

H. ASSETS AND INVESTMENTS

Council has detailed fixed asset and land registers in place; however IA noted that these are not shown on the council web site yet. Council in process of updating web site in this regard.

Council has significant deposit balances (circa £1.7m) as shown on the bank reconciliation. Part 2 Of Governance and Accountability the Practitioners Guide 2014 Para 2.33 states

"2.33 For annual accounting purposes, all investments by local councils, other than in interest bearing savings accounts, should be identified as long-term investments and recorded as expenditure. Any investment with a maturity longer than 12 months is by definition a long-term investment and thus capital expenditure. When forward planning, councils should have regard to the fact that, in general, the acquisition of long-term investment assets reduces available balances and reserves.

2.34 The total proceeds of disposal of an investment should always be recorded as income in the financial year of the disposal. Where the proceeds of disposal of investments or other assets purchased as capital expenditure exceed £10,000 and are capital receipts, councils must have regard

to and apply the statutory restrictions placed on such receipts.” – This means capital can only be spent on capital items.

Box 8 Cash and Short Term Investments

1. Where the maturity of the investment is less than 12 months
2. Readily accessible (30 day or less access)
3. Earns Interest

Box 9 Total Fixed Assets Plus other Long Term Investments and Assets

1. Where the maturity of the investment is greater than 12 months
2. Not readily accessible (i.e 60 or 90 day access)
3. If the investment earns something other than interest, such as dividends or an income gain

When a long term investment is acquired it should be recorded in the cash book as expenditure and therefore appear as part of the total in Box 6: Total other payments on the annual return. It should also be recorded on the asset register at the same purchase cost. At the year end the investment will also appear within Box 9: Total Fixed Assets Plus other Long Term Investments and Assets.

When an investment matures, the total (gross) proceeds should be recorded as income in Box 3. Any transaction costs should be recorded as other expenditure in Box 6. The original cost is then removed from the fixed asset register which will change the ongoing value of Box 9: Total Fixed Assets Plus other Long Term Investments and Assets.

Like any other asset owned by the council, long-term investments should be recorded on the asset and investments register at original cost at acquisition (the purchase price) which for accounting purposes will remain unchanged until disposal.

The market value of long term investments will change over time. This fluctuation (new closing value) is recorded on the asset register in a separate column to the original cost, to inform the reader of all and any valuation changes. However, no entry is made to the accounts in this regard. Consider this a note to the accounts. Gain or losses compared to the original purchase cost will only ever be accounted for at the time of disposal when the total proceeds from the investment will be included in Box 3: Total other receipts of the annual return.

Where an investment pays out an income either in the form of dividends or interest they should be recorded as income and reported in Box 3: Total other receipts.

Council needs to assure itself that these deposits are correctly categorised and if necessary document clearly the decision process and outcome; from an IA perspective I would suggest that the PDSF and LAPF accounts are long term investments, it could be argued the others are bank and cash balances.

I. BANK RECONCILIATIONS

Reconciliation for current bank account is carried out regularly. The reconciliations and cashbook were verified in detail to ensure correct transfer of opening balances. There are no reconciling errors.

The March 2016 bank reconciliation was tested in detail to bank statements and the accounts – there were no errors.

It was also noted that whilst the reconciliation is signed there was no evidence of the supporting bank statements being signed in accordance with financial regulation 2.2. Council must ensure that bank reconciliations are properly approved and minuted as such especially the March year end reconciliation that is sent to the external auditor as evidence.

The PWLB loan charges and interest charges agreed to the statements provided.

I am of the opinion that bank and loan balances are correctly calculated.

J. YEAR END ACCOUNTS

The year-end accounts have been prepared on the income and expenditure basis using the underlying records produced from the RBS system. The 2015 comparative figures were correctly brought forward and the return cast correctly. The bank and cash balances agreed to the underlying bank reconciliation and the box 7 & 8 reconciliation was agreed.

IA understands that RBS the software provider was engaged to provide close down assistance at the year end and produce the year end annual return figures we noted one change was required to reallocate some income codes that had been shown along with the expenditure (effectively netting off) so that income and expenditure was reported gross.

I am of the opinion that the amounts shown on the annual return are ready for council to approve and for submission to the external auditor.

It was noted that the system at today's date was not working correctly, insofar as the underlying trial balance was not mapped to the annual return and as a direct result it was not possible to utilise any of the year end functions inherent within the software package and the annual return had to be put together manually.

I have recommend strongly that RBS be engaged to assist with mapping the system so that for future returns the system can be fully utilised to save both time and guard against human error. This is already underway and RBS are providing telephone assistance.

K. TRUSTEESHIP

N/A

Mark Mulberry
Internal Auditor
21st June 2016.

Points Forward – Action Plan

Point Forward / Action needed	Auditor notes	Council response
Other		
Transparency code 2015 – not fully implemented	Transparency regulations require a greater level of detail – council in process of reviewing and updating. IA has seen beta version and confirms this will satisfy regulations.	
Financial regulations	IA has noted clerk can self authorise use of charge card. Update to procedure recommended.	
RBS system	This needs to be mapped to the annual return	

Overview of Council

	Work Task	Schedule Ref	Notes/Results
Terms of Engagement			
1	Review terms of engagement letter and confirm appropriate to this year		New engagement letter issued Engagement letter is kept on the correspondence file.
2	Confirm that the professional independence and competence questionnaire has been completed and agreed with the client	1.2	Yes – confirmed and attached
3	Complete Budget	1.3	Completed & Agreed with Client
4	Complete Timetable	1.4	Completed & Agreed with Client
Planning Notes – Understanding the Town & Parish Council			
	Number of electors and size of precept		Electors 27,000 (2014/15: 27,000) Precept £970,515 Grant £98,110k (2014/15: Precept £926,057 Grant £147,165k)
	Key personnel		Peter Herbert – Clerk New position RFO Rosie Parfitt – Asst Clerk
	Type of financial accounting in place i.e. Manual books, computerised system		RBS – Excel – LCRS System for Risk assessments – RBS Payroll RBS - allotments
	Does the council carry out an annual risk assessment, and is it documented.		These are updated as and when required although this tends to be regular – Based on NALC model but tailored Standing Orders reviewed/update March 2015 Financial regulations updated in Autumn 2014 Risk assessments reviewed by audit and governance in March 2015
	Does the council have a good control environment (evidence of internal reviews and counter signing of cheques etc)		There is a list of internal controls – IA has had sight of this - this encompasses review of bank reconciliations, receipt of cash etc. Majority performed by RFO
	Any significant changes since prior year (staff or procedures)		None
	Any there any matters arising from last year's audit and/or management letter		None
	Matters arising from discussions with		None

	council, including whether there is any evidence of fraud or material misstatement.		
	Key high risk or expected problem areas,		None

Professional Independence and Competence Questionnaire

The internal audit function must be sufficiently independent from the management of financial controls and procedures of the council which are the subject of review. The person or persons carrying out internal audit must be competent to carry out the role in a way that meets the business needs of the council.

There are two key principles, which all local councils must follow in setting up their internal audit function, regardless of how procured: **independence and competence**.

INDEPENDENCE	
Do you have any specific reliance on the fee to be earned from this assignment	No
Overdue fees	
Does the client/group of clients owe the firm any money which exceeds our normal credit terms?	No
Litigation	
Is there any actual or anticipated litigation between us and the client in relation to fees, audit work or other work?	No
Associated firms	
Are you or your staff associated with any other practice or organisation which has had any dealings with the client council?	No
Family or other personal relationships	
Do you or any of your staff have personal or family connections with the council or its officers?	No
Mutual business interest	
Do you or any of your staff have any mutual business interests with the client or with an officer or employee of the client?	No
Financial involvement	
Do you or your staff, or anyone closely related to you or any of your staff, have any financial involvement in the client in respect of the following:	
Any beneficial interest in shares or other investments?	No
Any loans or guarantees?	No
Goods and services: hospitality	
Have you or any of your staff accepted materials, goods or services on favourable terms or received undue hospitality from the council?	No
Ex-partners or senior staff	
Has any senior officer of the council been a partner or senior employee of the practice?	No
Is the partner or any senior employee on the audit team in negotiations to join the client?	No
Long association	
Have you been acting for more than 10 years? If yes, then consider rotation/engagement quality review. 2 nd Year of auditing	No
Provision of other services	
Do we provide any of the following services to the client:-	
Accounting services, book-keeping or payroll services	No
Staff secondments	No
IT services where we are involved in the design, provision or implementation of systems	No
Specialist valuations which are included in the accounts	No
Tax compliance work or tax planning	No

Corporate finance activities	No
Any advocacy services e.g. Tax commissioner hearings	No
Any services relating to the management of the council	No
Any other services that may cause a threat to the firm's objectivity or independence	No
Where any of the above have been answered 'yes', then specify below what safeguards are proposed to maintain integrity and independence:-	
Competence	
Consider the following matters prior to deciding to accept appointment/re-appointment as auditors:	
Are there any particular challenges and risks associated with this client?	No
Do we have sufficient expertise available to undertake this audit engagement?	Yes
Are there sufficient resources available to undertake this audit engagement?	Yes
Having regard to the safeguards identified, I am satisfied that we are independent and competent to perform this audit.	

Budget

		Hours
Planning & Systems Work	Interim Visit	3
File Review and reporting	Interim Visit	1
Financial Procedures	Final Visit	3
File review	Final Visit	1
Total Budget Hours		8
Hourly Rate		£50
Time Cost		£400
Other costs	Mileage	£90
Total Budgeted Cost		£490
Total Budgeted Fee		£500

Timetable

Autumn 2015	Planning and Interim Audit work
June 2016	Final Audit work
June 2016	Issue Audit Report & Letter

Systems Notes

Littlehampton Town Council is located in the heart of the town in its own self-contained freehold offices. The museum is also on site. 2 meeting rooms and council chambers – meet rooms are rented out to general public. The offices are open daily Monday to Friday 9 – 4.30 and 10.to 4.30 on a Saturday

Expenditure:

Much of the expenditure incurred by the council is automatically incurred, such as electricity, wages, phones (utilities) other expenditure is firstly identified and reported to the RFO, and a purchase order raised as appropriate. POs are in triplicate – supplier, invoice and filing.

Quotes are obtained depending on the expense type and amount and for those amounts over £1,500 three fixed price quotes are obtained. The publicised tender limit is £60,000. However, if deemed appropriate or significant quotes will be obtained even if below the £1,500k limit.

Expenditure is approved by delegated authority within a budget heading. Processes in place to review budgets to ensure no overspends without council approval. Council general approves overspend and rarely does virements.

Finance Assistant receives invoice and match PO to invoice, this is box stamped, dated – this then passed to RFO and the invoice is signed as approved and ready for payment. Goods and services will be checked with the officer concerned to ensure received or carried out. Invoice returned to Finance Assistant and this is posted to RBS – this is put into an unpaid file ready for payment.

Payment:

Generally within 14 days. The RFO is given a printed list from RBS denoting payments ready to be released. The RFO decides whether to raise cheque or put on hold until next payment run.

RBS then used to print cheques & list of purchase ledger cheque payments – list signed by two councillors and town clerk. Cheques signed by two councillors and clerk initials corner of cheque.

Signed Cheques are scanned before being issued. Invoices stamped paid and cheque number annotated on invoice. Paid invoices filed in payment batch, DD invoices alphabetically. There are 5 signatories. The mandates are updated annually.

Council has a charge card – this is paid DD – it has a pin number in the clerks name – there is a £3k limit pcm. Only clerk can sign the PO for the use of the charge card.

General Controls

The council has good general controls

- Restricted opening hours
- Lock on office door
- Locked and alarmed offices
- Locked filing cabinets
- Passwords on computers

Bank reconciliation is checked & signed at least monthly
Report against budget regularly
6 council meetings per annum
Staff – no high turnover

Income

1. Precept & Grant 90% +
2. Community Centre – room hire
3. Youth Centre
4. Allotments
5. Equipment Hire
6. Interest & Other grants

Majority of other income is cheques – cash is banked when received.

Staff

There are 31 employees on the payroll - There are personnel files on all members of staff

Inherent Risk Assessment

Based on the above findings and discussions with council it is my opinion that the inherent risk within the systems of the council is categorised as follows

Work Task	Notes	
Are standing orders and financial regulations regularly reviewed	Yes these were on site and were current and reference to a minute	Low Risk
Is council following its written Financial regulations & standing orders	Yes	Low Risk
Does the council have risk assessments in place and are these reviewed at least annually	Yes	Low Risk
Does the council have a committee or working party responsible for internal checking	Yes	Low Risk
Is there evidence of hierarchical review (counter signing bank rec, invoices etc)	Yes	Low Risk
Is there regular reporting against budget?	Yes	Low Risk
Are books and records maintained on a regular basis	Yes	Low Risk
Is the clerk under time pressure	No	Low Risk
Are there complicated transactions?	No complicated transactions	Low Risk
Any changes to key staff	No	Low Risk
Any changes in systems or procedures	No	Low Risk
Is all info on site and to hand?	All info on site and to hand	Low Risk
Any problems in the past	No problems in past	Low Risk
Are there any other factors to consider?	Records neat and tidy	Low Risk

Conclusion & Opinion

I discussed the system above with the RFO and reviewed an invoice picked at random, which contained all the details mentioned above.

The system in place is robust and entirely fit for purpose for a Parish Council of this size. There are good internal controls, policies and procedures in place which are reviewed on an annual basis.

I am of the opinion that the inherent risk in the system is low and would recommend a sample size of 10 when testing in detail and would also state that the internal controls can be relied upon.

Specific Audit Plan

Audit Area Section 4 Annual Return	Notes	Risk of error or misstatement	Tests	Ref
Appropriate books of account have been kept properly throughout the year.	RBS package in place, qualified RFO with accounts assistant.	Low	Review transactions in cashbook make verbal enquiries. Test arithmetic.	A
The council's financial regulations have been met, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.	Good, up to date system based on NALC models	Low	Review invoices and reconcile to cash book in detail. Review minutes and cheque books for authorisations	B
The council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.	Risk assessment policy written risk assessments carried out	Low	Review and comment	C
The annual precept requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate	RBS package used augmented with excel	Low	Review minutes for evidence of council discussion of the same	D
Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.	Various streams of income	Low	Test to precept application and other documentation as appropriate	E
Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.	Up to £250 float – transactions recorded on RBS and spreadsheet	Low	Test to petty cash tin and receipts where necessary	F
Salaries to employees and allowances to members were paid in accordance with council approvals, and PAYE and NI requirements were properly applied.	Payroll processed using Sage system in house	Low	Test rates and hours are authorised Test net wages to payments due	G
Asset and investments registers were complete and accurate and properly maintained.	Fixed asset register in place	Low	Review insurance schedule and cashbook for missing items off the register	H
Periodic and year-end bank account	Regular reconciliations on RBS –	Low	Test reconciliation in detail	I

reconciliations were properly carried out.	signed off internally			
Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, were supported by an adequate audit trail from underlying records, and where appropriate debtors and creditors were properly recorded.	Income and Expenditure with full accounts prepared for council. Depreciation charged in accounts but reversed out for annual return	Low	Test audit trail sufficient for electors rights and ensure AR reconciles with accounts and depreciation reversed out.	J
Trust funds (including charitable) The council met its responsibilities as a trustee.	No charity			K

Audit Findings

(A) Proper Bookkeeping

Objective	To confirm that appropriate books of account have been properly kept throughout the year
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The basic record of receipts and payments is always the starting point of an accounting system; the majority of internal controls will work back to that original record. It is essential that the system requires that the **basic cash book is kept up to date** and **balances are regularly verified against a bank statement** or the actual cash in the petty cash tin. This record will also **agree with the supporting vouchers**, invoices or receipts. Even though the arithmetic may be automatic on a computer based system it is necessary to **check that the additions and balancing are correct**. The level of checking will depend on who does what and with what frequency. Where there is a **computer based system**, the reliability of information reported by the system depends on the quality and accuracy of data input, and how it is then processed, and **so tests of the integrity of data input and processing should be considered**. A councillor or member of staff may do the checking or verification; internal audit will test that the checking verification within the system has been undertaken.

Test		Comments / Conclusions / Points Forward
1	Using the previous year's annual return agree the current year's brought forward balances in the cash book.	The cash book balances b/wd agrees to the 2014/15 c/wfd balances.
2	Review the nominal ledger/cashbook for large and unusual entries and agree to supporting documentation	Council uses the electronic RBS system, all entries laid out in clear and logical manner with references and cross references as appropriate to supporting documentation. No data fields have been left blank and the reader can easily identify from the narrative the nature and scope of the transaction. No unusual amounts.
3	Verify arithmetic by casting a sample of the cash book, if this is maintained electronically check one month only	RBS is an electronic system; I have verified the arithmetic by testing the bank reconciliation at month 1. There were no errors
4	Is the cashbook maintained and up to date	The RFO maintains the system on a regular basis.
5	Is the cashbook regularly balanced	Evidence seen to show bank reconciliations are produced on a regular basis - printed and signed off at committee level
6	Is the data input by the RFO checked internally	Yes – The accountants work is checked by the RFO/Clerk and at committee level as appropriate.

OVERALL CONCLUSION (Subject to points carried forward in final notes)

Satisfactory – I am of the opinion that the RBS package is being used properly, and that it is fit for purpose for a council of this size. I was pleased to see that the books and records on RBS are regularly maintained and clerk/RFO has a positive attitude to keeping these up to date.

(B) Financial Regulations, Standing Orders & Payment Controls

Objective	To confirm The council's financial regulations have been met, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.
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The first step in establishing a financial system is to identify the general rules applicable at council or committee meetings and in carrying out the council's business. The Standing Orders, Financial Regulations and other internal instructions do this. **Internal audit should have a copy of the current Standing Orders, Financial Regulations and any internal instructions.** Internal audit's report to the council will include any recommendations for improvement in these documents arising as a result of their work during the year. The level of checking will depend on the content of the Standing Orders and Financial Regulations. The amount of work may well vary, and more extensive testing of compliance may be needed from time to time, but as a minimum, having established whether the **council has within the year reviewed its Standing Orders and Financial Regulations** for continued relevance, internal audit will test.

In purchase order procedures:

- that the **correct number of estimates, quotes or full tenders** depending on estimated value of contract **have been obtained** (Standing Orders will state the value at which tenders are required; Financial Regulations or Standing Orders will show the value where estimates or quotes only are required);
- that **proper purchase authority by council, a committee or officers** (under clear delegated powers) **is in place**; and
- that a **proper legal power has been identified** for the expenditure.

In purchase payments:

- that the supporting paperwork confirms that there is a **fully approved invoice and authorisation for payment**; and
- that **VAT is identified** appropriately for reclaim.

In most councils these checks can be limited to a sample of transactions selected at random, plus those which are large or unusual, such as each payment for a value in excess of £1,000, or some other figure appropriate to the level of activity of the council. The aim is for **internal audit to check that the systems put in place by management are working and are appropriate.**

Standing Orders and Financial Regulations may well repeat the statutory requirement to maintain 'a separate account' of expenditure and income under Local Government Act 1972 section 137 and Local Government Act 1986 section 5. **Internal audit should check annually that such an analysis is kept** and that the **cash limit in section 137 is not exceeded.** Internal audit may scrutinise the resulting list of expenditure and should consider whether the power is being properly used but would not check through for the correct analysis of every item.

Internal audit should also check that **payments of interest and principal** in respect of loans (and investments if any are held) are **in accordance with an agreed schedule.**

Test		Comments /Conclusions /Points Forward
1	Has the council formally adopted standing orders and financial regulations?	Yes – these were on site and to hand they are both based on the NALC model. Standing orders were reviewed and approved by council in the March 2015 meeting Financial regulations updated and based on NALC model in October of 2014.
2	Has a Responsible finance officer been appointed with specific duties?	Yes.
3	Have items or services above the de minimus amount been competitively purchased?	Yes – IA has seen evidence to show council has strived to get three quotes and discussion of the same. Council is seen to be following regulations in this regard in respect

		of getting best value for money.
4	<p>Are payments in the cashbook supported by invoices, authorised and minuted?</p> <p>Test a random sample of items to verify that internal controls are operating as described:-</p> <p>Purchase order procedures:</p> <ul style="list-style-type: none"> that the correct number of estimates, quotes or full tenders depending on estimated value of contract have been obtained that proper purchase authority by council, a committee or officers (under clear delegated powers) is in place; and that a proper legal power has been identified for the expenditure. <p>Purchase payments:</p> <ul style="list-style-type: none"> that the supporting paperwork confirms that there is a fully approved invoice and authorisation for payment; and that VAT is identified appropriately for reclaim 	<ul style="list-style-type: none"> Per FR 2.2. Bank reconciliations prepared, signed off and taken to council in accordance with regulations. Per FR 2.6. IA appointed and minuted verified for a two year period 2014/15 and 2015/16 Per FR 3.2 Budgets in process of being reviewed by chairman of each committee – with a view to taking to committee for approval in December and full council in January. Council has taken into consideration additional costs in respect of auto enrollment. Per 6.2 schedules of payment are produced and verified by councilors – this is in accordance with Financial Regulations, although the minutes of the finance committee will not show or document this approval. Approval being given by virtue of budget approval. Per 6.6 Business charge card being used in accordance with regulation. IA notes that clerk is in a position to self authorise use of charge card. Council may want to add that RFO has to sign off clerks use of charge card. Petty cash of £200 in the tin is correct. Float of £40 in the till was correct. Per 5.1 Till receipts in respect of allotments were verified to cash float and amounts posted to the RBS package. There were no errors. No Tenders IA has seen evidence to see council is following regulations in respect of quotations and reporting to council. Governance and Audit committee will perform internal checks in February.
5	Has VAT on payments been identified, recorded and reclaimed?	Yes
6	Is s137 expenditure separately recorded and within statutory limits?	None. General Power of Competence used although amounts paid as general grants is well below threshold.
7	Note down if council is registered for VAT or if they use the annual reclaim method	Council is registered for VAT
8	<p>Review VAT returns for supporting documentation and verify a sample of transactions to</p> <ul style="list-style-type: none"> Invoices Other third party evidence Correct rate of VAT Correct treatment of VAT 	June 2015 return vouched to RBS records and refund noted on bank statements.
9	Review bank account for payments	Receipts of refunds in evidence

	or receipts of VAT	
10	Reconcile VAT returns to cash book	Reconciles
11	Ensure Returns are made on a prompt basis	Quarterly returns made – all returns on time.

OVERALL CONCLUSION (Subject to points carried forward in final notes)

Satisfactory – The nominal ledger balances are brought forward correctly and the postings to the nominal accounts are properly made

(C) Risk Management

Objective	To confirm the council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.
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The greatest risk facing a local authority is not being able to deliver the activity or services expected of the council. The council is likely to be managing many of those risks when it **reviews its insurance** and its systems. **The minutes are an essential record of such reviews. Budget setting and insurance review are annual activities;** the review of systems may be less frequent.

It is suggested that **systems should be reviewed** in some detail, unless triggered by external or internal audit reports, or change in risk, at least **every four years** or **on the change of Clerk/RFO**. This might be more appropriate for larger councils on a cyclical basis.

Minutes should be checked by internal audit for any suggestion of unusual activity and evidence that risks are being identified and managed.

Test		Comments / Conclusions / Points Forward
1	Does a review of the minutes identify any unusual financial activity?	No
2	Do minutes record the council carrying out an annual risk assessment?	Yes
3	Is insurance cover appropriate and adequate?	PC is insured by Zurich. October to October. The assets are listed and the values are comparable to the FAR.
4	Are internal financial controls documented and regularly reviewed?	There are internal financial controls which are regularly followed. Council has an internal control sheet that covers a number of items such as checking petty cash and fixed assets. This is entirely adequate for a council of this size
5	Review financial & Other risk assessment and ensure up to date, note down any significant risks facing the council	Council reviews all risk assessments in a clear and logical manner. Reported to full council on an on-going basis The council has insured itself against the significant risks, including employee fraud etc. There are no operational issues that would cause the council to stop functioning – steps have been taken to ensure safety of electronic records etc.
6	Document retention & Data Back up	Digital information backed up daily off site

OVERALL CONCLUSION (subject to points carried forward in final notes)

Satisfactory – The council has a positive attitude to risk assessment and documents the assessments and reviews in a logical manner

(D) Budgetary Controls

Objective	To confirm the annual precept requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.
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Internal audit will not check the budget but will verify that a budget has been properly prepared by the council and adopted in setting the precept. The regular reporting of expenditure, and variances from budget, is an important part of the proper control of public money. **Internal audit will expect to see the regular reports to council and the variance analysis.** That variance analysis and the decisions of council or committee taken as a result may suggest areas for additional analysis by internal audit. Part of budgetary control is to ensure **adequate but not excessive reserves** or balances. **Progress against budgets should be regularly monitored.** It is particularly helpful when determining the likely precept that will be required for the following year. **Internal audit will be keen to establish that this has taken place.**

Test		Comments /Conclusions /Points Forward
1	Has the council prepared an annual budget in support of its precept?	Yes this was prepared in the proper time period last year.
2	Note how client prepares budget	Zero based approach – per department – uses RBS and excel system
3	Is actual expenditure against the budget regularly reported to the council?	Yes - At committee level and council at year end
4	Are there any significant unexplained variances from budget?	There are no significant variances unexplainable at the year end – accounts detail where variances are and reasons for.
5	Review council's reserves and reserves policies and make a note of how many months cover they have and whether this is sufficient for this particular council	By Year End council will have circa £2.3m in reserves. The council has a good awareness and attitude to reserves planning and plans adequate for future spending requirements. There are very detailed reserves workings showing nature and scope of reserves. However IA is concerned that reserves should not be allowed to linger. Council encouraged to ensure earmarked reserves are spent as appropriate.

OVERALL CONCLUSION (subject to points carried forward in final notes)

Satisfactory – The council has budgets in place and evidence suggests performance against budget has been reviewed on at least one occasion. Reserves are reasonable and no evidence of capital and revenue reserves being mixed.

(E) Income Controls

Objective	To confirm expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.
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Internal audit will look for evidence that the precept and grant income is properly and promptly received. In value this is usually the largest item of income. **Internal audit is more likely to focus on other income particularly where it is unusual or cash-based.** Cash income brings higher risks, in turn requiring greater control by ticket issues, receipt issues, segregation of duties of the cashier and the invoice-raising clerk. **The need for greater control implies a need for internal audit to verify the operation of all checks and balances.**

If the council has let property or holds investments, then the council should have established a system to ensure regular income collection; a diary of expected dates of income etc. **Internal audit will look for evidence of such activity and any necessary progress or invoice chasing.**

If the income is from quoted investments there is a clear risk to be addressed in terms of identifying the investment policy to be followed, controls over who can initiate a change of investment and an awareness of the investment risks being accepted.

Test		Comments /Conclusions /Points Forward
1	Is income properly recorded and promptly banked?	Precept and grant received by bacs properly recorded in cashbook and annual return. Credits paid in within a week of receipt – no cut off issues to report. Other income tested to documentary evidence and analytical review as applicable. Council is correctly receiving and recording income
2	Does the precept recorded agree to the Council Tax authority’s notification?	Yes – agreed to application as seen by IA
3	Are security controls over cash and near-cash adequate and effective?	Yes
4	Is VAT correctly applied at the correct rates	Council registered for VAT – VAT is applied at 20% on Vatable sales.
5	Is there income from sale of investments or investment income	No

OVERALL CONCLUSION (subject to points carried forward in final notes)

Satisfactory – The income process is carried correctly in accordance with documented procedures.

(F) Petty Cash Procedure

Objective	To confirm Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.
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Internal audit will be looking to see that there is an established system in place rather than ad hoc reimbursement. If the clerk is reimbursed for all small cost expenses or there is a separate cash float, a regular payment must be made to keep up to date. **Internal audit would be looking to see that reimbursement is regular and evidence that on occasions an independent person has physically counted the cash balance and checked to be in agreement with the up-to-date record.** The council should have a system for the regular approval of petty cash expenditure.

Test		Comments/Conclusions
1	Is all petty cash spent recorded and supported by VAT invoices/receipts?	Yes
2	Is petty cash expenditure reported to each council meeting?	Yes – in same manner as normal expenditure
3	Is petty cash reimbursement carried out regularly?	When needed to top up float
4	Review petty cash records for unusual amounts	None in evidence
5	Test count the petty cash and agree to accounting records at today's date if not conducted at the year end.	Agreed
6	Select a sample of petty cash payments and receipts and agree to supporting documentation, verifying <ul style="list-style-type: none"> • Amounts • Authorisations • VAT analysis 	Agreed – these are for general petty cash items

OVERALL CONCLUSION (subject to points carried forward in final notes)

Satisfactory – petty cash records are complete and reconciled – suggest these are reconciled more frequently.

(G) Payroll Controls

Objective	To confirm Salaries to employees and allowances to members were paid in accordance with council approvals, and PAYE and NI requirements were properly applied.
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Internal audit will be seeking reassurance that the system is delivering the correct payments for wages and salaries and that PAYE/NIC is correctly deducted from the gross pay and paid to HM Revenue and Customs. Historically, one of the greatest areas of risk for local councils has been the improper payment of wages and salaries, together with the lack of proper deduction of income tax and national insurance contributions.

There are some simple tests to establish whether a person is employed by a local authority or can be regarded as a contractor. **The clerk is always regarded as an employee – as an ‘office holder’. As an employer, the council must operate PAYE/NIC.** If correct deduction for tax or national insurance is not made by the employer, HM Revenue and Customs has the right to seek the lost tax and contributions from the employer as if the payments made were after deduction of the appropriate amounts (i.e. the amount sought is ‘grossed up’). There may also be a liability for interest and penalties that can increase the sum significantly. The clerk, even at the smallest of councils, will need to be able to produce evidence that the correct tax treatment of salary has been arranged with HM Revenue and Customs. HM Revenue and Customs often seek to avoid setting up a PAYE scheme for a single employee whenever possible, so will seek to ‘code out’ any parish council salary through other income, pension scheme or by direct assessment. The council should have an up to date letter from HM Revenue and Customs (addressed to the Council) confirming that arrangements to their satisfaction have been made for the particular employee. Internal audit may verify that evidence each year as part of the annual statement forming part of the annual return.

Changes to contracts of employment (whether annual salary change, or other) require formal agreement by the council as well as being evidenced by a written statement to the employee. The council should record evidence of approved changes in employment contracts in employee records. **Internal audit should check that this evidence is in place and agree sums paid to those sums shown as payable.** The purpose of specifically investigating the PAYE/NIC system recognises the risks inherent in these items, either through fraud or error, and the risk of significant management time and penalties in making corrections if errors arise.

Test		Comments/Conclusions
1	Do all employees have contracts of employment with clear terms and conditions?	Yes
2	Do salaries paid agree with those approved by the council?	Council approves salary scale changes as and when required. Personnel files contain letters from council to employee detail pay scales. There are councillor allowances – paid via payroll.
3	Are other payments to employees reasonable and approved by the council?	Yes – generally for mileage – forms part of the normal routine of payment authorisations.
4	Have PAYE/NIC been properly operated by the council as an employer?	Yes this is calculated and paid on a monthly basis in house using Sage.
5	Check a sample of payroll deductions. Verifying calculation of PAYE & NIC	Payroll deductions tested on annual basis no errors. Deductions are correct.
6	Check employee existence by physical verification or by reference to documentation (e.g. personnel files, coding notices etc).	Employees are bonafide, RFO was able to explain who employees were on the list.

7	Check payroll is signed by a responsible official.	Payroll is prepared by RFO and counter signed by clerk - council approves via delegated authority to spend within a budget heading
8	Test check net wages & PAYE per the cash book to the payroll	Annual return reconciles to Month 12 year to date payroll report and to accounts.
9	Review cash book for unusual payments not put through the PAYE/NI system (e.g. casual labour, round sums, private bills etc).	No unusual amounts to report.

OVERALL CONCLUSION (subject to points carried forward in final notes)

Satisfactory – salaries and processing of salaries are correct. There are no errors.

(H) Asset Control

Objective	To confirm asset and investments registers were complete and accurate and properly maintained.
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The Council is required to maintain an asset and investment register. In the smallest councils, this may only be a note produced for members and local electors. **Internal audit will be interested in seeing that there is evidence that the continuing existence of owned and managed assets is checked on a regular basis.** In a larger council the register may be hand written, typed or computer produced; the essence is the same in that the system should be verified on a regular basis. This verification **should include confirmation that insurance cover is adequate and sufficient.** If investments are held, the asset register will be a more active record; it should include details of cost, values, and expected income that can be checked against the actual income. Dates and references to minutes of the members’ review of the investments against the investment policy might also be included.

Test		Comments/Conclusions
1	Does the council maintain a register of all material assets owned or in its care?	Yes – detailed fixed asset register maintained in electronic format. Only assets over £5k with a life greater than 1 year are capitalised. Depreciation is charged for internal purposes but this is reversed out at the year end for the annual return.
2	Are the assets and Investments registers up to date?	Yes No long term investments.
3	Do asset insurance valuations agree with those in the asset register?	Yes –
4	Obtain details of additions and select items to test to invoice or other supporting documentation, having regard for VAT element	Yes there were additions during the year – the largest being land.
5	Conduct physical verification of selected assets to make sure that they are in regular use and check to fixed asset register	Value per register is reasonable.
6	Transparency	Council reminded that fixed asset register lacks detail.

OVERALL CONCLUSION (subject to points carried forward in final notes)

Satisfactory. Council maintains and records assets properly.

(I) Bank Reconciliation

Objective	To confirm Periodic and year-end bank account reconciliations were properly carried out.
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In most councils, the bulk of the financial records will be concerned with a current account and a form of deposit account at a bank or building society. A regular feature of the financial system will be the reconciliation of the balances shown on the statements with those calculated in the council’s financial records. **It is strongly recommended that on receipt of a bank statement, there should be a reconciliation of the appropriate cash book record. Internal audit will wish to see that this has been done**, but should not undertake the reconciliation unless it requires re-performance. **It may be appropriate for the year end balances and the reconciliation to be checked in detail.**

The basic cash book record must not be written up from the bank statements. That approach does not provide any form of control. The cash book record is written up from the council’s records: cheque counterfoils and the paying-in books, together with the known direct payments and credits. It is the cash book record that is checked regularly against the bank statements to provide control.

The bank reconciliation should include a note of the historic cost of current investments held by the council, if any, so that this can also be monitored to ensure that these funds are performing in the way planned by the council and also so that the council can have, each time this is reviewed, as complete a picture as possible of its liquidity and available funds.

As part of internal control, a member may be appointed to review the bank reconciliation in detail and to evidence that review by signing the reconciliation form and the bank statements.

Test		Comments/Conclusions
1	Is there a bank reconciliation for each account?	Yes
2	Is the bank reconciliation carried out regularly and in a timely fashion?	Yes – monthly and this is signed off in accordance with financial regulations by the chair of policy and finance. IA has seen evidence of monthly signing.
3	Are there any unexplained balancing entries in any reconciliation?	No –Cheque numbers are current. No significant aged cheques.
4	Is the reconciliation signed off by a member	Yes –
5	Test check the year end reconciliation in detail	No errors – March 2016 reconciliation checked by IA in detail.
6	Prepare or obtain a schedule of investments showing all movements in the year and agree opening balances.	CCLA investment purchased £500k
7	Test check value of listed investments at year end for disclosure in financial statements.	agrees
8	Test purchases and sales with agreements, contract notes and minutes	agreed
9	Is the value of investments held summarised on the bank reconciliation?	agreed
10	Check income has been received on all income yielding investments on a consistent basis and ensure tax has been correctly accounted for.	N/A

OVERALL CONCLUSION (subject to points carried forward in final notes)

Satisfactory – bank reconciliations are carried out and reviewed properly.

(J) Year - End Procedures

Objective	To confirm Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, were supported by an adequate audit trail from underlying records, and where appropriate debtors and creditors were properly recorded.
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It is the duty of the council and the RFO to produce the year-end accounting statements. **Internal audit will be looking to see that the appropriate accounting basis is used, that the figures can be followed through on working papers and adjustments, transfers, contra entries etc. are fully explained and justified.** Internal audit would not be expected to check all figures but will probably verify a small sample and the totals.

Councils accounting on an Income and Expenditure basis will have a system in place for identifying outstanding amounts (receivable and payable) and then for deciding on their materiality for inclusion in the accounting statements. **Internal audit will scrutinise the lists of creditors and other balances to ensure that the system is working adequately and that the RFO has correctly identified transactions in the one year that may in whole or part relate to another.**

Test		Comments/Conclusions
1	Are year-end accounts prepared on the correct accounting basis (Receipts and Payments or Income and Expenditure)?	AR completed correctly and casts correctly. Income and expenditure basis used. Reconciliation to accounts provided See points forward re depreciation and fixed assets
2	Do accounts agree with the cashbook?	Yes – RBS package has full integrated audit trail – but mapping not working . TB’s agreed to accounts and annual return.
3	Is there an audit trail from underlying financial records to the accounts?	Yes – but not possible this year
4	Where appropriate, have debtors and creditors been properly recorded?	Yes – Boxes 7 – 8 reconciliation prepared and verified. Debtors and creditors appropriate with documentary evidence seen by IA.
5	Has the Annual governance statement been signed off	Yes – will be taken to council in June
6	Has the annual return been completed in full	Yes
7	Has the council got a system in place for reviewing the effectiveness of internal controls	Yes – council has recorded in the minutes and a separate report work undertaken during the year in this regard.

OVERALL CONCLUSION (subject to points carried forward in final notes)

Satisfactory – accounts properly prepared.

(K) Trust funds (including charitable)

Objective	To confirm the council has met its responsibilities as a trustee
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Test		Comments/Conclusions
1	Is the council a sole trustee and is it responsible for managing trust fund assets	
2	Note down names of trusts council is a trustee of	
3	As sole trustee has the council properly carried out its duties in respect of financial reporting and or audit.	
4	Carry out any other tasks deemed necessary	

OVERALL CONCLUSION - (subject to points carried forward in final notes)

Not applicable.