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## Signed By

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## Signature Detail

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Beverly Clayden agrees and approves the contents of this document.

# Colgate Parish Council

## Internal Audit

### Year Ended 31st March 2016

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**Prepared by:** Mulberry & Co  
**Date of Interim Visit:** n/a  
**Date of Final Visit:** 25<sup>th</sup> May 2015

## 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 final 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. I am therefore pleased to report I can sign of the annual return positively.

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 accounts package.
- Review of Income
- Review of Salaries
- Review of Fixed Assets
- Review of Annual Accounts

### **A. BOOKS OF ACCOUNT**

The manual system of recording the financial transactions of that of the council was logically presented and easy to follow and understand. The limited number of transactions lends itself to a simple cashbook style of presentation and on this basis I make no recommendation for change at this stage.

### **B. FINANCIAL REGULATIONS**

Financial regulations and standing orders are based on the NALC models – these were reviewed in the 2016 year. Evidence was seen to show council is following regulations and proper practices. No S.137 in year. I reviewed the minutes for two consecutive months and was able to prove council is approving all payments in the cashbook with no cut off errors, that cheques are initialled twice and clear referencing leads to the underlying supplier invoice. I make no recommendation for change at this stage.

I am of the opinion council has followed regulations.

### **C. RISK MANAGEMENT & INSURANCE**

Council is insured with Hiscocks via Came and Company on the three year standard local authority deal. Money and asset cover appear to be adequate.

The council is in the process of updating risk assessments and internal policies. These are presented in tabular and written format which will be taken to council in July 2016.

I am of the opinion the council is considering risk and insurance in accordance with regulations.

### **D. BUDGET & PRECEPT**

The council has £13,451 (2015: £17,385) in reserves, of which £6,200 is general reserves; council is aware that it has no power to accumulate general reserves and at a precept level of £12,400 this would not be regarded as excessive. The earmarked balances are for elections and extra work vis new developments.

Budgets were drawn up in the correct timescale and are reported on, for the 2016/17 council year the precept has been budgeted at £12,400 for the second year. In total, the 2016/17 budget is a breakeven budget and it is anticipated that reserves will remain at circa £13,500 by the end of the year.

I am of the opinion budgets and precepts are correctly calculated.

#### **E. INCOME**

The council has precept, grant, and interest income. The precept and local tax support grant were tested to third party remittance advice notes – there were no errors and income is correctly shown on the annual return.

Other income grants were tested to documentary evidence and or bank statements as applicable. There were no errors.

I am of the opinion income is correctly shown on the annual return.

#### **F. PETTY CASH**

No petty cash

#### **G. PAYROLL**

Payroll is calculated by West Sussex County Council for which a charge is made. Payments as shown in the cash book reconcile to the payroll records. Payment to the clerk was in accordance with regulations. Clerk is paid a regular amount each month and this is approved by council in the normal payments run at full council.

I am of the opinion the wages cost per the annual return is correctly stated.

#### **H. ASSETS AND INVESTMENTS**

The council has £16,056 (2015: £15,250) of fixed assets. In year the notice board was replaced and a new computer purchased. Fixed asset register lists the assets in simple form showing original cost, location and comments regarding insurance.

I am of the opinion that fixed assets are correctly shown on the annual return.

#### **I. BANK RECONCILIATIONS**

The council has two bank accounts and at the year-end there are £13,451 of reconciled reserves. The year-end reconciliation was correct with no adjustments. Council has a good system on internal review and presentation and I make no recommendation for change at this stage.

I am of the opinion bank and cash balances are correctly shown on the annual return.

#### **J. YEAR END ACCOUNTS**

These were correctly prepared on the receipts and payments basis. The annual return correctly casts and amounts could be traced back to the cash books.

I am of the opinion the accounts are ready for submission to the external auditor.

#### **K. TRUSTESHIP**

No trusts

**Mark Mulberry**  
**Internal Auditor**  
**25<sup>th</sup> May 2015.**

### Points Forward – Action Plan

Point Forward / Action needed	Auditor notes	Council response
<b>Other</b>		
None		

## Overview of Council

	Work Task	Schedule Ref	Notes/Results
<b>Terms of Engagement</b>			
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	<b>1.2</b>	Yes – confirmed and attached
3	Complete Budget	<b>1.3</b>	Completed & Agreed with Client
4	Complete Timetable	<b>1.4</b>	Completed & Agreed with Client
<b>Planning Notes – Understanding the Town &amp; Parish Council</b>			
	Number of electors and size of precept		Precept £12,400 (2015: £11,886) Grant £220 (2015: £314)
	Key personnel		Beverley Clayden Clerk & RFO
	Type of financial accounting in place i.e. Manual books, computerised system		Manual system – migration to excel in 2016/17
	Does the council carry out an annual risk assessment, and is it documented.		Yes by clerk
	Does the council have a good control environment (evidence of internal reviews and counter signing of cheques etc)		Council reviews accounts and reconciliations
	Any significant changes since prior year (staff or procedures)		No
	Any there any matters arising from last year's audit and/or management letter		No
	Matters arising from discussions with council, including whether there is any evidence of fraud or material misstatement.		No
	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**.

<b>INDEPENDENCE</b>	
Do you have any specific reliance on the fee to be earned from this assignment	No
<b>Overdue fees</b>	
Does the client/group of clients owe the firm any money which exceeds our normal credit terms?	No
<b>Litigation</b>	
Is there any actual or anticipated litigation between us and the client in relation to fees, audit work or other work?	No
<b>Associated firms</b>	
Are you or your staff associated with any other practice or organisation which has had any dealings with the client council?	No
<b>Family or other personal relationships</b>	
Do you or any of your staff have personal or family connections with the council or its officers?	No
<b>Mutual business interest</b>	
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
<b>Financial involvement</b>	
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
<b>Goods and services: hospitality</b>	
Have you or any of your staff accepted materials, goods or services on favourable terms or received undue hospitality from the council?	No
<b>Ex-partners or senior staff</b>	
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
<b>Long association</b>	
Have you been acting for more than 10 years? If yes, then consider rotation/engagement quality review. 4 <sup>th</sup> Year	No
<b>Provision of other services</b>	
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:-	
<b>Competence</b>	
<b>Consider the following matters prior to deciding to accept appointment/re-appointment as auditors:</b>	
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
<b>Having regard to the safeguards identified, I am satisfied that we are independent and competent to perform this audit.</b>	

## Budget

		<b>Hours</b>
Planning & Systems Work	Interim Visit	-
File Review and reporting	Interim Visit	-
Financial Procedures	Final Visit	1
File review	Final Visit	.5
<b>Total Budget Hours</b>		<b>1.5</b>
Hourly Rate		£50
<b>Time Cost</b>		<b>£75</b>
Other costs	Mileage	£20
<b>Total Budgeted Cost</b>		<b>£95</b>
<b>Total Budgeted Fee</b>		<b>£95</b>

## Timetable

<b>May 2016</b>	<b>Planning and Interim Audit work</b>
<b>May 2016</b>	<b>Final Audit work</b>
<b>May 2016</b>	<b>Issue Audit Report &amp; Letter</b>

## Systems Notes

Colgate is a small parish council the Clerk & RFO works from home – using manual books.

### **Expenditure:**

Expenditure has to be authorised by the council, generally this is under delegated authority under a budget heading. Invoices and cheques are taken to next council meeting for approval along with expenditure list as written into the minutes.

Invoices are annotated with a cheque number.

### **Payment:**

Payment is made by cheque. Councillors are invited to sign cheques and cheque stubs when appropriate. Each cheque is signed twice and the cheque stub is initialled twice.

**Petty Cash:** - none

### **General Controls**

The council has good general controls

- Bank reconciliation – taken to each council meeting – signed off in accordance with Financial regulations.
- Report against budget
- Staff – no high turnover
- Passwords on computers
- Lockable filing cabinets

### **Income**

The council has two main streams of income:-

1. Precept
2. Grant and interest

## 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	Low Risk
Is council following its written Financial regulations & standing orders	Yes – no issues in the past	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	No – however full council reviews at each meeting.	Low Risk
Is there evidence of hierarchical review (counter signing bank rec, invoices etc)	No – however full council reviews at each meeting.	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	Low Risk
Any changes to key staff	None	Low Risk
Any changes in systems or procedures	None	Low Risk
Is all info on site and to hand?	Yes	Low Risk
Any problems in the past	None	Low Risk
Are there any other factors to consider?	No	Low Risk

### Conclusion & Opinion

The systems policies and procedure are robust and are fit for purpose.

## Specific Audit Plan

<b>Audit Area</b>	<b>Notes</b>	<b>Risk of error or misstatement</b>	<b>Tests</b>	<b>Ref</b>
<b>Section 4 Annual Return</b>				
Appropriate books of account have been kept properly throughout the year.	Manual 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 , with up to date FR and SO	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	Excel budget – reported on every month	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.	Simple income stream – no complicated areas	Low	Test to precept application and other misc receipts.	E
Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.	N/a	Low		F
Salaries to employees and allowances to members were paid in accordance with council approvals, and PAYE and NI requirements were properly applied.	Calculated by West Sussex County Council	Low	Review pay-scale and calculation	G
Asset and investments registers were complete and accurate and properly maintained.	Yes	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	Low	Test Year End reconciliation in detail	I

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.	Receipts and payments	Low	Test audit trail sufficient for electors rights	J
Trust funds (including charitable) The council met its responsibilities as a trustee.	None	Low	Nothing to test	K