

**C.N.DAVIES**

INTERNAL AUDIT SERVICES

Kents Hill and Monkston Parish Council.

Governance and Internal Controls

Annual Internal Audit Report

2016/17

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		Distribution	Parish Councillors

The matters raised in this report are only those that came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

This report is prepared solely for the use of Parish Councillors of Kents Hill and Monkston Parish Council. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

# 1 EXECUTIVE SUMMARY

## 1.1 INTRODUCTION

An audit of Governance and Internal Controls was undertaken as part of the approved internal audit periodic plan for 2016/17. This is in compliance with the expected controls and procedures as outlined by the National Audit Office in the Local Councils, Internal Drainage Boards and other Smaller Authorities in England Annual Return for the year ended 31<sup>st</sup> March 2017 .

The system of accounting used by the Parish Council is a Receipts and Payment Account.

A Financial Statement has been produced, presented to the Parish Council and approved by them at a regular meeting. These accounts are drawn up from a computerised financial accounting programme, supporting bank accounts and appropriate documentation to evidence transactions.

### Audit Objective

To ensure that effective governance and accounting processes have been established and are operating.

## 1.2 SCOPE OF THE REVIEW

The objective of our audit was to evaluate the adequacy of control within the system and the extent to which these have been applied, with a view to providing an opinion. Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively.

The approach taken for this audit was a systematic audit and included the following:

- Establishing the controls for which external audit intends to place reliance on internal audit testing.
- Reviewing the adequacy and application of the controls in place to mitigate the risk.

When planning the audit, the following controls for review and limitations were agreed:

### Control activities relied upon.

- Compliance with Standing Orders and Financial Regulations.
- Member Declaration of Acceptance and Register of Members maintained for all Councillors.
- Year End accounts have been prepared on a Receipts and Payments basis.
- Council minutes for each meeting.
- Procedures in place to achieve Value for Money.
- Accounting records maintained and suitably authorised.
- An annual budget in support of the Precept is prepared and variances fully discussed.
- Salary payments and PAYE / NIC correctly operated.
- VAT accounted for correctly. .
- An asset file maintained with the asset / investment registers up to date.

### Limitations to the scope of the audit:

To evaluate the adequacy of control in the areas under review and the extent to which controls have been applied, with a view to providing an opinion to the extent with which risks in this area are managed.

- The scope of the work was limited to those areas examined and reported upon in the areas for consideration in the context of the objectives set out in for this review. It should not, therefore, be considered as a comprehensive review of all aspects of non-compliance that may exist now or in the future.
- We undertook an assessment of the adequacy of aspects of the control framework with limited testing to confirm its operation in practice.

- Any testing undertaken as part of this audit was compliance based and sample testing only.
- Our work did not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error; loss or fraud does not exist.

The audit was designed to assess the controls in place to manage the objective.

These are:

- Appropriate books of account have been properly kept throughout the year.
- The council's financial regulations have been met, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.
- The council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.
- The annual precept requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.
- Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.
- Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.
- Salaries to employees and allowances to members were paid in accordance with council approvals and PAYE and NI requirements were properly applied.
- Asset and investment registers were complete and accurate and properly maintained
- Periodic and year-end bank account reconciliation's were properly carried out.
- 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.

The conduct of this audit complied with the standards set out in GIAS.

### 1.3 CONCLUSION

**Taking account of the issues identified, in our opinion the Parish Council can take Substantial assurance that the controls upon which the Parish Council relies to manage this area, as currently laid down and operated, are consistently applied and effective.**

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review.

The key findings from this review are as follows:

**Application of and compliance with control framework**

All controls as noted above have been reviewed and compliance is satisfactory.

**1.4 RECOMMENDATIONS SUMMARY**

The following tables highlight the number and categories of recommendations made. The Action Plan at Section 2 details the specific recommendations made.

**Recommendations made during this audit:**

	High	Medium	Low	Suggestion
	0	0	0	0
<b>Total</b>	0	0	0	0

No formal recommendations have been made.

**2 ACTION PLAN**

The priority of the recommendations made is as follows:

Priority	Description
High	Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses.
Medium	
Low	
Suggestion	These are not formal recommendations that impact our overall opinion, but used to highlight a suggestion or idea that management may want to consider.

Ref	Recommendation	Categorisation	Accepted (Y/N)	Parish Council Comment	Implementation Date	Parish Councillor / Officer Responsible
	No formal recommendations have been made.					

## 3 FINDINGS AND RECOMMENDATIONS

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
Risk: The Councils financial regulations have not been met.					
1	The Parish Council has formally adopted Standing Orders and Financial Regulations.	Y	<p>We confirmed that the Parish Council at their meeting on 23<sup>rd</sup> June 2008 formally adopted revised Standing Orders and Financial Regulations. These were revised and agreed in 2014.</p> <p>These are reviewed on an annual basis.</p> <p>At the May 2016 Annual Council meeting it was minuted that no amendments were required to the Standing Orders, although some aspects of the Financial Regulations were updated. E.g. updating of signatories and the agreement to a credit card with a limit of £500.00 for the clerk.</p> <p>Risk Assessment documents had been circulated prior to the meeting for comment and agreed formal amendments to be circulated by clerk.</p> <p>The minutes of the annual meeting of May 2016 evidenced that the Inventory and Asset Register was reviewed and agreed by the Council.</p>		
2	The Clerk of the Council has been appointed as the Responsible Financial Officer	Y	Standing Orders and Financial Regulations formally appoint the Clerk to the Council as the Responsible Financial Officer.		
3	Internal financial controls are as per Standing Orders and Financial Regulations.	Y	From a review of Standing Orders there are some financial controls documented. They state that orders for the payment of money shall be authorised by resolution and signed by two members. The S/O's also state that all accounts for payment and claims shall be laid before the Council. The clerk shall supply to each member at the ordinary meeting after the Financial Year-end a statement of receipts and		

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
			<p>payments. Annual estimates of income and expenditure to be submitted at the January meeting.</p> <p>We confirmed from review of the council minutes that standing orders were complied with.</p>		
4	Year End accounts have been prepared on a Receipts and Payments basis.	Y	A review of the year-end accounts for 31/3/2017 noted that they have been prepared on the Receipts and Payments basis.		
5	The annual accounts agree with the cashbook.	Y	A comparison between the cashbook and the year-end accounts confirmed that the accounts are in accordance with the cashbook, taking into account debtors and creditors.		
<b>Risk: Risk is not assessed and managed effectively.</b>					
6	All items from the council meetings are minuted.	Y	A scan of the minutes from April 2016 to March 2017 did not identify any unusual financial activity.		
7	The minutes record the council carrying out an annual risk assessment?	Y	<p>A review of the meeting minutes throughout the year noted that risk assessments were an agenda item at each meeting and were conducted and discussed as appropriate.</p> <p>Our review confirmed that as previously agreed all projects and street furniture are checked on an annual basis.</p>		
8	Insurance cover is set as per insurance company advice.	Y	<p>There is a Parish Council Policy issued by Aviva Insurance Ltd.</p> <p>The insurance documentation was reviewed and the following cover has been enacted for the year 1/06/16 to 31/05/17.</p> <p>This includes:</p> <ul style="list-style-type: none"> <li>Office Contents</li> </ul>		

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
			<ul style="list-style-type: none"> <li>• Employer Liability,</li> <li>• Public and Products Liability</li> <li>• Money and Assault,</li> <li>• Official Indemnity</li> <li>• Hirers Indemnity</li> <li>• Fidelity Guarantee</li> <li>• Personal Accident.</li> <li>• Commercial Legal Expenses.</li> <li>• Loss of Revenue</li> <li>• Increased Cost of Working.</li> </ul> <p>Cover is seen to be appropriate.</p>		
<b>Risk:</b> Income and Expenditure is not correct and valid.					
9	<p>There has been no de minimis amount set.</p> <p>Reasonable steps are taken to purchase at a competitive price and provide Value For Money.</p> <p>There are no petty cash transactions with all purchases being done by cheque.</p>	Y	<p>From a review of the SO's it was confirmed that orders for the payment of monies shall be authorised by resolution of the council and signed by two members.</p> <p>Discussion and a review of the accounting records and documentation revealed that there is no petty cash float and that the clerk purchases cash items personally and they are reimbursed to her by cheque. Receipts and other documentation support this reimbursement.</p>		
10	Suitably authorised and minuted invoices support all payments.	Y	All receipts from the receipt file were checked to the accounting records for validity and entries cross-referred to the minutes for authorisation etc.		

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
11	S137 expenditure is within statutory limits and is easily identified in the cashbook.	Y	We confirmed that S137 expenditure has been shown in the accounting records as £2030.00 payable to various associations and this is within the allowable limits.		
12	All income is recorded upon receipt in the accounting records and banked as soon as is possible.  The majority of income is received by electronic transfer direct to the appropriate bank account.	Y	From a review of the accounting records and checking to bank statements, pay in books and receipts it is clear that the majority of income is received electronically direct to the bank but that small items of income are banked promptly.  We note that the Parish Council has a number of Allotment Gardens with individual plots let to residents.  Income is fully accounted for with a dedicated accounting package and a separate bank account maintained. The bank balance forms part of the regular bank reconciliation presented to the Council and is accurately reflected within the end of year accounts.  There are also a number of payments for allotment rentals and deposits, which are received electronically, and this is fully reconciled. The income is properly and accurately recorded in the accounting records.		
13	The precept recorded is per Council notification.	Y	We confirmed by discussion and review of the return made to the Council that the correct precept has been calculated in accordance with the notification.		
14	All cash receipts are retained by the clerk and banked promptly.	Y	It was confirmed by discussion that very little cash is handled and therefore no special cash security arrangements apart from those of common sense are required.  As noted above there is no petty cash.		
15	All invoices are signed and numbered back to the minute book.	Y	We confirmed from a review of Parish Council		

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
	All receipts are treated similarly.		accounting records that there is appropriate documentary evidence to generally support all cash book entries and that these cashbook entries are accurately reflected in the annual accounts.		
16	The only salary paid is that to the clerk of the council and the council in their meeting approves this.	Y	<p>It was confirmed from discussion that the only employee is the Clerk to the Parish Council.</p> <p>From review of the records it is confirmed that appropriate records are maintained in relation to the Clerks salary and deductions and returns to HMRC.</p> <p>The Parish Council at regular meetings, which are fully minuted, agrees the Clerks salary and any increases that may be awarded are in line with NJC scales. The policy is for annual increments to be made and these are approved by the Parish Councillors.</p>		
17	Other payments to the clerk are for personal reimbursement for expenditure incurred.	Y	From a review of the cashbook and the minutes, it was confirmed that all payments to the clerk are approved at a parish council meeting along with other expenditure.		
18	PAYE/NIC is correctly operated and deducted.	Y	From discussion it was confirmed that the Parish Council operate PAYE /NIC on the salary of the Clerk and a review of the relevant documentation confirmed that PAYE and NIC is properly accounted for by means of the HMRC Employer on line system		
<b>Risk: VAT is not appropriately accounted for.</b>					
19	VAT is identified and recorded in the cashbook and payments have been reclaimed.	Y	From a review of the cashbook, VAT on payments has been identified and recorded separately. Refunds have been claimed accordingly.		
<b>Risk: That appropriate books of account have not been properly kept throughout the year.</b>					
20	The Clerk to the Council maintains the accounting records on a weekly	Y	From a review of all sections of the accounting records		

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
	basis.		it is confirmed that this has been used for all of the accounting period and that it has been written up to and including the 31/3/2017.		
21	There is an electronic financial accounting package and as such a trial balance is produced to ensure correct balancing.	Y	We confirmed by reviewing the accounting records that they are correct. Various journal entries have been made where input error has been noted during the year so as to ensure that the records accurately reflect the balances at the year-end.		
<b>Risk: Account reconciliation's are not timely and accurate</b>					
22	<p>There are three bank accounts operated by the Parish Council. (Current, Allotment and Deposit). These are all held with Metro Bank.</p> <p>The bank accounts are balanced on an ongoing basis and the reconciliation's are presented to Parish Council Meetings.</p> <p>During the course of 2016/17 fixed term deposit accounts have been maintained with the Co-operative Bank and the Cambridge Building Society.</p>	Y	<p>From a review of the accounting records and bank statements it was confirmed that all bank accounts have been reconciled and the balances agree to the annual accounts.</p> <p>They have been recorded in the accounting records with regular reconciliations reported to Parish Council meetings.</p> <p>It should be noted that there have still been some accounting error issues with Metro Bank during the course of the year. However these have been resolved.</p> <p>The Parish Council minutes document agreement to continue the fixed term deposit accounts with the Co-Operative Bank in the sum of £30,000.00 plus interest and with the Cambridge Building Society in the sum of £20,000.00 plus interest. However the Parish Council have resolved to close the Co- Operative Bank account at the end of the 2016/17 accounting year as the interest on the account has been reduced and it is considered that there are better options elsewhere.</p>		
23	Reconciliation's are carried out on a regular basis and are balanced	Y	The bank reconciliation is evidenced in the accounting records as being completed on receipt of the		

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
	ongoing.		statements and the minute book shows evidence of regular reconciliation's.  From a review of the records, we can confirm that they have been accurately balanced at the year-end and have been presented on a regular basis to Parish Council meetings.		
24	There are no unexplained balancing entries.	Y	We confirmed from a review of the bank reconciliation's for the end of year that there are no unexplained balancing entries.		
<b>Risk:</b> The annual precept request is the result of a proper budgetary process and is appropriately monitored.					
25	An annual budget in support of the Precept is always prepared.	Y	From a review of the working papers prepared for the budget it was noted that the budget was presented to the Parish Council meeting of January 2016 and has been formally adopted. It was further agreed to include the precept information on the Milton Keynes Council website.		
26	Actual expenditure against the budget is regularly reported to the Council?	Y	From a review of the minute book, expenditure against budget is now reported on a quarterly basis. Bank balances are reported at the required intervals and individual agreed and expected expenditure is reported at each meeting.		
27	All budget variances are discussed at council meetings.	Y	We confirmed from a review of the budget documentation, and the annual accounts for year to March 2017 that there are no unexplained variances arising. Individual variances are not reported.		
<b>Risk:</b> Asset and investment registers are accurate					
28	An asset file is maintained.  Asset valuations are as per the annual accounts with insurance cover per that valuation.	Y	From discussion and review the Parish Council has an asset register, which is reported upon and forms part of their annual accounts.  From discussion and review of the register, it was		

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
			noted that it is up to date. A review of the insurance documentation confirmed that there is appropriate cover for the assets		