

Colgate Parish Council  
Internal Audit  
Year Ended 31st March 2017

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**Prepared by:** Mulberry & Co  
**Date of Interim Visit:** N/A  
**Date of Final Visit:** 31<sup>st</sup> May 2017

## Law and Regulation Regarding Internal audit

**Regulation 6 of the Accounts and Audit Regulations 2015 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 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. 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 Income
- Review of Salaries
- Review of Fixed Assets
- Review of income
- Review of annual accounts

The accounts have been correctly prepared on the receipts and payments basis and the annual return contains the correct comparative and opening balances. The annual return agrees to the underlying financial statements and documentation.

I am of the opinion that the annual return is a true and fair reflection of the financial statements of that of the council for the year ended 31st March 2017, and accordingly I have signed off the annual return

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

The clerk uses a manual cashbook and excel to record the day to day transactions of that of the council. It is clear the clerk and RFO has worked hard to complete and reconcile the year end in accordance with regulations, the entries are clearly presented and enable the reader to gain an understanding of the nature and scope of the transactions.

I have reviewed the cashbook for the period April to March 2017 there were no amendments. The system is tried and tested and entirely fit for purpose for a council of this size and the limited number of transactions lends itself to the use of a simple cashbook and I therefore make no recommendation to change at this time.

### **B. FINANCIAL REGULATIONS**

The councils NALC model standing orders were adopted by council and last reviewed in May 2017. The councils NALC model financial regulations were adopted by council and last reviewed in June 2017. Council is reminded to ensure these are reviewed annually and on conclusion minuted as such.

I have noted from the minutes that apologies whist noted are neither accepted nor rejected, I suggest the minutes in future note this detail.

The council has £6,234, (2016: £22,409) of other payments. The cashbooks were agreed to the signed minutes and payments listings.

I am of the opinion that other payments are correctly shown on the annual return

Payment procedures, including invoice authorisation and cheque signing are satisfactory.

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

Risks assessments is a tabular format with risks listed. This is satisfactory for a council of this size; however, for best practice requirements a further column could be added to shown action required if any and responsibility for such action.

The council has policies in place and these are shown on the website they cover in the main the minimum list and the clerk is in the process of added the final two, which will be undertaken during the 2017/18 council year.

Council insured by Hiscox on a standard local authority package. The money and assets cover appears adequate.

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

The council has £15,567 (2016: £13,451) of reserves, of which circa £8k is earmarked leaving £6k as general. At a precept level of £12k, this would be considered reasonable. However, I recommend to council to draw up a simple table of reserves.

### **E. INCOME**

The council has £12,400 (2016: £12,400) of precept income. This was tested to third party evidence there were no errors.

The council has £3,594 (2016: £11,974) of other income, this comprises, VAT refunds and grants and interest, this was tested to third party evidence were applicable – there were no errors.

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

### **F. PETTY CASH**

None

### **G. PAYROLL**

The council has £7,644 (2016: £5,899) of staff costs – this was reconcilable to the salary of the clerk. There are no councillor allowances. Payments are approved by council in the usual manner and minuted.

I am of the opinion that staff costs are correctly shown on the annual return.

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

The council has £16,056 (2016: £16,056) of fixed assets. The assets are correctly shown at cost and proxy cost in a simple list. The value of assets is reconcilable to the insurance schedule.

### **I. BANK RECONCILIATIONS**

The council has £15,567 (2016: £13,451) of bank and cash balances carried forward. The council has two bank accounts and no petty cash. The bank reconciliation as a 31<sup>st</sup> March 2017 was verified in detail – there were no errors.

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

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

It is clear the clerk has worked hard to complete and reconcile the year end in accordance with regulations, the entries are clearly presented and enable the reader to gain an understanding of the nature and scope of the transactions. The limited number of transactions lends itself to the use of a simple cashbook and I make no recommendation to change at this time.

I am of the opinion the annual return has been prepared correctly and is ready for submission to full council the external auditor.

**K. TRUSTEESHIP**

N/A

**Mark Mulberry**  
**Internal Auditor**  
**31<sup>st</sup> May 2017**

**Points Forward – Action Plan**

Point Forward / Action needed	Auditor notes	Council response
<b>Other</b>		
Reserves	Councils to draw up a simple table of reserves – template provided to clerk	
Minutes	I recommend that apologies are either accepted or rejected as appropriate in the minutes	
Policies	Finalise policies	

## 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 £12k Electors 1500
	Key personnel		Beverly Claydon Clerk and RFO
	Type of financial accounting in place i.e. Manual books, computerised system		Excel & Manual Accounts system – Risk assessment – manual system
	Does the council carry out an annual risk assessment, and is it documented.		Yes. This is reviewed as a minimum annually.
	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)		None
	Any there any matters arising from last year's audit and/or management letter		None
	Payroll		External
	Petty Cash		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.	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

		Hours
Planning & Systems Work	Interim Visit	1
File Review and reporting	Interim Visit	1
Financial Procedures	Final Visit	
File review	Final Visit	
<b>Total Budget Hours</b>		<b>2</b>
Hourly Rate		£50
<b>Time Cost</b>		<b>£100</b>
Other costs	Mileage	£30
<b>Total Budgeted Cost</b>		<b>£130</b>
<b>Total Budgeted Fee</b>		<b>£150</b>

## Timetable

<b>May/June 2017</b>	<b>Final Audit work</b>
<b>May/June 2017</b>	<b>Issue Audit Report &amp; Letter</b>

## 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

<b>Work Task</b>	<b>notes</b>	
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 council 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

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.	Manual & Excel 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 - NALC based	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 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.	limited/standard streams of income	Low	Test to precept application and other documentation as appropriate	E
Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.	none	Low	n/a	F
Salaries to employees and allowances to members were paid in accordance	Externally prepared	Low	Test rates and hours are authorised Test net wages to payments due	G

with council approvals, and PAYE and NI requirements were properly applied.				
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	Low	Test 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		K