

Sandridge Parish Council

Internal Audit Report

Annual Report

Version	1
Date	1 st May 2019
Issued to	Parish Clerk
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1. Introduction

- 1.1 Greenbiro Limited was appointed as the internal auditors for the Council for the Municipal Year 2018-19.
- 1.2 The Council has a statutory duty to complete an Annual Governance and Accountability Return (AGAR) each year. Within the AGAR there is an annual internal audit report that provides assurance on a range of prescribed control objectives.
- 1.3 The internal audit testing programme is designed to focus on the areas where assurance is required for completion of the AGAR.
- 1.4 An interim visit was undertaken on 14th and 15th of November 2018 to undertake some sample review of documents, procedures and processes to establish the control framework and assess the adequacy and effectiveness of the controls.
- 1.5 The purpose of this report is to provide the Parish Clerk and its Councillors with assurance on the effectiveness of the control framework, and identify any areas of concern.
- 1.6 This report does not guarantee that the accounting records of the Council are free from fraud or error.

2. Overview

Approach

- 2.1 Progress with the recommendations made in the report following the first internal audit report in November 2018 is included below. There were no outstanding issues from internal audit work performed by the previous provider.
- 2.2 The prescribed internal control objectives that were reviewed as part of the Annual Internal Audit Report are described in Table 1 below. Alongside each objective, a brief summary of the findings from the audit visits are included.

Conclusions

- 2.3 General comments are that financial records are well maintained, clearly labelled so are easy to find and follow, filed in an appropriate manner and appeared to be complete and fit for purpose.
- 2.4 There were no significant issues of concern regarding the internal control framework to report at this stage. The control framework is operating effectively, and although there is no absolute guarantee, the controls should protect the Council against fraud or error.
- 2.5 Three low level issues were raised at the interim visit. Refer to section 3 below for an update on the issues identified. No further recommendations have been made as result of the year-end audit work.

Table 1 – Internal Control Objectives (derived from the AGAR form)

	Control Objective	Findings	Action Ref.
A	Appropriate books of account have been properly kept throughout the year.	Accounting records were reviewed and were in the expected format. The Council uses Sage to process its accounting records. Some arithmetic checks were performed to detect system errors. None were found.	
B	The Council's Financial Regulations have been met, payments were supported by invoices, expenditure was approved and VAT was appropriately accounted for.	The Council's Financial Regulations are in accordance with the NALC model guidance and were most recently reviewed and agreed by Council on 13 th June 2018. A sample of payments was examined. All had been processed in accordance with the described procedure and the Council's Financial Regulations were met. Accounting for VAT was examined on the invoices paid, no errors were detected. The latest VAT return was examined and had been submitted in full and on time.	
C	The Council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.	The Council has a risk register, recorded on a computerised system called LCRS provided by DMH Solutions. The records are high level and generic, covering all likely activities of a Parish Council. A recent software update has been installed covering new requirements such as GDPR. The Council also has a Risk Management Scheme that was approved by Full Council in September 2016. This document outlines the risk management policy of the Council, and includes a risk scoring mechanism in a 5x5 impact and likelihood matrix. The Risk Management Scheme adopted by the Council is a sound approach, and the processes are clearly set out in this document.	
D	The annual precept requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.	The budget setting process was discussed with the Clerk and was considered to be adequate in meeting the Council's requirements. The precept and budget for 2018/19 was approved by the Council on 13 th December 2017, minute 4689.8 refers. Appropriate budget monitoring is regularly undertaken. The Precept for 2019/20 was agreed by Full Council. Minute 4768.6 refers. The reserves and budgets were also approved at the same meeting. Reserves were reviewed to provide assurance that they are at appropriate levels. Some reserves have been earmarked for particular projects, the general reserves are a little over half the annual precept, which would be considered appropriate for an organisation of this size and complexity.	
E	Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.	The Council encourages all payments by customers to be made by bank transfer and includes bank details on all sales invoices. The Council will accept cheque payments from customers, although this is actively discouraged, and does not take cash payments. A sample of payments received was examined. All had been processed in accordance with the described procedure, which was easy to follow and provided a sound audit trail. The Council's Financial Regulations were met, and appropriate charges had been made in accordance with the schedule of rates. The Council is not registered for VAT and does not charge VAT to its customers. VAT is recovered under the partial exemption scheme for local councils.	
F	Petty cash payments were properly supported by receipts, expenditure was approved and VAT appropriately accounted for.	Petty cash records were examined at the interim visit. Records were appropriately kept, and access to the petty cash was limited to three officers. There is quite low usage of petty cash (less than £100 per month on average), with most purchases being things like postage, key cutting and refreshments.	

	Control Objective	Findings	Action Ref.
G	Salaries to employees and allowances to Members were paid in accordance with council approvals, and PAYE and NI requirements were properly applied.	A firm of accountants provides payroll services to the Council. Salary records were reviewed at the interim visit to check for reasonableness from month to month (analytical review). Payment amounts and deductions were as expected. There was one large payment, this was the one-off additional contribution to the pension fund of £20,000 which is part of a 5 year catch up plan. March 2019 salary records were also examined after the year-end for reasonableness. No anomalies were identified.	
H	Asset and investments registers were complete and accurate and properly carried out.	Asset registers exist and are adequate for financial reporting. There was evidence that the register is updated with purchases and disposals as they arise during the year. The asset register had been updated with all additions and disposals during the year to March 2019.	
I	Periodic and year-end bank account reconciliations were properly carried out.	The file of bank reconciliations was reviewed and it was confirmed that bank reconciliations are being performed regularly and were properly completed. The Clerk reviews the reconciliations and there was evidence of this regular review.	
J	Year-end accounts were prepared on the correct accounting basis (receipts & payments/income & expenditure), agreed with cashbook, were supported by an adequate audit trail from underlying records, and, where appropriate debtors and creditors were properly recorded.	The Council uses Sage to record its financial transactions throughout the year and makes use of a year-end accountant to assist with the production of the year-end accounts and the year end reconciliation. There was appropriate and adequate audit trail to support the production of the income and expenditure statements. Debtors and creditors had been recorded appropriately.	
K	Where the authority declared itself as exempt from a limited assurance review in 2017/18, it met the criteria and correctly declared itself exempt.	This is a new section of the AGAR as a result of the changes to local audit requirements. Not covered in the audit as the Council does not meet the criteria to declare itself exempt.	
L	During summer 2018 this authority has correctly provided the proper opportunity for the exercise of public rights in accordance with the requirements of the Accounts and Audit Regulations.	Not applicable for the period under review.	
M	The Council has met its responsibilities as a trustee.	Not applicable. The Council does not act as a trustee.	

3. Actions for consideration

3.1 There were three **low level actions** recommended for consideration after the interim audit in November 2018. None of these issues represented a significant threat of loss to the Council, but were recommended as improvements to the overall control framework.

	Risk	Recommended action	Response
1	Low Risk management arrangements are not in accordance with the Council's agreed Scheme, although risk records on LCRS are adequately	Review risk register options and establish scoring and recording of risks, risk assessment and monitoring and review in accordance with the agreed Scheme. This may include using a different system or method of	The Clerk reviewed the alternative options and contacted the current supplier and obtained an updated version that reflected relevant

	Risk	Recommended action	Response
	recorded and are reviewed annually.	recording risks and actions to the current LCRS.	changes to legislation such as GDPR.
2	Low Assets are not recorded accurately to support the production of statutory financial statements.	Clerk to arrange a review of the asset register, and bring it up to date so records support the financial statements.	The Clerk has reviewed the full register and updated it with requisitions and disposals and the appropriate entries on the finance system have been made to aid reconciliation. The asset register was obtained and reviewed as part of the year end procedures and agreed to the AGAR.
3	Low Errors or fraudulent banking activity is not detected early resulting in financial loss.	Although this control is stated to be operating, and reconciliations were fully up to date and free from error, it is good practice to record evidence of the process of reviewing bank reconciliation.	Already agreed. Noted at the post-year end audit that all reconciliations had been marked as reviewed by the Clerk.

3.2 The recommendations are rated in three categories – High, Medium and Low. Examples of the risks of not making recommended changes are listed below. The list for each is not exhaustive.

- **High** – Where failure to make changes is likely to give rise to a risk of breach of legislation or breach of Financial Regulations; risk of significant loss (financial, reputational) due to undetected fraud or error; or danger to life. The risk is likely to materialise within 3 to 6 months.
- **Medium** – where failure to make changes may give rise to a breach of approved procedures or Financial Regulations; risk of loss (financial, reputational) due to undetected fraud or error; or risk of injury. The risk is likely to materialise within 6 to 12 months.
- **Low** – Where failure to make changes may result in weaker controls leading to risk of undetected fraud or error, or where good value for money is not being routinely achieved.

3.3 Any future recommended actions will be discussed with the Clerk and comments or agreed responses will be recorded in the Annual Internal Audit Report.

4. Acknowledgements

4.1 The assistance and cooperation of the Clerk and other members of staff was greatly appreciated by the auditor.