Item 10



# Polegate Town Council

# Internal Audit

# Year Ended 31st March 2016

**Prepared by:** Mulberry & Co
**Date of Interim Visit:** 9th November 2015
**Date of Final Visit:**

## 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 Interim 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 I would go so far as to say are a model of good practice; I therefore make no recommendation for change at this stage.

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 Salaries
- Review of Fixed Assets
- Review of Annual Accounts
- Review of Trust information

**A. BOOKS OF ACCOUNT**
The RBS system was tested to verify the brought forward balances and to review the entries made to the cashbooks. Entries were posted in a clear and logical manner and the brought forward balances were correct. I make no recommendation to change this system

**B. FINANCIAL REGULATIONS**
The Financial Regulations were adopted in May 2015. These are based on the current NALC model. I selected at random items to test from the financial regulations note the following.

- Per FR 2.2 Bank reconciliations and associated bank statements must be signed. **Council to ensure reconciliations are signed**
- Per FR 2.4 IA has seen evidence of internal review process in action.
- Per FR 2.5 IA properly appointed an minuted.
- Per FR 5.6 List of regular payments. Council may want to consider application or removal of this item if payments are authorised as matter of course under FR 5.2
- Per FR 5.2 payments list drawn up and taken to council properly and in accordance with FR's
- Per FR 6.5 Cheque stubs initialed twice.
- Per FR 6.20 Petty cash verified to cash and receipts.
- Per FR 7 – salaries and paye paid in a timely fashion
- No tenders, IA has seen evidence of three quotes being obtained.

Standing Orders were reviewed adopted in May 2015; these are based on the NALC model.

**C. RISK MANAGEMENT & INSURANCE**
IA has seen good evidence of compliance with the regulations in the Transparency code. A Regular review of risks is carried out and I am satisfied risks are accounted for and documented.

Insurance is current.

**D. BUDGET & PRECEPT**
The 2016/17 budgets are in the process of being prepared, with a view to January completion. Council has good reserves workings and cashflow management.

**E. INCOME**
TBC at year end

**F. PETTY CASH**
There is a minimal float – no errors.

**G. PAYROLL**
TBC at year end

**H. ASSETS AND INVESTMENTS**
The asset registers are up to date and properly maintained. IA has verified assets at random from list to physical asset.

**I. BANK RECONCILIATIONS**
The bank reconciliations for all accounts are properly prepared and presented to council and committee for verification and approval.

**J. YEAR END ACCOUNTS**
TBC at year end

**K. TRUSTEESHIP**
No trusts.

**Mark Mulberry**
**Internal Auditor**
**9th November 2015.**

## Points Forward – Action Plan

| Point Forward / Action needed | Auditor notes | Council response |
|---|---|---|
| **Other** | | |
| 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<br><br>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 | | 8,800 (2014/15: 8,800)<br><br>Precept £261,421 Grant £25,743 = £287,164<br><br>(2014/15: Precept £261,421 Grant £25,743 - £287,164) |
| | Key personnel | | Jo Ognjanovic – clerk and Rfo<br>Chris Hale – admin<br>Sue Godfrey– Admin and committee clerk |
| | Type of financial accounting in place i.e. Manual books, computerised system | | RBS Omega Accounts system,<br>RBS perform year end |
| | Does the council carry out an annual risk assessment, and is it documented. | | Standing Orders – May 2015<br><br>Financial Regs – May 2015 – To be updated again prior to year end for new Frs<br><br>Risk Assessments – continuous on going process |
| | Does the council have a good control environment (evidence of internal reviews and counter signing of cheques etc) | | Yes – we have reviewed the system and made notes and recommendations for the future. |
| | Any significant changes since prior year (staff or procedures) | | No changes from last year |
| | Any there any matters arising from last year's audit and/or management letter | | External auditor made comment regarding internal control was in their opinion was inadequate |
| | Matters arising from discussions with council, including whether there is any evidence of fraud or material misstatement. | | None |
| | 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 | 2 |
| File Review and reporting | Interim Visit | 1 |
| Financial Procedures | Final Visit | 2 |
| File review | Final Visit | 1 |
| **Total Budget Hours** | | **6** |
| Hourly Rate | | £50 |
| **Time Cost** | | **£300** |
| Other costs | Mileage | £50 |
| **Total Budgeted Cost** | | **£350** |
| **Total Budgeted Fee** | | **£400** |

## Timetable

| | |
|---|---|
| **Autumn 2015** | **Planning and Interim Audit work** |
| **May 2016** | **Final Audit work** |
| **May 2016** | **Issue Audit Report & Letter** |

# Systems Notes

Polegate Town Council is located in a local shopping area in its own self-contained offices, which comprise a suite of rooms (also used as council meeting room), toilet facilities. The offices are freehold owned. The offices are open daily from 9.00 am to 1.00pm Monday to Friday. There are two members of staff on site during these times, the Clerk & RFO, admin assistant.

**Expenditure:**
Clerk will identify that expenditure is required, clerk will order goods or services, clerk is generally responsible for ensuring goods or services are completed and will authorise and check orders raised by the admin assistant.

Invoices arrive by post, the invoice is date stamped. Clerk will verify invoice details; invoice is labelled and annotated with nominal ref, cheque number and amount, date and sign off. Invoices then filed in signing off folder

A cheque is then completed in readiness for payment and signature. Invoices are posted to the system, once the cheque has been signed off. Cheque numbers are used to ensure that no invoices are missing. Statements are reconciled to the system to ensure either paid or received.

Quotes are obtained depending on the expense type and amount, for those amounts over £2,000 three quotes are obtained. However, if deemed appropriate or significant a quote will be obtained even if below the £2,000 limit. The public tender limit £60,000

Expenditure has to be authorised by the council before payment can be made; however, the Clerk has a pre-authorised limit of £2,000.00.

**Payment:**
The council pays all suppliers as soon as possible which is generally every two weeks. In readiness for each meeting the RFO prints the payments list from RBS and prepares cheques for signature.

At a fortnightly meeting two signatories sign the cheques, initial the cheque book stubs, counter sign the invoice. The RFO issues the cheques by post.

There are direct debits for electricity, district council, telephone, PWLB & water. There is also a visa credit card in the name of the council. There is one card issued to the RFO and maintenance – both are kept in locked safe. Full council authorises the payments made by credit card.

There are six signatories. Lead Councillor of finance and 5 councillors. When there are changes the mandates are updated.

**Petty Cash:**
There is a petty cash system, with a total float of £100.

**General Controls**
The council has good general controls

- Specified opening hours
- Report against budget at each PC meeting
- Locked offices
- Passwords on computers
- External PC back up – daily
- Finance committee – bi monthly

**Finance Committee**
The finance committee is scaling back its responsibilities and will be responsible for reviewing budgets, all other decision making is being returned to full council which meet monthly.

**Income**
The council has three streams of income :-

1. Precept 75% - bacs

2. Rent & Hire 15% - cheques and cash
3. Amenities } - cheques and cash
4. Finance } 10% - interest income - bacs

**Staff**

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 theses 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**<br>**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, 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 | Low | Review invoices and reconcile to cash book in detail.<br>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 | 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. | Only income is precept | Low | Test to precept application | 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 using HMRC system | Low | Test rates and hours are authorised<br>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. | | | | |
| 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 & Expenditure | Low | Test audit trail sufficient for electors rights | J |
| Trust funds (including charitable) The council met its responsibilities as a trustee. | No Trusts | Low | Review and comment | K |

End of interim report