
Chitterne Parish Council

Internal Audit Report 2018-19

Claire Lingard
Consultant Auditor



For and on behalf of
Auditing Solutions Ltd

Background

Statute requires all town and parish councils to arrange for an independent internal audit examination of their accounting records and systems of internal control and for the conclusions to be reported as part of the Council's Annual Governance and Accountability Report (AGAR) process.

Internal Audit Approach

In undertaking the review for 2018-19, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end AGAR. Our programme of cover has, as with all our clients, been designed to afford appropriate assurance that the Council's financial systems are robust and operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Internal Audit Report' as part of the year's AGAR process, which requires independent assurance over ten internal control objectives.

Overall Conclusion

We have concluded that, on the basis of the satisfactory conclusion of our annual programme of work, the Council has maintained adequate and effective internal control arrangements, with one area of concern relating to the apparent absence of any review of risk registers in the year: We have also identified a few areas where we consider controls could be further improved: detail of these is set out in the body of the report with resultant recommendations further summarised on the appended Action Plan.

We wish to thank the clerk for the very clear way transactions are recorded and for her assistance in providing all necessary documentation for our review so promptly after the financial year-end.

Consequently, we have completed and signed the year's 'Internal Audit Report', having concluded that, in all significant respects, the control objectives set out in the Report have been achieved throughout the financial year to a standard adequate to meet the needs of the Council, other than in relation to the assessment and management of risks, where we have seen no indication or evidence confirming that such a review was undertaken. Consequently, the Council will need to assign a negative assurance in the AGAR for 2018-19 at Section 1, Box 5.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. The Clerk has maintained the Council's accounting records using Excel based spreadsheets, which we consider appropriate for the level of annual activity. Given the relatively low level of annual transactions, we have agreed all transactions recorded in the cashbooks during the year to the supporting Nationwide bank statements. Finally, in this area, we have checked and agreed the year-end bank reconciliation, also ensuring the accurate disclosure of the year-end balance in Section 2, Box 8 of the year's AGAR.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation.

Review of Corporate Governance

Our objective is to ensure that the Council has a robust regulatory framework in place; that Council and Committee meetings are conducted in accordance with the adopted Standing Orders and that no actions of a potentially unlawful nature have been or are being considered for implementation.

We are pleased to note that the Council formally revised its Standing Orders (SOs) and Financial Regulations (FRs) based upon NALC model documents and adopted this in the in July 2018 meeting of the full Council.

We have examined the Council minutes for the year to determine whether any issues exist that may have either a legal or financial impact on the Council and its future financial stability, also ensuring that, as far as we may be reasonably expected to ascertain, no actions / decisions of an unlawful nature have occurred or may be being considered.

We are pleased to note the Council's continued compliance with the disclosure requirements of the Transparency Code which became mandatory for smaller councils from 1st April 2015.

Conclusion

There are no issues arising in this area of our review warranting formal comment or recommendation.

Review of Payments

Our aim here is to ensure that: -

- Payments are supported by appropriate documentation, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due and/or an acknowledgement of receipt, where no other form of invoice is available;

- The expenditure is formally approved by the Council and this is recorded in the minutes;
- The expenditure has been allocated to correct cost headings; and
- VAT has been appropriately identified and coded to the control account for periodic recovery

We have reviewed all payments made during the year to ensure that the above criteria have been met with no issues arising.

We are pleased to note that invoices and chequebook counterfoils are generally initialled by both signatories and that the cheque numbers are now being recorded in the approving minutes, all of which we consider best practice.

Conclusion

There are no issues arising in this area of our review warranting formal comment or recommendation.

Assessment and Management of Risk

Our aim here is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks to minimise the opportunity for their coming to fruition.

We note that there is no record in the Council's minutes of a Risk Register being adopted during the year. It is a mandatory requirement that all councils keep and maintain both a Health & Safety and a Business Risk register (which may be maintained in a single document). We remind the Clerk and Council that the Governance and Accountability Manual (G&AM) requires risk registers to be reviewed and re-adopted at least once annually by the Council.

The Council is insured with Axa. We have reviewed the content of the 2019-20 insurance schedule and consider that it is appropriate for the Council's current needs with Employer's and Public Liability cover both in place at £10 million, Officials Indemnity at £500 thousand and Business Interruption cover set at £10 thousand.

We note that the Council is responsible for maintaining a recreation ground with play equipment installed on it. However, other than the annual RoSPA report, no inspection of the play equipment or recreation area is undertaken, the council has no one available to inspect the play equipment or recreation ground who has undertaken Playground Inspectors training, no inspection report has been adopted and no playground management policy is in place.

Conclusions and recommendations

Whilst we note that the council is inspecting the condition of its assets and recording its findings in an Asset Condition report, this is only one aspect of a proper Risk Management process. As stated above the maintenance and adoption of a Health & Safety and Business Risk Register is a mandatory function described in the Governance and accountability Manual which requires that a council's Risk Registers be reviewed and re-adopted at least once annually by the council. (An example Risk Register has been provided with the electronic copy of this report).

As a proper Risk Register has not been produced by the council in the 2018-19 Financial year, a negative assertion has been given to Internal Control Objective 'C' in the Annual Internal Audit Report section of the 2018-19 Annual Governance and Accountability Return.

Members are advised that it is incumbent for all organisations responsible for the management and upkeep of playgrounds to have a reasonable and proportionate playground management policy in place; consequently, we have made various recommendations in this regard, as discussed with the Clerk.

- R1. The Council is required to maintain a Financial and Health & Safety Risk register, which is kept current and up-to-date at all times. The Council must ensure compliance with the Governance and Accountability Manual formally reviewing and re-adopting all risk registers at least once annually: the failure to do so in 2018-19 has necessitated a negative response at Item 5, Section 1 of the year's AGAR.*
- R2. Members should consider using a format similar to the example Risk Register supplied to the Clerk with this report.*
- R3. A Playground Management Policy should be developed by the Council, which identifies the legal requirements associated with running a playground; gives a statement balancing the Risks and Benefits of the playground; defines the Playground Inspection Methodology; inspection routines, the Council's approach to assessing the Level of Risk and establishes the Risk Rating; associated actions and a statement about how this feeds into the Council's overarching Health & Safety Risk assessment.*
- R4. A person or persons should be identified to conduct playground and recreation area inspections on a regular basis. This person should attend a RoSPA Playground Inspector (RPI) certificated course or equivalent, which is certificated to national standards, with subsequent refresher courses, which are usually held every two years or so.*
- R5. Members are reminded that playground and recreation area inspection forms and annual inspection reports must be kept for a minimum period of 21 years as the Statute of Limitations allows a person sustaining an injury in a playground to make a claim for compensation up to 21 years of age. (Records may be stored electronically).*

Budgetary Control and Reserves

In this area of our coverage, we aim to ensure that the Council has sound procedures in place for the determination of its annual budget; monitoring and managing available resources throughout the financial year.

The Council's minutes and other documentation provided for our review indicate that members have undertaken a robust Budget setting and Precept determination process, agreeing that the Precept for 2019-20 at £9,800 a slight increase above the 2018-19 Precept request of £8,095.

We note that members continue to receive full information of the Council's financial position at each meeting with detail of bank balances and payments since the last meeting provided and consider this an acceptable level of control for a Council the size of Chitterne.

At 31st March 2019, the Council's reserves stood at £12,019 including EMRs of £11,443 leaving a General Reserve fund of £576 which equates to approximately half of one months net revenue expenditure based on current levels, which is significantly lower than the generally recognised guideline of between three, and six months' revenue spending.

Conclusions and recommendation

Members are reminded that they are responsible for maintaining an appropriate level of General Reserve to ensure the security of the Council's operations throughout the financial year. It is not appropriate to rely on a General Reserve of less than half of one month's expenditure. Members should aim to establish a General Reserve of between three, and six months revenue spending based on the previous year average. In Chittern Council's case this would amount to between £2,446 and £4,893 at the time of writing this report.

We shall pay close attention to the Council's Budget setting and Precept determination process in future years to ensure that the Council has set a Budget and Precept request that make provision for an appropriate level of General Reserve.

- R6. *Members should ensure that when undertaking the Budget setting and Precept determination process that the provision of an appropriate level of General Reserve is kept in mind at all times.*
- R7. *Members should review the current level of the Council's existing EMRs to ensure that the respective funds are still required for the purposes which they were earmarked, and if not, the funds returned to the General Reserve.*

Review of Income

The Council receives limited levels of income other than the precept by way of allotment rents, occasional grants and donations, together with a small amounts of bank interest and VAT refunds.

We have checked detail of allotment tenants per the register of plot holders maintained by the clerk, ensuring that all income due has been recovered appropriately and banked in a timely manner.

We note that the Council reviewed the fees for Allotment tenants and grazing rights in December 2018.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation. However, we take the opportunity to remind the Clerk and members that Allotment tenants must be provided with twelve months' notice of any increase in fees.

Petty Cash Account

The Council does not operate a petty cash account. Any out-of-pocket expenses incurred by the clerk in connection with her work for the council are reclaimed and paid by separate cheque processed in the same manner as all trader payments. Resultantly, there are no issues arising form this area of our review warranting formal comment or recommendation.

Review of Staff Salaries

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HMRC legislation relating to the deduction and payment over of income tax and NI contributions, noting that the Clerk, who is the sole employee of the council, has opted out of the council's pension scheme.

We note that the confidential minutes of the Full Council meeting of January 2019 confirm the new SCP point awarded to the Clerk as SCP 11 on the new, harmonised NJC framework.

The Clerk continues to prepare the payroll using the HMRC bespoke Basic PAYE Tools software: we have checked and agreed detail of her monthly salary by reference to the September 2018 payslips and payroll records, ensuring that the appropriate tax, and National Insurance contributions have been applied and that these have been paid over to HMRC.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation.

Asset Register

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. In examining the records initially provided for our review. We note that the council has declared a reduction in the Council's Fixed Asset Value to £35,841 (£44,169 2017-18). The decrease is due to the disposal of a number of items of playground equipment and recreation ground accessories.

The current Asset Register is very basic and would benefit from being enhanced with the inclusion of a number of columns to retain asset information. Additionally, as reported in our previous year Internal Audit report, many of our clients are now also developing a photographic register of exposed assets, such as street furniture: we consider this to be an example of best practice as it provides the Council with clear evidence of the condition of fixed assets and would assist in the event of any insurance reclaim or police investigation being necessary following damage to or theft of such assets.

Conclusions and recommendation

We recommend, once again, that in addition to the development of a photographic register of the Council's assets the asset register should ideally be expanded to include the following detail, although we appreciate that some such as the acquisition date may not be known: -

- *Date of acquisition*
- *Asset name / detail*
- *Siting of asset*
- *Purchase value (net of VAT)*
- *Serial number, where applicable*
- *Insured value (to assist in assessing budgetary requirements as and when replacement becomes necessary)*

- *Asset condition*
- *Date of disposal*
- *Value of any income received on disposal*

R8. *The updated asset register should be expanded to include, where known, the detail as set out in the body of the report, with the clerk or members examining the condition of each asset at least once annually updating the register accordingly.*

R9. *Consideration should be given to the development of a photographic register of assets to assist in the event of any insurance claim or police investigation becoming necessary.*

Investments and Loans

The Council has no funds in investments, nor does it have any loans either payable by, or to it, at present. However, we take this opportunity to draw the Clerk and Council's attention to a current change in the requirement for production of a formal Investment Strategy: whilst this only becomes mandatory for Councils with retained funds in excess of £100,000, current NALC guidance indicates that, again in line with best practice, all Councils holding funds in excess of £10,000 should also develop an appropriate Strategy.

Statement of Accounts and AGAR

We have reviewed the content of the financial data reported at Section 2 of the year's AGAR agreeing it to the underlying financial records.

Conclusions

No additional issues arise in this area. Based on the satisfactory conclusion of our review for the year, we have duly signed off the Internal Audit Report assigning positive assurances in each relevant area, other than in relation to Risk Assessments, as detailed earlier in this report, which will also require the Council to give a negative assurance at Box 5 of the Governance Section of the AGAR.

Rec. No.	Recommendation	Response
Review of Assessment and Management of Risk		
R1	The Council is required to maintain a Financial and Health & Safety Risk register, which is kept current and up-to-date at all times. The Council must ensure compliance with the Governance and Accountability Manual formally reviewing and re-adopting all risk registers at least once annually: the failure to do so in 2018-19 has necessitated a negative response at Item 5, Section 1 of the year's AGAR.	
R2	Members should consider using a format similar to the example Risk Register supplied to the Clerk with this report.	
R3	A Playground Management Policy should be developed by the Council, which identifies the legal requirements associated with running a playground; gives a statement balancing the Risks and Benefits of the playground; defines the Playground Inspection Methodology; inspection routines, the Council's approach to assessing the Level of Risk and establishes the Risk Rating; associated actions and a statement about how this feeds into the Council's overarching Health & Safety Risk assessment.	
R4	A person or persons should be identified to conduct playground and recreation area inspections on a regular basis. This person should attend a RoSPA Playground Inspector (RPI) certificated course or equivalent, which is certificated to national standards, with subsequent refresher courses, which are usually held every two years or so.	
R5	Members are reminded that playground and recreation area inspection forms and annual inspection reports must be kept for a minimum period of 21 years as the Statute of Limitations allows a person sustaining an injury in a playground to make a claim for compensation up to 21 years of age. (Records may be stored electronically).	
Review of Budgetary Controls and Reserves		
R6	Members should ensure that when undertaking the Budget setting and Precept determination process that the provision of an appropriate level of General Reserve is kept in mind at all times.	
R7	Members should review the current level of the Council's existing EMRs to ensure that the respective funds are still required for the purposes which they were earmarked, and if not, the funds returned to the General Reserve.	

Rec. No.	Recommendation	Response
Asset Register		
R8	The updated asset register should be expanded to include, where known, the detail as set out in the body of the report, with the clerk or members examining the condition of each asset at least once annually updating the register accordingly.	
R9	Consideration should be given to the development of a photographic register of assets to assist in the event of any insurance claim or police investigation becoming necessary.	