Hunston Parish Council

Internal Audit

Year Ended 31st March 2016

Prepared by: Mulberry & Co
Date of Interim Visit: n/a
Date of Final Visit: 20th April 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 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 carry forward balances were brought forward correctly and the total payments and receipts per the cashbook were evidenced on the year-end bank reconciliation. 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 AND PAYMENT PROCEDURES
Financial regulations and standing orders are generally reviewed annually and kept up to date. It was noted that council minuted it would review and update in the 2015/16 year; however this exercise has not be completed to date. **Council reminded that these documents should be reviewed and minuted as such annually.**

Internet banking is controlled by way of multiple user logon, with automatic restrictions in place that prevent the same user setting up and authorising the same payment. Payments must be authorised by two separate individuals and reported to council for approval.

Evidence was seen to show council is following regulations and proper practices. There has been limited S.137 expenditure in year which is below thresholds.

C. RISK MANAGEMENT & INSURANCE
Council is insured with Aviva via Came and Company. Money and asset cover appears to be adequate; the assets listed are reconcilable to the fixed asset register although some values on the register will need updating in due course.

The council has a robust risk assessment policy and summary document. Risks are clearly presented with associated effects and compensating actions and controls listed. This is a good system of control and I make no recommendation to change at this stage.

D. BUDGET & PRECEPT
Budgets are drawn up in the correct timescale and approved by council and minuted appropriately in accordance with regulations.

Council has £13,574 in reserves this is £10,532 of general reserves and £3,042 of earmarked reserves. At a precept level of £36K, general reserves would be considered a little low, but still acceptable.

E. INCOME
Income is categorised as precept, grants, VAT refunds, expenses reimbursement. The most significant item is the precept and LTSG. Receipts per the annual return can be reconciled to the cashbook and third party remittance advices. There are no set fees for pitch hire, rather a fixed annual amount is charged to the football club.

Income was tested to documentary evidence; it is banked properly and recorded correctly on the annual return.

F. PETTY CASH
No petty cash

G. PAYROLL
There is one employee and payroll is calculated and paid in house. Council approves the wages scale annually and this is minuted. Testing proved wages to that approved by council and deductions were correct. I make no recommendation for change at this stage.

The staff costs per the annual return are reconcilable to the wages file and the cashbook respectively. I am of the opinion that staff costs are correctly shown on the annual return.

H. ASSETS AND INVESTMENTS
The asset register was complete and up to date. Assets could be reconciled to the annual return and insurance schedules. There was one addition of a new printer.

The assets are properly recorded on the annual return.

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.

Council is reminded that 4 times per annum the face of the bank reconciliation and bank statement must be signed by someone other than the chairman and this activity be entered into the minutes.

The PWLB loan repayments, interest and closing balance were verified to the PWLB statement and cashbook.

J. YEAR END ACCOUNTS
These were correctly prepared on the receipts and payments basis. Amounts could be traced back from the annual return to the cash books, and annual accounts respectively. The balance sheet and receipts and payments account are reconcilable. There were no errors.

K. TRUSTEESHIP
The council took over the management and control of the Hunston Village Hall Charitable Trust in February 2015. The trust holds separate meetings, and its own financial records. I confirm no financial elements of the charitable trust are included in the annual return and as of today's date, returns with the charities commission are up to date.

Mark Mulberry
Internal Auditor
20th April 2016.

Points Forward – Action Plan

Point Forward / Action needed	Auditor notes	Council response
Salaries & Allowances		
None		

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.987 (2014/15: c.987) Precept £36k (2014/15: £31.5k) Grant £4559 (2014/15: £4930)
	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 – although no changes reported FR– May 2014 SO– Ongoing RA– May 2014 Council to ensure review carried out in 2016/17
	Does the council have a good control environment (evidence of internal reviews and counter signing of cheques etc)		Council meets monthly and finances are reported and budgets commented on. This is very detailed and good form of control.
	Any significant changes since prior year (staff or procedures)		None
	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. 7th 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	2
File review	Final Visit	1
Total Budget Hours		**3**
Hourly Rate		£50
Time Cost		**£150**
Other costs	Mileage	£50
Total Budgeted Cost		**£200**
Total Budgeted Fee		**£200**

Timetable

April/May 2016	**Planning and Interim Audit work**
April/May 2016	**Final Audit work**
April/May 2016	**Issue Audit Report & Letter**

Systems Notes

Hunston has a village hall the Clerk & RFO works from home. 15 hours per week

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.

At the monthly council meeting the expenditure list is approved. After this approval payments are set up for payment on the internet banking system. Councillors are invited to authorise the payments or sign cheques and cheque stubs when appropriate. Payment is made by cheque or bacs where appropriate. Each invoice is annotated with the accounts nominal reference, and signatures.

Each cheque is signed twice and the cheque stub is initialled twice. Bacs process is the same – two councillors log on and authorise payments with their own log-ons.

There are 3 signatories. The mandates are updated periodically – mandate changed April 2014 on change of banks.

Petty Cash: - no petty cash. Prepaid Alto card – occasional top up by bacs transfer with councillor authorisation in same process as above.

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 accounts and reconciliations monthly. No additional benefit at this stage.	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.	No Petty cash	Low	Nothing to test	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 internally	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	Low	Test Year End reconciliation in detail	I

reconciliations were properly carried out.				
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.	Yes – Hunston Village Hall	Low	Ensure financials are not on annual return and charitable returns up to date.	K

Audit Findings

(A) Proper Bookkeeping

Objective	To confirm that appropriate books of account have been properly kept throughout the year

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 bfwd agrees to the 2014/15 cwfd balances. There were no errors or adjustments
2	Review the nominal ledger/cashbook for large and unusual entries and agree to supporting documentation	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	I have verified the arithmetic by testing the bank control at month 12. There were no errors
4	Is the cashbook maintained and up to date	The RFO/Clerk maintains the system on a regular basis.
5	Is the cashbook regularly balanced	Bank is reconciled and reconciliation taken to council for approval and sign off at each meeting. IA has seen evidence of this.
6	Is the data input by the RFO checked internally	By virtue accounts and reconciliations are taken to council monthly – yes internal checks are carried out.

OVERALL CONCLUSION (Subject to points carried forward in final notes)
Satisfactory – I am of the opinion that the excel package is being used properly, and that it is fit for purpose for a council of this size.

(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.

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 – council reviewed and minuted the financial regulations and standing orders. New NALC model Financial Regulations were adopted.
2	Has a Responsible finance officer been appointed with specific duties?	Clerk and RFO have NALC model contracts – these are in process of being updated.
3	Have items or services above the de minimus amount been competitively purchased?	None
4	Are payments in the cashbook supported by invoices, authorised and minuted?	Yes. Walk through test of half a dozen invoices drawn at random showed no errors.

	Test a random sample of items to verify that internal controls are operating as described:- Purchase order procedures: • 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. 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	Cashbook has separate column for VAT and S.137 – although none in year.
5	Has VAT on payments been identified, recorded and reclaimed?	Yes excel cashbook has columns for VAT and suppliers VAT number alike
6	Is s137 expenditure separately recorded and within statutory limits?	Separate column for S137. – None in year
7	Note down if council is registered for VAT or if they use the annual reclaim method	Not registered for VAT – undertake S.126 reclaim on regular basis – IA has seen evidence of refunds being received.
8	Review VAT returns for supporting documentation and verify a sample of transactions to • Invoices • Other third party evidence • Correct rate of VAT • Correct treatment of VAT	IA has seen and reviewed evidence VAT reclaim and related entries back to the cashbook. There were no errors.
9	Review bank account for payments or receipts of VAT	As above – IA has seen evidence of refunds
10	Reconcile VAT returns to cash book	Reconciles
11	Ensure Returns are made on a prompt basis	Yes annually

OVERALL CONCLUSION (Subject to points carried forward in final notes)
Satisfactory – The council has shown me sufficient evidence to show controls are in place and being used. The systems in place are robust and fit for purpose and a model for good practice.

(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.

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 – IA has reviewed these
3	Is insurance cover appropriate and adequate?	PC is insured by Aviva. The assets are listed money cover more than adequate.
4	Are internal financial controls documented and regularly reviewed?	Yes and evidence seen to see this being carried out.
5	Review financial & Other risk assessment and ensure up to date, note down any significant risks facing the council	IA has reviewed risk assessments and evidence of council review of the same. These are in good order and carried out in accordance with regulations.
6	Document retention & Data Back up	Digital information backed up daily cloud off site.

OVERALL CONCLUSION (subject to points carried forward in final notes)
Council has good system of risk assessment – no points to carry forward.

(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.

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
3	Is actual expenditure against the budget regularly reported to the council?	Every council meeting. IA has seen evidence in minutes to support this.
4	Are there any significant unexplained variances from budget?	No – IA has reviewed February actual to budget report. There are variances – in total council has underspent against budget. Variances are explainable.
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	Reserves are circa £13k – split £10k general and £3k designated. The reserves schedule shows a breakdown of this with notes to denote how these will be spent.

OVERALL CONCLUSION (subject to points carried forward in final notes)
Satisfactory - Budgets and reserves are properly prepared and monitored.

(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.

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. Vast majority of income is bacs receipts. VAT refunds noted. IA seen documentary evidence to support s106 receipt in March
2	Does the precept recorded agree to the Council Tax authority's notification?	Yes
3	Are security controls over cash and near-cash adequate and effective?	No cash receipts
4	Is VAT correctly applied at the correct rates	Council not registered for VAT
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 working properly.

(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.

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?	
2	Is petty cash expenditure reported to each council meeting?	
3	Is petty cash reimbursement carried out regularly?	
4	Review petty cash records for unusual amounts	
5	Test count the petty cash and agree to accounting records at today's date if not conducted at the year end.	
6	Select a sample of petty cash payments and receipts and agree to supporting documentation, verifying • Amounts • Authorisations • VAT analysis	

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

Not applicable no petty cash

(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.

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?	Chairman allowance – not through payroll Evidence seen by IA of minute approving annual pay scales and hours - this was agreed to wages slip.
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. IA seen evidence of approved expense claim for clerk.
4	Have PAYE/NIC been properly operated by the council as an employer?	Yes this is calculated and paid on a monthly basis.
5	Check a sample of payroll deductions. Verifying calculation of PAYE & NIC	Deductions are correct.
6	Check employee existence by physical verification or by reference to documentation (e.g. personnel files, coding notices etc).	Clerk only employee
7	Check payroll is signed by a responsible official.	Payroll signed off by clerk – however payment

		authorised by council.
8	Test check net wages & PAYE per the cash book to the payroll	Nominal ledger shows where applicable payments of wages, pension and NI
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.

Council needs to be aware round sum allowances where given should go through the payroll.

(H) Asset Control

Objective	To confirm asset and investments registers were complete and accurate and properly maintained.

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?	Fixed asset register up to date and complete and agrees to annual return.
2	Are the assets and Investments registers up to date?	Yes No 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	agreed
5	Conduct physical verification of selected assets to make sure that they are in regular use and check to fixed asset register	Laptop noted
6	Check title for properties to documents of title and land registry and obtain details of any charges (NB: this may require confirmation from third parties)	Deeds at solicitors.

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

Satisfactory – asset registers maintained properly in accordance with regulations.

(I) Bank Reconciliation

Objective	To confirm Periodic and year-end bank account reconciliations were properly carried out.

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
3	Are there any unexplained balancing entries in any reconciliation?	None.
4	Is the reconciliation signed off by a member	Yes – signed off council monthly
5	Test check the year end reconciliation in detail	No errors – march 2016 reconciliation checked by IA
6	Prepare or obtain a schedule of investments showing all movements in the year and agree opening balances.	N/A
7	Test check value of listed investments at year end for disclosure in financial statements.	N/A
8	Test purchases and sales with agreements, contract notes and minutes	N/A
9	Is the value of investments held summarised on the bank reconciliation?	N/A
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.**

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. Receipts and payments basis used.
2	Do accounts agree with the cashbook?	Yes – cashbook verified to annual return summary.
3	Is there an audit trail from underlying financial records to the accounts?	Yes – as noted above
4	Where appropriate, have debtors and creditors been properly recorded?	N/A
5	Has the Annual governance statement been signed off	No – will be taken to council in May
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 –

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

	Test	Comments/Conclusions
1	Is the council a sole trustee and is it responsible for managing trust fund assets	Yes wef Feb 2015
2	Note down names of trusts council is a trustee of	Hunston Village Hall
3	As sole trustee has the council properly carried out its duties in respect of financial reporting and or audit.	Yes
4	Carry out any other tasks deemed necessary	No records overdue at charities commission at todays date.

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

Satisfactory.