

HEELIS & LODGE

Local Council Services • Internal Audit

Internal Audit Report for Earl Stonham Parish Council – 2016/17

Receipts: £9,185.57

Payments: £8,954.49

Reserves: £5,921.31

Introduction:

The Council has acknowledged that there were not effective financial management arrangements in place throughout the whole of the financial year 2016/17. Similarly, the Council has acknowledged that an adequate system of internal control had not been maintained throughout the year.

The present Clerk and Responsible Financial Officer (RFO) took up her duties with effect from 1 January 2017 and has spoken to both the External Auditor and the Internal Auditor regarding the retrieval of Parish records following the resignation of the previous Clerk. The RFO has constructed Accounts for the year 2016/17 from the information available and from the assistance provided by Parish Councillors.

At the meeting of the Council on 29 March 2017, the RFO presented a report on Internal Control and Risk Management arrangements. The Council and RFO are currently working towards securing a governance and internal control framework that is both efficient and robust.

Annual Return Completion:

Section One: *Yes, Minute reference to be added.*

Section Two: *Yes, Minute reference to be added.*

Section Four: *Yes, completed by Internal Auditor.*

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

The Cash Book is referenced and provides an audit trail. A sample of Cash Book transactions was examined and the following issues arose:

- a) The Balance of £5,916.69 in the Cash Book as at 31 March 2017 did not agree with amount of the 'reconciliation amount' of £5,921.31 displayed on the Account. This was due to the amount of £4.62 Interest received in the year from the Close Brothers Treasury Fixed Deposit not being included in the Cash Book Account.*

Recommendation 1: The Council should include in the Cash Book the £4.62 Interest received from the Close Brothers Treasury Fixed Deposit; once this entry is made the Cash Book Account will reconcile with the Bank Statements as at 31 March 2017.

- b) *The Current Clerk, Mr J Blackburn, commenced duties with effect from 1 January 2017. However, salary payments by standing order continued to be paid to the former Clerk, Mrs J Gould, on 30 January 2017 (£192.30) and on 27 February 2017 (£192.30). There is no record in the Council's Minutes of the approval of these two payments to Mrs Gould. It has been confirmed with the current Clerk that the employment of Mrs Gould continued until 31 January 2017, to enable an effective transition between the two postholders. Therefore, the January payment was in accordance with the wishes of the Parish Council. A cheque has now also been received from Mrs Gould returning the amount paid in February 2017, which she was not entitled to receive and the standing order has now been cancelled (i.e. the overpayment has been recovered).*
- c) *There is a requirement to identify payments made under the Local Government Act 1972 Section 137 (LGA 1972 s137) in the Cash Book and End-of-Year accounts. No payments under this Section were recorded in the year in the Cash Book. However, some grants and donations, including those made to the Royal British Legion (£50) and the Earl Stonham Cricket Club (£1,375), would appear to have been made under that legislation.*

Recommendation 2: The Council should identify all payments made under the Local Government Act (LGA) 1972 Section 137 and make any necessary amendments to the Cash Book and Receipts and Payments Account prior to the submission of the Annual Return and supporting documentation to the External Auditors.

VAT payments are tracked and identified within the End-of-Year Accounts.

The Annual Return for 2016/17 was examined. Box 1 of Section 2 (Balance Brought Forward) should be the same as the figure in Box 7 of the previous year (the Balance Carried Forward) i.e. Box 1 in 2016/17 should display £5,689. (The RFO has explained in her notes to the External Auditor that this is due to the previous Clerk rounding down rather than rounding up).

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 up-dated version of Standing Orders was approved and adopted by the Council at its meeting on 29 March 2017.*

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Financial Regulations in place: *The up-dated version of Financial Regulations was approved and adopted by the Council at its meeting on 29 March 2017.*

Appointment of RFO: *Mrs Jennie Blackburn was formally appointed Clerk and RFO by the Council with effect from 1 January 2017 (meeting on 29 March 2017, page 4 refers). A Contract of Employment is in place.*

VAT reclaimed during the year: *The current RFO submitted a claim to HMRC on 10 May 2017 for VAT paid during the period 21 December 2015 to 31 March 2017, for the amount of £413.41.*

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

Data Protection registration: *The Council is not registered for the provision of Council services.*

Minutes of the Council: *The Council's Minutes are in loose-leaf format. The Minutes are signed and dated by the Chair and each page initialled.*

Loose-leaf minute books are lawful provided that the pages are consecutively numbered and initialled by the person signing the minutes at the time of signature.

Recommendation 3: The Council should ensure that the Minute pages are consecutively numbered on being signed by the Chair to ensure a lawful and authentic record is maintained. Individual subject items within the Minutes should also be numbered or referenced.

Code of Conduct: *The Clerk has been unable to identify a Minute to confirm the Council's adoption of the Suffolk Local Code of Conduct and she is due to obtain Council's re-adoption, as necessary, during 2017/18.*

Risk Assessment

Appropriate procedures in place for the activities of the council;
Risk Assessment document in place:

At the meeting of the Council on 29 March 2017, the RFO presented a full report on the position with regard to the Council's Internal Control and Risk Management arrangements. A full review of Internal Controls was not possible in 2016/17 because the matter was not dealt with before the previous Clerk resigned (in January 2017) and relevant information only released to the current RFO in May 2017. Accordingly, the Council is unable to state that proper internal control arrangements were in place throughout the year and were reviewed in terms of effectiveness. The RFO has confirmed that proper arrangements will be in place during the year 2017/18.

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Recommendation 4: The Council should undertake a review during 2017/18 of its system of internal control, including the arrangements for management of risk, with the review Minuted to evidence the action taken.

Insurance was in place for the year of audit. The Fidelity Guarantee Cover is £25,000 which meets the current 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://www.earlstonham.org.uk/>

Smaller authorities should publish on their website:

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

The Council has yet to fully meet the requirements of the Transparency Code. The Council received a report regarding its website at its meeting on 29 March 2017.

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

Recommendation 5: The Council should meet the requirements of the Transparency Code in full in accordance with the attached guidance as soon as practically possible.

Budgetary controls

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

Precept 2016/17: £5,850

Date: 20 January 2016 (Minute 7 refers).

The Precept was agreed in full Council and the precept decision and amount has been clearly Minuted. The Precept was agreed after a review of the Budget and financial forecast was undertaken by the Council.

The current RFO has confirmed there is no record of Budget Monitoring having taken place during the year 2016/17.

Income controls

Precept and other income, including credit control mechanisms

Income received and banked was cross referenced on a sample basis with the Cash Book and bank statements (see Proper Book-keeping item above).

It was unclear when the last review of Allotment Rents took place. The RFO has advised Internal Audit that a review will be undertaken shortly.

Petty Cash

Associated books and established system in place

No Petty Cash is held; an expenses system is in place with supporting paperwork.

Payroll controls

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

PAYE System in place: *The Council is registered with HMRC in respect of the employment of the current Clerk/RFO in accordance with HMRC requirements. PAYE payments are being made to HMRC.*

The Council has advised Internal Audit that the former Clerk, Mrs J Gould, was paid gross with no deductions because her earnings were below the threshold for PAYE and NI contributions.

The Clerk/RFO has advised Internal Audit that she is currently dealing with the requirements of the Pensions Regulator in terms of the Council's responsibilities under the workplace pensions legislation.

Asset control

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

An Asset Register is in place and displays a value of £5,473 as at 31 March 2017. The Register reflects the acquisition of a Balmoral Bench and a Dog Bin and the disposal of a laptop in the year of account. The

Council has 3 Noticeboards which had not been listed previously and have now been added with a nominal value of £1.

The Register meets the current requirements which provide that each asset should be recorded at its original purchase cost or where the original purchase price is unknown a current value is recorded, which acts as a proxy for the original cost and will remain unchanged until disposal.

The overall cost/proxy cost value of £5,473 has been correctly placed in Box 9 of Section 2 of the Annual Return.

Bank Reconciliation Regularly completed and cash books reconcile with bank statements

The bank statement for the TSB Classic Account dated 31 March 2017 reconciled with the End-of-Year accounts and overall Bank Reconciliation.

The Close Brothers Treasury Fixed Deposit was closed in the year and paid into the Council's TSB Classic Account on 20 March 2017.

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.

End-of-Year accounts are prepared on a Receipts and Payments basis. Payments under Section 137 of the Local Government Act 1972 should be separately identified within the Receipts and Payments Account (see Recommendation 1 above).

Sample audit trails were undertaken and were found to be in order.

Sole Trustee The Council has met its responsibilities as a trustee

The Council is not a sole trustee.

Internal Audit Procedures

The Clerk/RFO provides financial reports to Council meetings. Councillors are provided with information to enable them to make informed decisions. Payments are listed within the Council's Minutes.

Some, but not all, cheque book stubs are initialled by cheque signatories. Similarly, some but very few, invoices and vouchers for payment are initialled by signatories in confirmation of the payment being correctly made. Such confirmation is an important area of control within a Council's overall framework of financial control.

Recommendation 6: To strengthen the Council's internal financial control arrangements, Cheque Signatories should

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initial all Invoices and Vouchers for payment to confirm the correctness of the payment being made.

The Internal Audit for the previous year (2015/16) was undertaken by R. Crabtree; the Annual Return was signed on 24 May 2016 and no areas of concern were raised.

At its meeting on 29 March 2017 the Council appointed Heelis & Lodge as its Internal Auditors for the 2016/17 year. An Audit Plan is in place.

External Audit

The External Auditor's report for the previous year (2015/16) was reported to Council at its meeting on 23 November 2016 (Minute 4 refers); no significant matters arose.

Additional Comments

- *The Annual Parish Council meeting was held on 18 May 2016, within the required timescale. The first item of business was the Election of Chairman, in accordance with Standing Orders.*
- *I would like to record my appreciation to the Clerk to the Council for her assistance during the course of the audit work.*

Trevor Brown
for
Heelis & Lodge

30 May 2017

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