



HUDSON ACCOUNTING LTD.  
INTERNAL AUDIT REPORT:  
TO THE MEMBERS OF ST MAWGAN IN PYDAR PARISH COUNCIL  
YEAR ENDED 31ST MARCH 2017

ISSUE DATE: 07/05/2017  
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## **INTRODUCTION:**

Internal auditing is an independent, objective assurance activity designed to improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

## **Scope:**

The scope of the audit covers the areas included on Part 4 of the Annual Return and the Transparency Code.

Audit work is carried out in line with the Chartered Institute of Public Finance and Accountancy's Internal Audit Standards and guidance issued by the National Association of Local Councils.

Selective testing was carried out and the relevant policies, procedures and controls were reviewed. Where applicable we have included reference to 'proper practice' and the associated guidance as laid out in 'Governance & Accountability for Smaller Authorities in England' which is applicable to financial years from 1<sup>st</sup> April 2016.

## **GENERAL COMMENTS:**

We would like to thank the Clerk for their assistance and co-operation during the course of the audit.

We have signed off the Annual Return and have answered 'yes' in all cases. This should give the Council assurance that its internal controls are working satisfactorily. The matters raised in this report are only those which 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.

In giving our internal audit opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes. The audit does not guarantee that the accounting records are free from fraud or error.

Items in **bold text** within the body of the report represent our findings in respect of the application of controls, text in *italics* represent suggested actions that fall short of being a formal recommendation.

## **INTERNAL AUDIT REPORT RESPONSE RECORD:**

We have provided a table of audit recommendations that allow for the Council's response which can be used as an ongoing monitoring tool.

We would be grateful if, in due course, it is completed and returned to us.

## AUDIT COMMENTARY:

### 1. Accounting Records

The cashbook is maintained on a spreadsheet and appeared free from errors.

### 2. Financial Regulations

Financial Regulations based on the NALC Model have been adopted; we make the following observations:

- The paragraph stating the Clerk is the RFO has been omitted;
- The paragraph relating to deliberate or wilful breach of the Regulations has been omitted;
- There are no procedures in Regulation 11 for the procurement of items that fall below the tender threshold;
- There is no mention of the Public Contracts Regulations 2015;
- There are a number of square brackets that have not been amended or removed.

*The Model Regulations were devised to capture statutory obligations, the requirements of the Accounts & Audit Regulations and proper practice therefore the Council should consider adopting those elements absent from its own Regulations at the time of the next review.*

### 3. Payments

Testing revealed that payments were, on the whole, supported by invoices, had been duly authorised and VAT accurately recorded.

Purchase Orders are not used and the authority to spend is not evidenced by a slip or Minute reference as required by Financial Regulation 4.1

Official orders both commit a supplier to a price and help prevent unauthorised credit being granted in the authority's name, it is therefore recommended that:

#### **Recommendation 1**

**As far as possible a fully priced and signed official order should be sent to suppliers in advance of delivery of goods and that where authority to spend was approved by Council a Minute reference is noted on the purchase order or invoice.**

**A number of contracts have been re-let with no competitive process, one with values that exceed the thresholds for compliance with the Public Contracts Regulations.**

**In addition invoices are not provided by these contractors.**

Proper practice guidance contains the following paragraphs:

Authorities should pay particular attention to situations where contractors are engaged to carry out the authority's services. Occasions may arise when contractors cease to be self-employed and become employees for tax purposes. Authorities should refer to HMRC's Employment Status Indicator Tool for further information.

As part of risk management arrangements, written confirmation should be sought from HMRC to ensure that payments for services are being correctly treated; otherwise authorities may find themselves with unexpected and significant liabilities to pay income tax and employers NIC.

To ensure that Financial Regulations, the Public Contracts Regulations and HMRC guidance is adhered to it is recommended that:

#### **Recommendation 2**

**The contractual arrangements in place are reviewed.**

### 4. Risk Management

*Risk Assessment:*

**Risk assessments are in place and have been reviewed in year.**

*Insurance:*

**Statutory insurances are in place and the Fidelity Guarantee is adequate at £100K**

*Internal Controls:*

Guidance on proper practice now includes a list of those things that need to be in place to give a positive response to the assertion in the Annual Governance Statement in respect of internal controls. This includes a requirement, contained in the Accounts & Audit Regulations 2015, to review the effectiveness of the internal control environment.

To ensure compliance with proper practice and the requirements of the Accounts & Audit Regulations it is recommended that:

**Recommendation 3**

**Due regard should be given to the proper practice guidance when considering the Annual Governance Statement and a documented review of the effectiveness of internal controls produced.**

*Business Continuity Arrangements:*

**There are no procedure notes in place for financial or other systems.** This leaves the Council vulnerable to service disruption in times of staff turnover or absence.

To improve resilience and to protect service delivery it is recommended that:

**Recommendation 4**

**Procedure manuals are produced for all key areas in sufficient detail to allow a temporary or new member of staff to undertake the function with minimal disruption.**

**Computer files are backed up to the Cloud.**

**5. Budget Management.**

*Budget Setting:*

**The budget was set following the production of detailed estimates.**

*Budget Monitoring:*

**Budget monitoring has not been carried and Financial Regulations require that they be provided 'as requested'.**

This is a departure from the Model Regulations and in order to ensure sound financial management it is recommended that:

**Recommendation 5**

**Budget monitoring is reported to Members at least quarterly.**

*Adequacy of reserves:*

**Total reserves stood at £75,867 at the year-end, after allowing for earmarked reserves of £44,656 the general reserve is £31,211 equating to 81% of gross expenditure in 2016/17 well within generally accepted levels of 25% to 100%.**

**6. Income.**

**Outside of the precept, grants and donations the primary source of income is from burials which are adequately controlled.**

**7. Petty Cash**

**Petty cash is not used and the Clerk is re-imbursed for any Council related expenditure she incurs.**

Financial Regulations allow for a Council credit card or pre-paid debit card to be issued and actually do not allow for the use of personal cards (paragraphs 6.18 & 6.19). It is becoming increasingly difficult to purchase some items, e.g. software, or obtain value for money

without some form of electronic payment mechanism.

*If petty cash is not to be used consideration should be given to acquiring a credit or debit card in the name of the Council to be used, subject to suitable controls, for sundry purchases.*

#### **8. Payroll.**

**Testing revealed no issues to report.**

#### **9. Assets.**

**The asset register provided did not include assets purchased during the year, this has now been updated.**

*Proper practice guidance includes details of the information requirements for an asset register and the Council should review asset details held in light of this guidance.*

#### **10. Bank Reconciliations.**

**Bank reconciliations are carried out quarterly and the year-end bank reconciliation in support of the annual return was correct other than in respect of the treatment of a £10 overpayment.**

**The bank statements available at the time of audit did not include the whole period up to 31<sup>st</sup> March.**

*Bank statements covering the whole financial year should be obtained before submitting the Annual Return as any additional transactions would affect the bank reconciliation if not the actual accounting figures.*

#### **11. Accounting Statements**

**Accounting statements were in accord with underlying records, other than a £10 overpayment had been treated as a debtor instead of expenditure and some office costs re-imbursed to the Clerk had been treated as staff costs.**

The necessary changes have been made.

#### **12. Transparency Code**

Whilst the Transparency Code (the Code) is not yet mandatory for Councils of your size we are monitoring and encouraging compliance as there is an expectation that public bodies will be open and transparent.

**The Councils website contains very little information required by the Code neither does it contain information that is considered a minimum requirement by the Information Commissioner's (ICO) Model Publication Scheme.**

Details of the requirements can be found on the [.GOV](#) website and there is a template guide for parish councils on the [ICO](#) website.

*It cannot be long before government draws the conclusion that Council's with turnovers between £25,000 and £200,000 have no transparency requirements and expands the scope of the Code to include them, it is therefore suggested that the Council considers complying with the Code requirements for Councils under £25,000 and adopts the Model Publication Scheme.*