

HEELIS & LODGE

Local Council Services • Internal Audit

Internal Audit Report for Easton Parish Council – 2016/17

Receipts: £9,636.99

Payments: £7,744.40

Reserves: £24,443.28

Annual Return Completion:

Section One: *Yes*

Section Two: *Yes (amendments to be made and initialled by RFO and Chair)*

Section Four: *Yes, completed by Internal Auditor*

The following Internal Audit was carried out on the adequacy of systems of control. The following recommendations/comments have been made:

Proper book-keeping Cash Book, regular reconciliation of books and bank statements. Supporting vouchers, invoices and receipts

Initial examination of the End-of-Year Accounts by Internal Audit revealed:

- a) the Payments figure listed in the Spreadsheet was incorrect and could not be agreed with the Bank Statements.*
- b) the Unpresented Cheques total displayed in the End-of-Year Accounts and in the Bank Reconciliation was incorrect.*
- c) The Council's End-of-Year Account Balance as at 31 March 2017 was incorrect.*

Internal Audit subsequently consulted the Clerk/RFO and the Chair regarding this matter. The Council's Chair requested Heelis & Lodge to identify the corrections required to be made to the Spreadsheet and to prepare a corrected Bank Reconciliation and Summary Receipts & Payments Account. A corrected End-of-Year Account Balance would also be arrived at to ensure that accurate figures could be entered into the Annual Return for 2016/17.

The following issues arose from the examination of the Spreadsheet and bank statements:

- a) A payment of £342.00 to Kindlewood on 27 March 2017 (Cheque 101020) had been entered as £285.00 in the Spreadsheet. The amount of £57 VAT had not been entered into the column headed 'Recoverable VAT'. The 'net' figure had been placed in the 'gross' column instead of the actual amount paid by cheque 101020.*

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- b) A payment of £120.00 to SALC on 27 March 2017 (Cheque 101014) had been entered as £100.00 in the Spreadsheet. The amount of £20 VAT had been entered into the column headed 'Recoverable VAT' but the 'net' figure had been placed in the 'gross' column instead of the actual amount paid by cheque 101014.

Accordingly, the Total Payments in the Spreadsheet was understated by £77.00.

- c) Receipts included a total of £6,986.42 received from HMRC in error during the year (an amount of £4,888.65 on 18 April 2016 and an amount of £2,097.77 on 17 November 2016). These amounts were re-paid to HMRC by cheque on 17 May 2016 and on 30 January 2017 respectively. These items are not Council receipts or payments, per se, and they distort the Council's actual overall receipts and payments in the year. Following discussion with the Clerk/RFO it was agreed that these amounts would remain listed in the Spreadsheet for the 2016/17 year (in order to verify the amounts received within the bank statements and the cheque payments made) but would not be included in the Summary Receipts & Payments Account or the Annual Return.

The following issue arose from the examination of the Bank Reconciliation:

- a) The Bank Reconciliation displayed an incorrect total (£2,887.64) for the cheques unrepresented as at 31 March 2017. The correct value of the unrepresented cheques is £2,964.64 (see detailed listing below).

The following issues arose from the examination of Section 2 of the Annual Return for 2016/17:

- a) Boxes 7 and 8 of the Comparative Year 2015/16 are incorrectly stated as £22,550 instead of £22,551. The corrected figure of £22,551 will result in Box 7 agreeing to Boxes (1 + 2 + 3) less (4 + 5 + 6) in the Comparative Year 2015/16.
- b) The figure of £22,551 should be the brought forward figure as at 1 April 2016 in Box 1 of the 2016/17 year in the Annual Return.
- c) The figure of £9,623 in Box 3 (All Other Payments) in Section 2 of the Annual Return is not correct. Box 3 should display the figure of £2,636.
- d) The figure of £13,037 in Box 6 (All Other Payments) in Section 2 of the Annual Return is not correct. Box 6 should display the figure of £6,128.

e) The figure of £24,520 in Boxes 7 and 8 in Section 2 of the Annual Return is not correct. Boxes 7 and 8 should display the correct figure of £24,443 for the Total Balance as at 31 March 2017.

Recommendation 1: The entries in Section 2 of the Annual Return for 2016/17 should be displayed as follows:

Balances beginning of year (1 April 2016):	Box 1: £22,551
Annual Precept 2016/17:	Box 2: £7,000
Total Other Receipts:	Box 3: £2,636
Staff Costs:	Box 4: £1,616
Loan interest:	Box 5: nil
All Other payments:	Box 6: £6,128
Balances carried forward (31 March 2017):	Box 7: £24,443
Total cash/short-term investments:	Box 8: £24,443
Total fixed assets:	Box 9: £22,513
Total borrowings:	Box 10: nil

The Clerk/RFO and Chair should initial the changes made to Boxes 1, 3, 6, 7 and 8 in Section 2 of the Annual Return.

The following Summary Receipts & Payments Account and Bank Reconciliation display the corrected financial position at the year-end:

	£. p
Accounts Balance b/f (at 1 April 2016)	22,550.69
Add total Receipts	9,636.99

	32,187.68
Less total Payments	7,744.40

Accounts Balance c/f (at 31 March 2017)	24,443.28

Represented by:	
Barclays Community (Current) Account	15,470.12
Barclays Business Premium Account	11,937.80

	27,407.92
Less unpresented cheques:	
a) 100947, 100963, 100966	
still unpresented, from 2015/16	339.46

b) Cheques 101012 and 101014 to	
101021 inclusive, unpresented	
from 2016/17 year	2,625.18

	2,964.64

	24,443.28

For record purposes, the values of the 12 un-presented cheques as at 31 March 2017 are as follows:

	<i>£. p</i>
<i>100947</i>	<i>81.20</i>
<i>100963</i>	<i>250.00</i>
<i>100966</i>	<i>8.26</i>
<i>101012</i>	<i>210.60</i>
<i>101014</i>	<i>120.00</i>
<i>101015</i>	<i>450.73</i>
<i>101016</i>	<i>112.60</i>
<i>101017</i>	<i>15.00</i>
<i>101018</i>	<i>20.25</i>
<i>101019</i>	<i>954.00</i>
<i>101020</i>	<i>342.00</i>
<i>101021</i>	<i>400.00</i>
	<i>-----</i>
	<i>2,964.64</i>

The out-of-date cheques 100947, 100963 and 100966 (total value of £339.46) can now be written back in the 2017/18 Accounts.

The following issue arose from the examination of the Statement of Variances:

- a) Item 6 requires up-dating to reflect the amendments made to the End-of-Year Accounts.*
- b) The 'Explanation of Assets Total Variance' relates to Box 9 (and not Box 8 as shown in the Statement).*

Financial regulations

Standing Orders and Financial Regulations
Tenders

Appropriate payment controls including acting within the legal framework with reference to council minutes

Identifying VAT payments and reclamation

Cheque books, paying in books and other relevant documents

Standing Orders in place: *The Council's Standing Orders were ratified by the Council at the meeting on 30 January 2017 (Minute 8 refers).*

The copy of the Standing Orders presented to Internal Audit, under the item 'Financial matters', refers to the Public Contract Regulations 2006 (at section 28 e) which have been replaced by the Public Contract Regulations 2015.

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Recommendation 2: The Council's Standing Orders should be up-dated during 2017/18 to include reference to the Public Contract Regulations 2015.

Financial Regulations in place: *The Council's Financial Regulations were ratified by the Council at the meeting on 30 January 2017 (Minute 8 refers).*

The Financial Regulations presented to Internal Audit are dated January 2004. The Council should note that NALC have since issued new Model Financial Regulations which reflect current requirements in terms of letting of contracts etc.

Recommendation 3: The Council should consider adopting the new Model Financial Regulations issued by NALC which provide up-to-date legal requirements/procedures.

VAT reclaimed during the year: *A claim for £880.02 VAT paid during the period 20 May 2014 to 2 February 2016 was submitted to HMRC on 18 March 2016 and received at bank on 13 April 2016.*

A copy of the claim submitted to HMRC on 11 May 2017 for the VAT paid in the period 2 February 2016 to 31 March 2017 was held on file.

Use of the General Power of Competence: *Not Applicable.*

Code of Conduct: *The Code of Conduct was presented to the Council at its meeting on 19 May 2015 (Minute EPC027/15 refers).*

Data Protection registration: *No Registration for the provision of council services has been made.*

Risk Assessment

Appropriate procedures in place for the activities of the council

Risk Assessment document in place: *The Accounts and Audit Regulations require a review by the full Council at least once a year of the effectiveness of the Council's system of internal control, which includes the arrangements for the management of risk.*

The Council has a comprehensive Risk Assessment document in place. The Risk Assessment and Internal Control system was considered and ratified by the Council at its meeting on 30 January 2017 (Minute 8 refers).

Insurance was in place for the year of audit. The Public Liability cover is £10,000,000. The Employee Dishonesty (Fidelity Guarantee) cover is £25,000 which is less than the recommended guidelines of year end balances plus 50% of the precept (£27,943 at 31 March 2017).

Recommendation 4: The Council should keep the level of the Employee Dishonesty insurance cover under review (as part of the annual risk management review) in order to ensure that the cover meets the recommended guidelines of year end balances plus 50% of the precept.

Transparency Code

Compliance for smaller councils with income/expenditure under £25,000.

Smaller Council: *Yes*

Website: <http://easton.suffolk.cloud/>

Smaller authorities should publish on their website:

- a) all items of expenditure above £100
Published – Yes
- b) annual governance statement (By 1 July)
2015/16 Annual Return, Section One Published – Yes
- c) end of year accounts (By 1 July)
2015/16 Annual Return, Section Two Published – Yes
- d) internal audit report (By 1 July)
2015/16 Annual Return, Section Four Published – Yes
- e) list of councillor or member responsibilities
Published – Yes
- f) the details of public land and building assets (By 1 July)
Published – No
- g) Minutes, agendas and meeting papers of formal meetings
Published – Yes

Regarding item f), the Clerk has advised Internal Audit that the Asset Register will be published following the completion of the audit.

The Council received £636.00 on 5 May 2017 from the Transparency Code Fund to assist the Council meet the requirements of the Code.

Further guidance on documents that need to be published can be found on:

[https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/388541/Transparency Code for Smaller Authorities.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/388541/Transparency_Code_for_Smaller_Authorities.pdf)

Budgetary controls

Verifying the budgetary process with reference to council minutes and supporting documents

Precept 2016/17: *£7,000* Date: *25 January 2016 (Minute 7 refers)*

Budget papers were prepared for Council to consider the 2016/17 Precept requirement and to ensure that Councillors had sufficient information to make informed decisions.

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It is noted that the Reserves at the year-end totalled £24,443, which is significantly higher than the generally accepted level. The External Auditors normally require an explanation where the Reserves exceed twice the annual precept.

The Council is closely monitoring the level of Reserves (the Capital Reserves Section of the Financial Statement was re-instated at the request of Council on 30 January 2017). It is generally accepted that general reserves held (viz. reserves held that are not earmarked for specific future projects) will usually lie between three and twelve months of gross expenditure.

Income controls

Precept and other income, including credit control mechanisms

Income received was cross referenced with the Council's bank statements.

Petty Cash

Associated books and established system in place

Petty Cash is not used; an expenses system is in place.

Payroll controls

PAYE and NIC in place where necessary.
Compliance with Inland Revenue procedures
Records relating to contracts of employment

PAYE System in place: Payments of salary to the Clerk and PAYE to HMRC were made in the year of account following the appointment of Mr Bill Dicks to the position of the Council's Clerk/RFO.

Under the workplace pensions legislation the Council has responsibilities relating to its employees. Information can be found on the pension regulator website: <http://www.thepensionsregulator.gov.uk/>

Asset control

Inspection of asset register and checks on existence of assets
Cross checking on insurance cover

The Council's Asset Register displays a total of £22,513.69. A note appended to the Register explains that the Asset Register has been cross-checked with the insurance schedule and up-dated accordingly. The Clerk reported to Council on 27 March 2017 that he had brought the Register in line with the insurance schedule.

The Register reflects the acquisition of a notice board during 2016/17.

The Register displays the date each asset was acquired (or a date as near as possible) and the location of each asset.

Bank Reconciliation Regularly completed and cash books reconcile with bank statements

See the Proper Book-keeping item above, where the corrected Bank Reconciliation is displayed.

Year-end procedures Appropriate accounting procedures are used and can be followed through from working papers to final documents
Verifying sample payments and income
Checking creditors and debtors where appropriate.

See the Proper Book-keeping item above. The End-of-Year accounts required correction.

Sole Trustee The Council has met its responsibilities as a trustee

The Council is not a sole trustee.

Internal Audit Procedures

The Internal Audit report for the previous year, 2015/16, was reported to Council at its meeting on 1 July 2016 (Minutes 5 refers). The report had put forward the following recommendations:

- a) The Council's Standing Orders should be up-dated to include reference to the Public Contract Regulations 2015 (this recommendation remains outstanding).*
- b) The Council should adopt the new Model Financial Regulations issued by NALC which provide up-to-date legal requirements/procedures (this recommendation remains outstanding).*
- c) The Council should meet the requirements of the Transparency Code (this recommendation remains outstanding - the Council has received funding to assist meeting the Code).*

The Council appointed Heelis & Lodge as the Council's Internal Auditor for the year 2016/17 at the meeting held on 30 January 2017 (Minute 10 refers).

The Council has internal financial controls in place, including the initialling of invoices for payment and the initialling of cheque counterfoils by signatories.

External Audit

The External Audit report for the previous year (2015/16) was considered by the Council at its meeting on 10 October 2016 (Minute 6 refers). The report raised the following issues:

- a) The level of Reserves held appear high and are building up (Reserves are being monitored with regular reports being received by the Council).*
- b) A new Clerk/RFO should be employed as soon as possible (this has been addressed, Mr Bill Dicks was appointed Clerk/RFO in October 2016).*
- c) The Asset Register should be up-dated to include the date acquired, purchase cost and location of each asset (this has been addressed).*

Additional Comments

- The Annual Parish Council meeting was held on 16 May 2016, within the required timescale. The first item of business was the Election of Chairman, in accordance with the Local Government Act 1972.*
- I would like to record my appreciation to the Clerk/RFO and to the Council's Chair for their assistance during the course of the audit work.*

Trevor Brown

Trevor Brown
for
Heelis & Lodge

1 July 2017

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