

Polegate Town Council

Internal Audit

Year Ended 31st March 2017



Prepared by: Mulberry & Co
Date of Interim Visit: 30th November 2016
Date of Final Visit: TBC

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 internal audit report for your kind attention and presentation to the council. 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 covered the entire year to date. Amongst others the following areas were covered in my testing:-

Interim Visit

- 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 Agendas and Minutes
- Review of bank reconciliations

It is my conclusion that the council has robust policies and procedures in place that are fit for purpose and it has provided evidence to show it is following its own financial regulations and standing orders. In addition to this, the council has risk management strategies in place and policies that enable it to achieve its principle objectives and where there is a financial risk this is appropriately insured for.

Councillors are informed individuals and are provided opportunities for training and every effort is made by the council to ensure new members are given training and support.

The council staff are trained and demonstrate a good working knowledge of the council and actively seek to make continuous improvements for the betterment of the council.

I conclude that at the interim stage there are no significant matters that require attention.

A. BOOKS OF ACCOUNT

The council continues to use RBS an industry specific accounting package. I have tested the brought forward balances against the prior year annual return and can confirm these have been brought forward correctly. The RBS system is used daily to report and record the financial transactions of the council and a review of the cashbook shows that all data fields are being entered, the hard copy reports are easy to read and logically filed. I therefore make no recommendation to change in this system.

The clerk/RFO is responsible for ensuring staff are trained and this is reviewed as and when deemed necessary.

B. FINANCIAL REGULATIONS, PROCEDURES & GOVERNANCE

The Financial regulations were taken to council May 2016 and duly approved.

The Standing Orders were taken to council May 2016 and duly approved.

The Members Code of Conduct is in place, and will be reviewed again in year.

The clerk could demonstrate that declarations of interest, and acceptance of office are signed in accordance with regulations. In addition to this, it was also demonstrated that three clear days' notice is given of meetings and that all associated backing documents are included with agendas on the website.

The council has an open-door policy and an ethos to providing training and support to members throughout their term as councillor's. The council has a training budget in place and all councillors are given a member's pack that contains policies and regulations etc.

Council gives authority to spend via the annual budget process, payments are made so long as there is available budget. It is clear council has good robust systems, policies and regulations in place and takes seriously its responsibility in this regard. Payments are authorised in accordance with financial regulations and a dual signatory system is in place for all payments. It was noted that the council does not use any form of internet banking but is actively seeking a move to this.

Council has 15 member positions of which none are currently vacant. Council meets regularly throughout the year as follows: -

- Full council – 11 times per annum
- Personnel - quarterly
- Finance - monthly
- Planning – regular as required

The council has several policies in place and are published on the website these are reviewed annually and provide clear guidance to councillors.

Allowances and expenses are paid to members, but expenses are generally for mileage claims only.

C. RISK MANAGEMENT & INSURANCE

A regular review of risks is carried out and I am satisfied that all appropriate risks are accounted for and documented properly. I was pleased to see the council has a good system of risk assessment and documentation that lends itself to forward planning. It is clear the clerk is working hard to review and update all risks and to consolidate into a working file.

The council is insured via Aviva on a standard local authority package. The long term 3 year deal expires in 2017 and the clerk is obtaining quotes in accordance with regulations. Money and asset cover appear adequate.

D. BUDGET, PRECEPT & PLANNING

The council has been through two visioning exercises and is drawing up a business plan. These have fed through to the budgeting process and provides focus and direction for the council for the next four years.

The council is in the process of preparing the budgets for 2017/18. It is anticipated this will be completed by end of December/January. Full council will review in January.

At the interim date the council has circa £480k of bank and cash balances of which circa £153k is earmarked and at a monthly average spend of £30k, will have general reserves of circa £200k at the year end, this equates to roughly 7 months of monetary cover. This is reasonable for a council of this size.

E. INCOME

TBC at the year end

F. PETTY CASH

The £200 petty cash float was tested to cash and receipts – this was correct at the interim date.

G. PAYROLL

TBC at the year end

H. ASSETS AND INVESTMENTS

The asset registers were complete and up to date and reconcilable to the annual return and insurance schedules. Assets were correctly stated on the register at cost or proxy cost. This taken to council in May each year and sue updates monthly. I make no recommendation to change at this stage. The clerk has a good understanding of the nature of fixed assets.

I. BANK RECONCILIATIONS

Reconciliation for current bank account is carried out regularly and is prepared and presented to the council by RFO. The August 2016 reconciliations and cashbooks were verified in detail to ensure correct transfer of opening balances. There are no reconciling errors.

J. YEAR END ACCOUNTS

TBC at the year end

K. TRUSTEESHIP

N/A

Mark Mulberry

Internal Auditor

30th November 2016.

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 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 2016/17: Precept £311,194 Grant £16,657 2015/16: Precept £273,358 Grant £21,200 2014/15: Precept £261,421 Grant £25,743
	Key personnel		Jo Ognjanovic – clerk and Rfo Chris Hale – admin Sue Godfrey– Admin and committee clerk
	Type of financial accounting in place i.e. Manual books, computerised system		RBS Omega Accounts system, RBS perform year end
	Does the council carry out an annual risk assessment, and is it documented.		Standing Orders – May 2015 Financial Regs – May 2015 – To be updated again prior to year end for new Frs – (May 2016) 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 –
	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		None
	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. 8th 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 2016	Planning and Interim Audit work
May 2017	Final Audit work
May 2017	Issue Audit Report & Letter

Inherent Risk Assessment

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

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

Conclusion & Opinion

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

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

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

Specific Audit Plan

Audit Area Section 4 Annual Return	Notes	Risk of error or misstatement	Tests	Ref
Appropriate books of account have been kept properly throughout the year.	RBS package in place, 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. 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 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 on RBS	Low	Test reconciliation in detail	I
Accounting statements prepared during	Income & Expenditure	Low	Test audit trail sufficient for electors rights	J

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.				
Trust funds (including charitable) The council met its responsibilities as a trustee.	No Trusts	Low	Review and comment	K

End of interim report