
Foulness Island Parish Council

Internal Audit Report 2015-16

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Background and Scope

The Accounts and Audit Arrangements, as amended periodically, require all Parish Councils to implement an independent internal audit examination of their Accounts and accounting processes annually. The internal auditor has then to provide the Council with a certificate covering a number of key areas associated with the transactions and management of the Council's affairs. The Council implemented this process at the outset appointing a local firm of accountants to provide the service. Following appointment of a new clerk during 2012-13, we at Auditing Solutions Ltd were approached and appointed to provide the service for that and subsequent years.

Internal Audit Approach

In undertaking our review for 2015-16, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts. However, as previously, in view of the low number of annual transactions, we have undertaken direct substantive testing of all receipts and payments for the financial year, verifying detail to the underlying documentation.

This report summarises our conclusions on each of the key areas set out in the Internal Audit Certificate that is required under the Annual Report arrangements. Issues requiring attention have been further summarised into an Action Plan at the end of the report. We ask that the Clerk and members consider detail of the Action Plan and, where necessary, take appropriate steps to implement the recommendations.

The report is available for presentation to the Council's external auditors, who may also have access to our working paper file on request.

Overall Conclusion

We are pleased to conclude that overall the Clerk and Council continue to operate effective control procedures that help ensure that transactions are accurately reflected in the Annual Return: we are also pleased to acknowledge the positive action taken by the Clerk and Council to address issues raised in last year's report.

On the basis of work undertaken on the Council's records this year, we have signed off the Internal Audit Certificate at Section 4 of the Annual Return assigning positive assurances in each relevant area. However, whilst not forming part of our certification process, we note that the Council has yet to develop a web site and is, consequently, unable to comply with the disclosure requirements under the Transparency Code applying to smaller councils effective from 1st April 2015. We have made an appropriate recommendation in the appended Action Plan in this respect, together with one or two other minor issues.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The clerk has again maintained the Council's accounting records using a spreadsheet based record, which, given the low level of annual transactions, which we consider more than adequate for the Council's requirements.

In view of the low number of annual transactions, we have checked and agreed detail of all cashbook entries to bank statements for the year: we have also reviewed the year-end bank reconciliation and consequently the cash at bank balance disclosed in the Annual Return for the financial year.

Conclusions

We are pleased to record that no issues have arisen in this area of our review process.

Review of Corporate Governance

In this area, we aim to establish whether or not the Council is operating in accordance with best practice and has established a sound basis of governance controls. In order that we may assess the strength of the Council's controls we have reviewed the year's minutes and provided the clerk with a "Governance questionnaire" to be completed by the Chairman and returned to us in due course. A major source of information in this respect is through reading the Council's minutes, which task we have duly completed for the financial year.

We are pleased to acknowledge the actions taken to obtain copies of the NALC model Standing Orders and Financial Regulations, which have been duly adopted by the Council in January and March 2016 respectively.

We are also pleased to note that, following our previous recommendation, the minutes identify the actual value of the 2016-17 precept (£2,487), plus the Council Tax Support Grant of £178.

However, we note that the Council has still to establish a web site and comply with the disclosure requirements under the Transparency Code 2015 for smaller councils. We also note the approval for one or two grants and donations in the year for which no powers are quoted in the minutes: we have drawn attention to this previously and consequently reiterate our recommendation in this respect.

Conclusions and recommendations

The Clerk and Council should ensure that appropriate action is taken to address the two recommendations following.

- R1. The Council should ensure that an appropriate web site is established in order that it may ensure disclosure requirements as detailed in the 2015 Transparency Code for smaller councils.*

R2. *When approving the payment of grants and donations to local bodies, the specific powers relied (or Section 137) should be formally identified in the approving minutes.*

Review of Payments

Given the relatively low number of payments during the year, we have checked all payments in the year to supporting documentation in order to ensure that the following criteria have been met: -

- Payments were supported by a trade invoice or acknowledgement of receipt;
- VAT has been calculated correctly and is recovered at appropriate intervals.
- The Council has approved each payment.
- Payments have been correctly analysed in preparation of the year-end Statement of Accounts.
- Section 137 payments have been identified in the cashbook and are within the Council's spending limit.

Conclusions and recommendation

Whilst no significant issues have been identified in this area with all payments appropriately supported, we note that, whilst members signing cheques are initialling each payment listed on the schedule of payments presented to each Council meeting, the invoices or supporting documentation affords no indication of any review by members. Following a recent fraud arising at a town council on the South coast, whereby the clerk was fraudulently submitting invoices on more than one occasion with cheques written in removable ink and members were signing cheques without seeing invoices, best practice suggests that members should examine invoices and evidence their review thereon accordingly.

We also consider that, again in line with best practice, the clerk should be initialling invoices to confirm their arithmetic accuracy and confirming receipt of the goods and services so invoiced. Our experience is that most councils use an appropriately designed rubber stamp affixed to each invoice which can then be initialled by the clerk and members, also identifying the cheque number and payment date (this also helps ensure against any possible duplication where regular and standard amounts for payment, such as the clerk's salary are approved for payment.

We note that a VAT return for 2014-15 was repaid by HMRC in April 2015 and that a further claim covering 2015-16 will be submitted accordingly: in examining invoices supporting the cashbook detail we noted one instance where VAT of £13.00 had been overlooked and have drawn this to the Clerk's attention for inclusion on the year's VAT return.

R3. *Consideration should be given to the acquisition of a suitably designed rubber certification stamp to be placed on each invoice for completion by the clerk and cheque signing members, as detailed in the body of the report.*

R4. The clerk should ensure that the cashbook is revised and the overlooked VAT is included in the year's reclaim.

Assessment and Management of Risk

We are pleased to acknowledge the action taken to review, update and formally re-adopt the risk assessments generated using the LCRS software.

We have examined the Council's insurance schedule for the year, noting that Employer's and Public Liability cover are both in place at £10 million with Fidelity Guarantee cover set at £150,000, together with Business Interruption cover - Loss of Revenue" in place at £10,000. As the Council has no hireable income sources, we have suggested to the clerk that this cover appears unnecessary and that, if an insurance premium is being paid for this cover, the Council may be able to make a small saving in this respect.

Conclusions

We are pleased acknowledge the positive approach to risk management by the Council and, other than the above possible insurance premium saving have no issues to raise in this area.

Budgetary Control and Reserves

The Council's minutes indicate that members have considered and approved formally the 2016-17 budget and precept, increasing the latter to £2,487, plus Council Tax Support Grant of £178.

We are also pleased to note that members are receiving regular budgetary performance reports during the course of the year.

The overall fund balance has decreased during the year to £3,246 (£5,420 as at 31st March 2015), which equates to 7½ months' revenue spending at the 2015-16 level, which is in line with current CiPFA guidelines.

Conclusions

No issues arise in this area of our review.

Review of Income

The Council receives, in addition to the annual precept, very limited income from very occasional burial and memorial fees, the Support Grant, occasional donations, reclaimed VAT and small amounts of bank interest, together with mug sales. We have previously made reference to the fact that burial records had not been updated for several years and are pleased to note that the records have been brought fully up-to-date. We also noted last year that fees and charges were increased during that year to bring them broadly into line with other neighbouring councils: no subsequent increase has occurred.

Only one memorial fee has arisen during the financial year, the amount recovered being agreed to the adopted scale of fees and charges.

Conclusions

We are pleased to record that no issues arise in this area this year warranting formal comment or recommendation.

Petty Cash Account

The Council does not operate a petty cash account. Any out-of-pocket expenses incurred by the clerk are reclaimed periodically and paid by separate cheques, which are minuted and approved as with ordinary trade invoices.

Salaries and Wages

We are again pleased to report that no issues have arisen from our testing of payments made to the Clerk with appropriate tax deductions being applied and paid over to HMRC periodically during the year. (The Clerk's earnings are below the threshold for NI contributions).

Conclusions

No matters warranting formal comment or recommendation have been identified in this area this year.

Asset Registers

The Governance and Accountability Manual – “The Practitioner’s Guide” requires all councils to maintain a record of all assets owned. We noted last year that the clerk had prepared an appropriate record, although examination and contrasting of its content to the insurance schedule indicates a number of inconsistencies between the two records. Additionally, whilst only of nominal value, the burial ground is not identified on the register.

We are pleased to note that the clerk has recorded the asset values on the 2015-16 Annual Return in accordance with current guidelines with no change in value from that recorded in the 2014-15 Annual Return.

Conclusions

In view of the apparent disparity between the asset register and insurance schedule detail, a review of the Council's asset stock should be undertaken to ensure that the asset register reflects all assets still owned and retained by the Council.

Investments and Loans

The Council does not hold any long-term investments or loans warranting disclosure in the Annual Return.

Statement of Accounts and Annual Return

We have checked and agreed the content of the financial information presented in Section 1 of the Annual Return by reference to the spreadsheet cashbook and other relevant supporting records. We note that the clerk has recorded the two half-yearly receipts of the precept, including the Support Grant, as single entries in the cashbook: a similar entry last year resulted in the Support Grant being erroneously recorded in Box 2 of the Annual Return rather than Box 3, which was also picked up by the external auditors.

Conclusions

No significant matters have arisen in this area of review, although we suggest that the Support Grant be identified in a separate column of the cashbook in future years in order that it is not inadvertently reported at Box 2 in the year's Annual Return.

On the basis of the satisfactory conclusion of our review process for the year, we have duly signed off the Internal Audit Certificate at Section 4 of the year's Annual Return assigning positive assurances in each relevant area.

Action Plan

Rec. No.	Recommendation	Response
Corporate Governance		
R1	The Council should ensure that an appropriate web site is established in order that it may ensure disclosure requirements as detailed in the 2015 Transparency Code for smaller councils.	
R2	When approving the payment of grants and donations to local bodies, the specific powers relied (or Section 137) should be formally identified in the approving minutes.	
Review of Expenditure		
R3	Consideration should be given to the acquisition of a suitably designed rubber certification stamp to be placed on each invoice for completion by the clerk and cheque signing members, as detailed in the body of the report.	
R4	The clerk should ensure that the cashbook is revised and the overlooked VAT is included in the year's reclaim.	
R2		