

# Newton Poppleford and Harpford Parish Council (NPHPC)

## Internal Audit Report 2016/2017

Prepared by: Beth Webb, FCA

Appointed as Internal Auditor by resolution of Council – Minute entry 220, 27<sup>th</sup> March 2017 (ratifying minute 3d) Finance Committee meeting 9/3/17) following resignation of former Internal Auditor, David Hinchliffe.

I can confirm that I am independent of council and its members.

I have met with the Responsible Financial Officer, Paul Hayward, and herein submit my internal audit of the council's financial position, procedures and reviews.

### **Internal Audit Procedure**

This report summarises my conclusions on each of the key areas set out in the Internal Audit report contained within the Annual Return.

I note that there were no concerns/recommendations submitted by the former IA in his year-end report dated 25<sup>th</sup> May 2016 and I am therefore unable to confirm whether any changes or revisions to procedure have been implemented by the Council since that time other than those detailed below:

Any recommendations contained herein are summarised in Appendix A: I would ask that, following due consideration by the Council, I be provided with responses to the recommendations arising in a timely fashion. I suggest that I undertake an interim Internal review of Council in Autumn 2017.

### **Overall Conclusion**

I am reassured by the work undertaken by the Responsible Financial Officer since his appointment in February 2017 to present councils accounts in a legible, chronological manner, in accordance with extant statutory legislation. May I commend the Clerk on the quality of documentation presented to me for auditing. I cannot comment on how the previous accounting records were maintained by former employees and this issue will be covered accordingly as I report on each Internal Control Objective in this report. It is the legal duty of the RFO to maintain council's financial records in a manner which allows for practical and simple assessment of the council's financial position at any given time, but it also the responsibility of councillors – acting collectively as the council – to ensure that this is being done in accordance with Local Authority legislation.

## **A. That appropriate accounting records have been kept.**

My objective here is to ensure that accounting records are both accurate and up-to-date. There should be no margin for ambiguity or uncertainty.

Newton Poppleford and Harford Parish Council's financial accounts are presented in a simple Cashbook format using Microsoft Excel. The council holds a single UK current account with National Westminster Bank PLC.

In consideration of the relatively low level of transactions during the year, this method of preparing financial accounts is acceptable although council may wish to consider using any one of the many accounting software packages available if it wishes to undertake more in-depth analysis of its financial affairs.

The monthly and annual cashbook figures are regularly corroborated with both bank reconciliations and a budget monitor.

I carried out a spot check of bank cheque counterfoils against invoices and noted that there were several incidences where either only one, or in some cases none, of the cheque signatories placed their initials correctly. This is a basic requirement of the internal control process and must not be overlooked. I note also that the previous RFO was also a bank signatory; I am assured that this is not the case currently. There must be a clear distinction between the role of officer, and the role of member of the council.

In addition to confirming the accuracy of detail in the spreadsheets, I have also verified the accuracy of detail in the year-end bank reconciliation and accurate disclosure of closing balances in the year-end accounts and, consequently, the Annual Return. I note that Clerk also provided a corresponding "draft" annual return during the year so as to facilitate a swift completion of Councils accounts at year end and also to provide an ongoing verification of their accounts against the statutory format of the Annual Return.

*Note: All PC files should be backed up regularly and measures taken to safeguard this back-up copy, be that as a physical asset (hard drive etc.) or via an online resource (The Cloud etc.) or both, as Council determines via its own Risk Management Review.*

**The maintenance of a comprehensive daily record of council's financial position is a corner stone of both the internal financial control process, and the external audit. Councillors must ensure that they are aware of the financial position at any given time, and that reports presented by the RFO are both read and understood by all members.**

**B. That Council met its financial regulations and that payments were supported by invoices, that expenditure was approved and that VAT was appropriately accounted for.**

I have been given a copy of the Financial Regulations which I understand were formally adopted by Council on the 31<sup>st</sup> October 2016 – minute entry 15.

I have also reviewed the invoices provided by the RFO in support of expenditure during the financial year 2016/17. I am concerned that there are not only missing invoices but also a considerable number of hand-written invoices, not supported by any other receipt. I am reassured by the RFO's presentation of invoices paid since February 2017 that a revised system has been implemented but I am obliged to comment on the previous Internal Auditors "clean bill of health" on the basis that the documentation provided does not allow me to give such an assurance.

Turning to the matter of VAT, there are two areas which I will comment on. The first is that, from January 2016 until the end of February 2017, no VAT reclaim was submitted, which essentially means that the VAT claim made by the RFO in March 2017 contains recoverable VAT from two separate financial years, and thus has a direct bearing on last year's annual return. Secondly, I understand that the council undertakes several activities which HMRC would designate as "commercial" such as the letting of a sports field, and the rental of a building to a health practice. These activities fall outside of the criteria for which the HMRC allow local authorities to reclaim their VAT under the 126 scheme.

Again, making reference to the previous IA's report of May 2016, I cannot provide an assurance that council was operating in accordance with legislation during the entire 2016/17 financial year, only that it appears to be doing so now. I am aware that a VAT claim has been received, albeit in the new financial year 2017/18 which means that this refund relates to the two previous financial years.

It is good practice for a VAT claim to be made under the Local Authority scheme at least 6 monthly, if not more regularly if the volume of VAT paid is appropriate. Most certainly, a claim should be made at least one month before financial year end so as to recover as much VAT as is possible and incorporate as revenue via reclaim in the same financial year.

I understand the RFO is undertaking some training on VAT and that, as a consequence, he will make a report to council as to whether further analysis and investigation of the council's VAT position is necessary, especially with regards to the activities and transactions of the Newton Poppleford Playing Field Foundation, of which the Council is sole trustee.

**Recommendations:**

**Councillors must receive, and consider, the financial reports presented to them and question any irregularities or omissions as they arise. Bank reconciliations must be carried out, I would suggest, monthly and a budget monitor should be provided for members at least quarterly. VAT claims must be completed on a cyclical, regular basis but only after work has been carried out to ascertain the council's position on VAT registration.**

### **C. That council assessed significant risks and reviewed adequacy of arrangements to manage them.**

I have been provided with minutes which state that the Internal Financial Control Review and Risk Assessment were considered, and adopted, by council on the 6<sup>th</sup> December 2016. I have also seen copies of both documents.

I must point out that, in accordance with the 2017/18 Practitioners Guide (Governance and Accountability Manual), an annual review of risk management and internal financial controls is the minimum permissible, and that it may be necessary for the council to carry out an interim review later in the year, especially as there has been a change of RFO since the last review.

I have examined the Council's various insurance policies and am happy that the level of Public and Employers Liability cover exceeds the statutory minimum. The council's assets are also covered by the "All Risks" section of the policies but I am obliged to remind council that an annual review of the assets held is a prudent measure to ensure that no risk of "under-insurance" exists.

I note that council has three separate policies with 3 differing renewal dates as shown below and council may wish to consider synchronising these for the benefit of administration but also to gain an economy of scale in the renewal premiums.

*Zurich Municipal – renewal 24<sup>th</sup> December. Local Council Policy*  
*Allied Westminster – renewal 9<sup>th</sup> June. NPPFF and Pavilion Policy*  
*West Insure – renewal 18<sup>th</sup> September. Surgery Building Policy*

**No further recommendations.**

**D. That the precept requirement resulted from adequate budgetary process, that budget is monitored and that reserves are appropriate.**

I have been provided with both a copy of the budget calculation for 2017/18 and a copy of the resultant precept demand letter to the principal billing authority.

I have also seen copies of the minutes where the budget was considered and the level of precept determined for the forthcoming year ( 5<sup>th</sup> October 2016 – minute 4: Finance Sub-Committee, ratified by full council on 28<sup>th</sup> November 2016 – minute entry 9 )

As at the year end, the council's reported balance was £61,459.62 which represents 164% of the annual precept for 2016/17 (£37,500) although I am advised that the end-of-year balance also incorporates ear-marked reserves as below:

Venn Ottery Green Maintenance Reserve	£5000
Car Park Resurfacing Reserve	£8500
Neighbourhood Planning Reserve	£7414

*These will reported on Schedule E of the External Auditors Annual Return – supplementary documents.*

Deducting these amounts, then the “true” Non-Earmarked balance (general reserves) figure falls to £40545.62 \* or 108% of annual precept demanded for 2016/17. Schedule E only required further clarification if reserves are over 300%.

*\* It must be noted that this balance does not take into account the £5218 VAT reclaim made in the 2016/17 financial year and attributable to it but actually received in the following one ie. 2017/18*

The RFO has shown me a Budget monitor now in use to illustrate payments against budgeted expenditure but I have not been able to find any documents to evidence that this was the procedure during the full financial year 2016/17.

**Recommendation:**

**That budget discussions are commenced in a timely fashion in early autumn and that due consideration is given to each cost centre.**

## **E. Review of Income**

RFO has provided me with a separate summary outlining all receipts into the Council's accounts during the financial year. It is evident from these receipts that NPHPC does undertake some "business" activities and therefore, as previously mentioned, work must be carried out to determine the full extent of council's VAT position and to furthermore decide whether to alter their current position as a claimant under the standard 126 scheme.

All precepts funds, grant receipts and "business" income has been accounted for, as has Cemetery Fees and Allotment Rents.

I note, however, from the Paying-In Book that payments have been amalgamated in the past so as to create one composite deposit i.e. Cemetery Fees & Allotment Rents.

This is not good practice as it does not allow for individual payments to be corroborated with a Receipt Advice or Notification. My recommendation below outlines alternate procedure suggested.

As mentioned previously, there has been a large gap between reclaims of VAT recoverable but I am assured by RFO that systems are in place to submit a regular, quarterly claim, so as to ensure receipt of these funds within the same financial year that the expenditure was incurred.

### **Recommendation:**

**That council seeks professional advice as to its VAT position in respect of commercial activities undertaken.**

**That council approves Grant Applications made to external bodies at full council and that a minute entry records this fact. These Grant Awards are essentially contracts with third parties in terms of the usage of the funds, the deadline for expenditure etc. The decision to apply for grant funding must not rest with the RFO / Clerk alone.**

**All receipts into the accounts are to be supported by either a notification advice or a supporting invoice. Unwarranted / unaccounted receipts are to be avoided at all cost.**

## **F. Petty Cash Payments**

*The Council does not normally operate a petty cash account, any miscellaneous expenses incurred by the Clerk being reclaimed every other month subject to provision of receipts or invoices received, these predominately being postage costs, stationery costs and minor administrative expenses for which no formal credit accounts exist.*

*I am obliged to advise, however, that the previous Internal Auditor erroneously stated that NPHPC did have a Petty Cash account in his signed statement on 30<sup>th</sup> May 2016. This assertion is contrary to council's own risk assessment which states that no petty cash is handled.*

*Furthermore, I note that council did organise several events during the year which, whilst not involving petty cash per se, did involve the receipt of large amounts of cash; indeed, the collection of allotment rents also involves cash receipts.*

### **Recommendation:**

**That council prepares and agrees a Cash Handling Policy for all members and officers, or amends its Risk Management review and policy to reflect this area of concern.**

## **G. Salaries to employees, and HMRC compliance.**

I have examined the accounting records relating to staff salary and HMRC payments and am happy that these payments were made in a manner which conformed to current legislation. I note that a third party payroll body was used during the financial year 2016/17 and that a fee was paid for this service accordingly. P60's have been generated and posted to employees / former employees.

The RFO advises me that he now intends to undertake the payment of staff salary and remittance of HMRC payments via the Basic Tools Software, freely available from HMRC and provided at Nil cost to council.

From the accounting records provided to me, I can provide assurance that all sums owing to HMRC in respect of employers and employees NI and PAYE have been made as per schedules provided by the previous third party payroll service provider.

I have seen a signed and valid Contract of Employment for the RFO/Clerk.

Council should be aware of the legislation relating to automatic enrolment for staff into Employee Pension Schemes as this will have an impact on their budget calculations for forthcoming years.

### **Recommendation:**

**None.**

## **H. Asset and Investment Registers**

NPHPC holds no investments other than cash in the bank as stated.

The RFO has provided an Asset Register for the Council to support the figure stated in Box 9 in Section 2; Accounting Statements for 2016/17.

I note that council purchased an asset – Vehicle Activated Signage – in February 2016 for £2975 nett. which was not included in the Box 9 figure last year. This is classed as a fixed asset as it is a permanent fixture (albeit, it is designed to be moved between locations) but its value and purpose requires it to be included.

Therefore, the figure quoted on the Annual Return for 2015/16 of £85,166 was incorrect and will need to be restated as £88,141 with an additional increase this financial year for other fixed assets purchased during this financial year.

Council should ensure that the Asset Register is updated at least annually, and the document approved by resolution at full council as part of your Internal Financial Control procedure. Council has also purchased other items which, whilst not classified as fixed assets, do require listing on a schedule for insurance reasons.

### **Recommendation:**

**Restate Assets Held figure under Box 9, section TWO Accounting Statements for financial year 2015/16 as specified above.**

**Increase Assets Held figure for financial year 2016/17 to take in account new assets purchased.**

**Prepare a full inventory of all assets and equipment owned by NPHPC and location to share with Insurers to ensure that cover exists for these items. These to include Surgery Building, Allotments, Cemetery, equipment installed in third party buildings, amenity assets and office equipment.**

## **I. Bank reconciliations carried out.**

RFO has provided me with a Bank Reconciliation signed by the Chairman of Council which conforms to the model provided by the External Auditing authority.

Bank reconciliations are an essential part of the Internal Financial Control process and should be provided as often as possible, but at least quarterly, to ensure financial probity and assurance that funds held match those outlined in financial statements and accounts provided to members.

It is good practice that a different Councillor signs off the Bank Reconciliation each time. This to be done with supporting evidence available i.e. Bank statements and Cashbook.

### **Recommendation:**

**None.**

## **J. Accounting Statements prepared during the financial year.**

RFO has provided me with a full set of accounting statements, together with a simplified set of End-of-Year accounts which show itemised breakdown of expenditure and receipts on a RECEIPTS AND PAYMENTS basis. I note that RFO also provides monthly financial reporting to all members in advance of council meetings to allow perusal and consideration of the accounts beforehand.

As previously stated, these accounts are managed using MS Excel spreadsheets which are perfectly adequate given the minimal amount of expenditure and receipts involved and the generally low volume of transactions evident in council's accounts.

It is for council, and councillors, to decide how complex and detailed their financial reporting is each month, and this decision should be made after taking into consideration the need for these financial accounts to be readily understood by both members untrained in financial accounting, and by members of the public who have a statutory right to examine and read these accounts once published on councils website as per regulatory requirements.

In my opinion, the accounts format presently utilised by the RFO is sufficient for all members to readily understand the council's financial position and to allow third party observers such as myself to immediately see where the accounts stand and what transactions have been made to create them.

The RFO also prepares a monthly "*payments to be approved*" schedule for members to ratify and approve by resolution at council meetings and this document should be signed by the presiding Chairman and stored as part of the accounting records for that financial year.

### **Recommendation:**

**None.**

## **K. Trust Funds ( including Charities )**

RFO has provided me with minutes of the meetings of the Trustees of the Newton Popleford Playing Field Foundation (300848) which confirm that Council undertakes its responsibilities as Trustee, and Financial Accounts for the same.

I would respectfully suggest that meetings be held at least quarterly in future and that consideration be given to a formal review of operational and financial procedure, properly minuted, to ensure compliance with extant legislation.

### **Recommendation:**

**Quarterly meetings of Trustees.**

**Review of Trustee organisational policy and responsibilities.**

*On the basis of the work undertaken by the RFO during the previous financial year, 2016 to 2017, and after consideration of the financial records available, I have duly signed off the Internal Audit Report on page 5 of the Annual Return confirming positive assurances in the areas marked.*

**Beth WEBB** \_\_\_\_\_

**Date** \_\_\_\_\_

## **Appendix A; Summary of Recommendations**

- A: That all payments are supported by invoices signed by two bank signatories and that payment counterfoils are initialled by the same signatories.
- That all electronic files and accounting records are backed up to a physical media or to an online resource on at least a weekly basis to safeguard and protect council data.
- That accounting records be kept up-to-date and accurate at all times and recorded in a manner that permits immediate clear and legible analysis of the same.
- B: That all invoices are recorded and filed in a methodical and legible manner so that payments can be corroborated with supporting invoice for every transaction.  
Hand-written invoices and receipts are NOT to be used.
- VAT reclaims to be undertaken on a regular basis, preferably quarterly, with the final claim of the financial year submitted to ensure receipt of the reclaimed funds within the same financial year as the expenditure was incurred.
- Council to undertake, as soon as possible, an external review of VAT procedure in respect of its non-business activities which fall outside of the statutory VAT126 recovery scheme operated by HMRC.
- C: That council considers synchronising its various insurance policies if it considers it appropriate.
- That council regularly updates its Asset Register to ensure that adequate insurance cover exists.
- D: That council continues to segregate “earmarked” reserves from General Reserves and Bank Balances.
- That council considers its budgetary responsibilities as previously and allows all members to contribute to discussions regarding budget and precept calculations for the council.
- E: That council ensures that all payments made into bank account are properly segregated to ensure that each can be independently assigned to a documented receipt.
- That council approves all Grant Applications to be made at full council and records decision in minutes. RFO / members are not be permitted to make applications without council’s full and prior resolved approval.
- That all receipts are to be supported by a detailed breakdown / schedule / invoice outlining any VAT obligations and / or origin of payment.
- F: That council prepares a Cash Handling Policy or Appendix to Risk Management Policy to determine rules for same.
- G: That council considers implications of Pension Auto-Enrolment on budget for future financial years.
- H: That council restate Assets Held figure for 2015/16 on this year’s Annual Return
- That council prepare full inventory of all assets of council for insurance purposes.
- K: That council considers holding quarterly meetings of Trustees for NPPFF.

That council reviews organisational structure and constitution of NPPFF.