West Itchenor Parish Council

Internal Audit

Year Ended 31st March 2015

Prepared by: Mulberry & Co
Date of Interim Visit: n/a
Date of Final Visit: 21st April 2015

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 a model for good practice. I am therefore pleased to report I can sign of the annual return positively.

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 excel package.
- Review of Income
- Review of Salaries
- Review of Fixed Assets
- Review of Annual Accounts

A. BOOKS OF ACCOUNT
The excel system of recording the financial transactions of that of the council was logically presented and easy to follow and understand. The limited number of transactions lends itself to a simple cashbook style of presentation and on this basis I make no recommendation for change at this stage.

B. FINANCIAL REGULATIONS
Financial regulations and standing orders are based on older NALC models – these were reviewed in July 2014. Evidence was seen to show council is following regulations and proper practices. S.137 is shown separately along with VAT. No S.137 in year. VAT reclaim for March 2014 was reviewed and there were no errors on the sample tested. I make no recommendation for change at this stage.

C. RISK MANAGEMENT & INSURANCE
Council has a good system of internal review and control. Risk assessments are carried out and documented in accordance with regulations. I make no recommendation for change at this stage. Insurance is in place with Aviva – evidence seen to support fidelity guarantee and assets.

D. BUDGET & PRECEPT
Budgets are drawn up in the correct timescale and are reported on regularly. Reserves are circa 75% of precept at £11k. In the absence of earmarked reserves this is a little higher than I would expect. **Council may want to consider reviewing its reserves policy in the forthcoming year**.

E. INCOME
Income was tested to documentary evidence; it is banked properly and recorded correctly on the annual return. Refunds of VAT were reconciled to remittances and supporting schedules.

F. PETTY CASH
Small float £30 – entries all insignificant.

G. PAYROLL
Council to ensure for 2015/16 council year pay scale and hours of clerk are minuted and approved. The payslip could be agreed to the cashbook and deductions were correct.

H. ASSETS AND INVESTMENTS
The asset register was complete and up to date, I note no changes on the prior year. Assets could be reconciled to the annual return and insurance schedules. I make no recommendation for change at this stage.

I. BANK RECONCILIATIONS
The year-end reconciliation was correct with no adjustments. Council has a good system on internal review and presentation and I make no recommendation for change at this stage.

J. YEAR END ACCOUNTS
These were correctly prepared on the receipts and payments basis. Amounts could be traced back to the cash books.

K. TRUSTEESHIP
Not applicable

Mark Mulberry
Internal Auditor
21st April 2015.

Points Forward – Action Plan

Point Forward / Action needed	Auditor notes	Council response
Other		
Council to ensure for 2015/16 council year pay scale and hours of clerk are minuted and approved	This will ensure clerk is protected should she be asked to prove her pay rates and hours.	
Council may want to consider reviewing its reserves policy in the forthcoming year	General reserves are as a rule of thumb considered appropriate when set at a level circa 50% of precept and or 67% of general expenditure.	

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 c.450 Precept £15,720 (2013/14: £13,680) – increase
	Key personnel		Carol Smith Clerk & RFO
	Type of financial accounting in place i.e. Manual books, computerised system		Excel system
	Does the council carry out an annual risk assessment, and is it documented.		Yes by RFO – Financial Risk assessment – looked at by a councillor and approved by full council annually.
	Does the council have a good control environment (evidence of internal reviews and counter signing of cheques etc)		Council reviews accounts and reconciliations on a monthly basis
	Any significant changes since prior year (staff or procedures)		No
	Any there any matters arising from last year's audit and/or management letter		No
	Matters arising from discussions with council, including whether there is any evidence of fraud or material misstatement.		No
	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. 3rd 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	-
File Review and reporting	Interim Visit	-
Financial Procedures	Final Visit	1
File review	Final Visit	.5
Total Budget Hours		**1.5**
Hourly Rate		£50
Time Cost		**£75**
Other costs	Mileage	£15
Total Budgeted Cost		**£90**
Total Budgeted Fee		**£90**

Timetable

May 2015	**Planning and Interim Audit work**
May 2015	**Final Audit work**
May 2015	**Issue Audit Report & Letter**

Systems Notes

West Itchenor small parish council the Clerk & RFO works from home. No restricted hours. Full council meets 6 times per annum.

Expenditure:
Quotes are obtained depending on the expense type and amount, for those amounts over £1,000 three quotes are obtained and the publicised tender limit is £10,000. However, if deemed appropriate or significant a quote will be obtained even if below the £1k limit.

Expenditure has to be authorised by the council before payment can be made; however, the Clerk has a pre-authorised limit of £1,000.

Payment:
In readiness for each meeting the RFO prepares an expenditure list. This list is counter initialled and agreed to minutes of current and previous meetings.

Payment is made by cheque or bacs where appropriate. Each invoice is annotated with the accounts nominal reference, and signatures.

Councillors are invited to sign cheques and cheque stubs when appropriate. Each cheque is signed twice and the cheque stub is initialled twice. The bacs process dictates separate authorisation is required by way of online log one – the same person setting up the payment can't authorise the payment.

There are 5 signatories. The mandates are updated periodically

Petty Cash: - small float £30.

General Controls
The council has good general controls
- Bank reconciliation is checked & signed of monthly
- Report against budget at each PC meeting
- Staff – no high turnover
- Passwords on computers
- Digital files on the cloud.
- Lockable filing cabinets

Income
The council has two main streams of income:-

1. Precept 80%
2. Donations and other 20% (Bacs, Cash & Cheques)

Staff
There are personnel files on all members of staff.
Council approves and minutes changes to pay scales.
Payroll processed in house – using an off the shelf package.

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	Low Risk
Is council following its written Financial regulations & standing orders	Yes – no issues in the past	Low Risk
Does the council have risk assessments in place and are theses reviewed at least annually	Yes	Low Risk
Does the council have a committee or working party responsible for internal checking	No – however full council reviews at each meeting.	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	Yes	Medium Risk
Are there complicated transactions?	No	Low Risk
Any changes to key staff	None	Low Risk
Any changes in systems or procedures	None	Low Risk
Is all info on site and to hand?	Yes	Low Risk
Any problems in the past	None	Low Risk
Are there any other factors to consider?	No	Low Risk

Conclusion & Opinion

The systems policies and procedure are robust and are fit for purpose.

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.	Excel package in place, limited and uncomplicated transactions	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, simple system , with up to date FR and SO	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	Excel budget – reported on every month	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.	Simple income stream – no complicated areas	Low	Test to precept application and other misc receipts.	E
Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.	Small Float	Low	Review and comment	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 by external body	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 reconciliations were properly carried out.	Regular reconciliations	Low	Test Year End reconciliation in detail	I

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.	Receipts and payments	Low	Test audit trail sufficient for electors rights	J
Trust funds (including charitable) The council met its responsibilities as a trustee.	No Trust	Low	No testing required	K