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## FRAMFIELD PARISH COUNCIL

### Internal Audit Report 2016-2017

#### Introduction

In accordance with the Internal Audit Plan, Controls and Procedures have been tested, with Fraud and Risk Issues reviewed. These are managed, in line with the Governance and Accountability for Local Councils Practitioners' Guide (GALCP) and meet the needs of the Council. I confirm that I do not have any role within the Council and will carry out my duties without bias.

The audit was completed on 18<sup>th</sup> May 2017 and confirmed that the financial management and internal controls are in good order with some minor changes recommended. Issues arising from the previous audit were mostly addressed with further on going improvement planned. The report below highlights the findings of the audit with reference to the internal control objectives set out on page 5 and statements in section 1 of the of the annual return.

#### Prior Year audit comments and actions

##### **Internal Audit 2015-16.**

- **Financial Regulations.** It was recommended that the Financial Regulations be reviewed and Council consider adopting the NALC standard regulations. *The Council considered this and agreed to keep the current financial regulations.*
- **Review of the effectiveness of internal audit.** It was recommended that Council Members perform quarterly IA test with the RFO using sample transactions and report findings to the Council and that a review of its controls be made as defined in the GALCP guide. *The Council considered this and agreed that its current controls were adequate but agreed to change its procedures and have Council members initial invoices and cheque stubs on approval.*
- **Budgetary Controls** It was recommended that the monthly financial report format be reviewed to include total reserves, to include all income and expenditure and agree to the financial records. Report frequency to be at least quarterly. *The reports are now presented at each PC meeting but do not include income and all expenditure and do not agree to the financial records. Bank Balances and some reserves are shown..*

**External Audit 2015-16.** There were no comments or actions required by the external auditor for 2015-16.

#### Internal Audit Report 2016-17

##### **A. Appropriate Accounting Records.**

- A.1 The financial records are maintained in a manual ledger book written up in ink and totalled by quarter year. The ledger is kept up to date. The data held for each transaction is correct; the ledger is arithmetically correct and regularly balanced. VAT is properly accounted for.
- A.2 The ledger agrees to some financial reports but not to the financial reports vs budget that are seen by Councilors at meetings. *It is recommended that the RFO amends the monthly financial report vs budget to include all I&E transactions, to agree with the accounting records and to agree at year end to schedule 2 of the Annual Return. Reports also to show earmarked and general reserve levels at least on a quarterly basis.*

- A.3 It is noted that a receipt of £41,250 relevant to the construction of a telecoms mast on land owned by a Trust managed by the Council was processed into the Council's bank. The Clerk confirmed that the Council did not have title to these funds and so had passed these directly to the Trust. The receipt and payment of £41,250 does not appear in the Income and Expenditure reported in the Annual return. This is correct.

**B. Financial Regulations, documentation and approvals.**

- B.1 The Standing Orders and Financial Regulations are readopted annually and will be presented for approval again on 23<sup>rd</sup> May 2017.
- B.2 The Financial Regulations allow the RFO to make payments by bank transfer without a second approver. [It is recommended that 2 Council members approve a paper copy of any bank transfer instruction from the on-line banking system before the transfer is made](#) to comply with Section 150(5) of the Local Government Act 1972 which requires cheques or orders for payment to be signed by two elected members. Whilst this requirement has now been repealed, the 'two member signatures' control needs to remain in place until such time as the authority has put in place safe and efficient arrangements in accordance with paragraphs 1.15.4 to 1.15.7 of the guide. [It is also recommended that members carefully check the monthly bank reconciliations for bank transfer items.](#)
- B.3 Quotes for Items of de minimis amount were sought for items as required in the financial regulations.
- B.4 Expenditure Approval. All items in the sample audit were supported by documented approval with an audit trail through the financial records except for a BT Direct Debit. [It is recommended that DD's are either approved in advance for the year or added to the payments approval list in the monthly minutes.](#)
- B.5 VAT was properly accounted for.
- B.6 Agendas & Minutes are sent out in time are well presented.

**C. Risk Assessment**

- C.1 A formal Risk Register was completed and will be re presented for approval at the May 23<sup>rd</sup> AGM.
- C.2 Internal Audit Effectiveness. The minutes confirm that a review of internal audit effectiveness was completed.
- C.3 Insurance – The Parish Council's Insurance in place is sufficient to cover its assets and financial risk.

**D. Budgeting & Precept**

- D.1 Budgetary Control – Annual budgets are prepared in support of the precept. The budget working papers and process used to set the budget were not available for review at the audit but the Clerk confirmed that the key stages in the budgeting process as defined in the Governance and Accountability for Smaller Authorities were followed
- D.2 Actual expenditure is compared with the budget and any significant variances are explained but the reports that are used to make this comparison do not agree to the financial records. This does not negatively impact the budget controls because in this case the differences are minor but could present a risk if some items are excluded.

**E. Receipts**

- E.1 Income is primarily from the annual precept. The precept recorded in the minutes agrees to the Council Tax authority's notification.
- E.2 Other income is banked as received.
- E.3 There is no VAT on income. VAT refund receipts are correctly accounted for but the last claim for VAT was for the period 1 Nov 2014 to 24 Aug 2015. [It is recommended that VAT claims are processed at least annually and for a financial year.](#)

- F. Petty Cash** – The Council does not use a petty cash system or hold petty cash.

## **G. Employee Costs**

- G.1 Staff Wages – Payroll is managed by the RFO using the HMRC on line system. The Clerk and other staff have contracts of employment. Payroll and HMRC records agree with the financial ledgers and are correctly accounted for. Payroll changes and monthly payroll are authorised by the Council and minuted. The Clerk confirmed that these authorisations will also be signed by members when approved and a copy sent to the RFO.

## **H. Assets**

- H.1 Assets – An Asset register is maintained using in a simple format using insured values. Cost values are not known. Minutes show that the Council intends to update the register and add more details.
- H.2 Assets in the year were re-considered as the property of a Trust managed by the Council and not as Council assets. The value of the assets year on year has therefore decreased. There were no supporting disposal or transfer documentation available for audit.

## **I. Bank Reconciliations.**

- I.1 Bank Reconciliations are completed on a monthly basis. The reconciliations are presented to the Council for review. Reconciliations are minuted as being reviewed by Councillors.

## **J. Accounting Statements.**

- J.1 The accounts are maintained on an Income and Expenditure basis. Receipts and Payments agree to the cash book with the VAT debtor being the reconciling difference to I&E.
- J.2 All of the items chosen in the sample of payments from the ledger except for a DD were supported by invoices authorised for payment and approved in the minutes. Cheque stubs were not available for review at the audit with the RFO but these were confirmed by the Clerk as being initialled when the cheques were signed.
- J.3 Reserves – Earmarked reserves total £57964 leaving £6,069 as general reserves which is 11.8% of the precept.

- K. Trust Funds.** The Council has confirmed that it acts as the sole trustee for trust funds and has met its responsibility as a trustee. The scope of this audit does not include these trusts.

It is noted that the figures have been produced by the RFO and the Clerk in accordance with the requirements and all supporting documents have been produced for the Internal Auditor. Their co-operation aided considerably the work of this internal audit. Thank you.

Keith Robertson FCMA  
Internal Auditor  
25th May 2017