

Final
Internal Audit Report
for Crosby
Ravensworth Parish
Council

2015/16

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Report issued 13th May 2016

Part 1 – Summary

Introduction

Internal Audit is an on-going function with reviews being undertaken throughout the financial year to show the continuing existence and adequacy of internal controls. This is the final report 2015/16.

As part of the Internal Audit Plan for 2015/16, a review of the main areas of the Parish Council will be audited in accordance with Section 4 of the Annual Return. The areas reviewed were in accordance with Section 2.74 and Appendix 9 of the Governance and Accountability for Local Councils.

I would like to thank the Parish Clerk for all his time, help and assistance during the course of these reviews.

Objective and Scope of the Review

In accordance with the Governance and Accountability for Local Councils, Internal audit is a key component of the system of internal control and its purpose is to review whether the systems of financial and other controls over a council's activities and operating procedures are effective (section 2.59).

The following areas, as highlighted, were reviewed in accordance with Section 2.74 and Appendix 9 of the Governance and Accountability for Local Councils and formed the interim report dated 23rd March 2016. The remainder were subsequently reviewed during March and April 2016.

1. Proper bookkeeping
2. Financial Regulations, Standing Orders, Payment Controls
3. Risk Management*
4. Budgetary Controls*
5. Income Controls
6. Petty Cash Procedures*
7. Payroll Controls*
8. Asset Controls
9. Bank Reconciliation
10. Year end procedures

**The review period covered was 1st April 2015 to 31st December 2016.*

In addition to the above, a follow-up of the recommendations resulting from the previous internal audit report for the financial year 2014/15 was carried out along with a review of the MMRGT (Maulds Meaburn Recreation Ground Trust) which the council act as sole trustee for.

Internal Audit Opinion

The Parish Clerk has developed good controls to ensure that the financial records for the Parish Council are maintained and timely. A cash book for receipts and payments is maintained. Quarterly financial information, including bank reconciliations, are provided at committee meetings for consideration. The Parish Clerk has provided access to a number of key documents, via Dropbox to allow members to access 'real time' information as required.

The Standing Orders and Financial Regulations documents have been strengthened with their annual review by members who have implemented recommendations made in last year's internal audit review.

There were five recommendations made by the Internal Auditor in the previous year and three of these have been fully implemented whilst the remaining two are partially implemented. The two partially implemented relate to the employee's salary records and to the Assets and Investment Register. See part 3, Follow-up of recommendations, for further details.

The Parish Council has seen a number of changes to its members during the financial year, significantly the resignation of the Chair in January 2016 and subsequent appointment of a temporary Chair in March 2016. Naturally, these changes have had an impact on some Parish Council agenda items.

The review for 2015/16 identified areas for improvement and these have been detailed in the summary of recommendations below.

Summary of recommendations

1. The Parish Council should review the Control Measure / Internal Auditor appointment for 2016/17 to resolve this potential conflict.
2. Changes to an employee's salary should be documented by a written statement to the employee. The Parish Council should record evidence of approved changes in employment contracts in employee records. **(Partially Implemented)**
3. The Fixed Asset and Investments Register should be regularly reviewed and kept up to date in accordance with the guidelines. Without an up to date Fixed Asset Register, there is a risk that fixed assets have not all been recorded, nor is it apparent if fixed assets have been sold or acquired by the Parish Council during the year.
4. In accordance with guidelines, assets relating to MMRGT should be identified as 'charity assets held by the council as trustee' in the council's Fixed Asset Register. **(Outstanding from 2014/15)**
5. a) Consideration should be given to including expected income from the income generating assets, on the Fixed Asset and Investments Register.

b) Investigate as to why the actual monthly income figure received for the Old Police House differs from the expected income as per the Tenancy Agreement.
6. Ensure that the Risk Assessment for the Lyvennet Beck, which is now under the management of the MMRGT, is reviewed and up-dated regularly.

Part 2 – Detailed Findings

The reviews are numbered in accordance to those listed in the Internal Audit Plan 2015/16

1. Proper Bookkeeping

An electronic cash book is maintained by the Parish Clerk as the RFO (Responsible Finance Officer). The cash book is maintained when a transaction occurs. The cash book is reconciled to the bank statements on a quarterly basis and the financial position reported to the Parish Council accordingly.

Good controls are in place to ensure that the Parish Council are able to make financial decisions on complete financial records.

2. Financial Regulations, Standing Orders, Payment Controls

Good controls are in place and Standing Orders and Financial Regulations are considered and adequately documented by the Parish Council.

The Standing Orders and Financial Regulations provide the general rules of the Parish Council's business. Both documents had been adopted during 2014/15.

A recommendation was made in last year's Internal Audit review which stated:

'To ensure that there is no confusion arising from the Standing Orders and Financial Regulations during the procurement process, the Parish Council should review the content to ensure that any conflicting guidance is resolved'.

The Parish Council subsequently reviewed the content of both documents in their meeting of 26th May 2015. The documents have been amended and adopted accordingly.

It was noted that there were only two items of expenditure in the financial year that fell in the Financial Regulations threshold band of >£500 but <£3,000. which requires three estimates to be obtained (FR 11.1.h). However, it was found that one item of expenditure relating to AON (Council Insurance) of £661.44 in May 2015 had not been one of three estimates. The Parish Clerk is aware of this finding and confirmed that three estimates should be obtained.

3. Risk Management

There are two risk assessments in place, one of which relates specifically to the Lyvennet Beck that flows through Maulds Meaburn Village Green and is now under the management of the MMRGT – Maulds Meaburn Recreation Ground Trust, the other relates to the business of the Parish Council. The Parish Council Risk Assessment has been reviewed during the year. The MMRGT will review the Lyvennet Beck risk assessment separately – this is due to be reviewed in April 2016. It was discussed with the Parish Clerk during the review in 2014/15 as to expanding the minutes in order to record discussions, or outcomes of discussions, to further enhance the process in place that risks are being identified and managed. The Parish Clerk confirmed that the risk assessment document is reflective of discussions and is up-dated on screen during the committee meetings. The Parish Council Risk Assessment was considered by committee in November 2015.

Good controls are in place to ensure that risk management is considered and adequately documented.

It was noted on the risk assessment and raised during discussions with the Parish Clerk, item number 2 on the risk register dealing with the risk "Absence of Clerk through misadventure / illness" - this risk has a suggested improvement of an arrangement with another Parish Clerk from Appleby – Caroline Dodgeon. However, it was noted that she has also been appointed the Internal Auditor for 2016/17 which could potentially be a conflict as the Governance and Accountability for Local Councils, A Practitioners' Guide March 2014 states:

"2.67 Independence means that whoever carries out the internal audit role does not have any involvement in the financial decision making, management or control of the council, or with the council's financial controls and procedures."

2.68 Similarly, it would not be appropriate for any individual or firm appointed by the council to assist with the council's accounting records, preparation of financial statements or the annual return, to be also appointed as internal audit....."

The Parish Council needs to be aware of this potential conflict between the control measure of item number 2 on the risk register dealing with the Admin risk "Absence of Clerk through misadventure / illness" and the Governance and Accountability for Local Councils, A Practitioners' Guide March 2014 2.67 and 2.68. The Parish Council should review the Control Measure / Internal Auditor appointment for 2016/17 to resolve this potential conflict.

Recommendation 1

The Parish Council should review the Control Measure / Internal Auditor appointment for 2016/17 to resolve this potential conflict.

4. Budgetary Controls

Good budgetary controls were found to be place. A budget is in place for 2015/16 and this was approved prior to the financial year by committee in November 2015.

The RFO provides quarterly budget monitor reports of income and expenditure to members. The RFO verbally reports any significant variances during the meeting. The item is recorded in the draft minutes as "presented and approved". However, it was not obvious from the minutes as to what was discussed or any outcomes arising from any discussions. Consideration should be given to expanding the minutes to include these.

5. Income Controls

All income is recorded in the cash book. Supporting documentation is retained along with the paying in book. The cash book provides an up-to-date record of the Parish Councils financial position.

Good controls are in place to ensure that income is properly recorded and promptly banked.

6. Petty Cash Procedures

It was confirmed by the Parish Clerk that a Petty Cash system is not operated by the Parish Council for the 2015/16 financial year, as per the previous financial year.

It was noted by the External Auditors that the incorrect box had been ticked on the Annual Return in error by the Internal Auditor. The 'no' box had been checked with the note that stated "Petty Cash is not used by the Parish Council therefore coverage not required".

It is understood from their report that the 'not covered' boxed should have been checked instead and this will be ticked on completion of the Annual Return for 2015/16 with a statement to explain that the Parish Council do not operate a petty cash system, therefore no further Internal Audit testing was carried out.

7. Payroll Controls

The Internal Audit review for 2014/15 detailed two recommendations relating to the Payroll Controls (see Part 3 – Follow-up of recommendations).

The Payroll Controls were reviewed. A contract is in place and details the terms and conditions of the Parish Clerk on appointment. There had been a change to the salary during 2014/15 and a further change for 2015/16. The salary changes have been approved through the budget setting process. It was noted during this review that although the Parish Clerk had received an email from the Chair confirming the change in salary for 2015/16. It was verbally established that the employment records / contract held by the Parish Council were not reflective of any changes and this was also found to be the case for 2014/15. Therefore the recommendation has been up-dated to partially implemented.

The guidance in The Governance and Accountability for Local Council documents details that

Section 2.74 – Payroll Controls

"Changes to contracts of employment (whether annual salary change, or other) require formal agreement by the council as well as being evidenced by a written statement to the employee. The council should record evidence of approved changes in employment contracts in employee records."

With the Parish Clerk's salary and contract under review for 2016/17 it is important that documentation to support these approved changes are kept in accordance with the guidance.

Recommendation 2

Changes to an employee's salary should be documented by a written statement to the employee. The Parish Council should record evidence of approved changes in employment contracts in employee records.

Partially Implemented

C Mitchinson & Co, Accountants act as agents for calculating PAYE and NIC for the Parish Clerk. A letter is in place from the HM Revenue and Customs confirming authority for C Mitchinson & Co, Accountants to act as agents. This letter is dated 17 August 2013. It was established by the Accountants that this letter of authorisation is only required once and not annually.

The Parish Clerk confirmed the continuing appointment of the Accountants in an email dated May 2015. There is an estimated charge of £70 for this service and this amount has been included in the budget. At the time of the review, the services of the accountant would be on-going and an invoice would not be received until the financial year end. Consideration should be given to confirming the fees of the Accountants in the appointment correspondence.

8 Asset Controls

A recommendation was made following last year's Internal Audit review that *"Enquiries should be made to establish whether the Thwaytes Valuation figures are still current and how often a valuation is required."* This recommendation has been implemented as the Parish Clerk confirmed that the Valuation figures from 2011 are to be reviewed during 2016/17.

The Fixed Asset Register has not been up-dated and approved by Committee during 2015/16. It is understood that a review was due to take place in January 2016 but due to the resignation of the Chair in January the review was re-scheduled to April 2016.

Recommendation 3

The Fixed Asset and Investments Register should be regularly reviewed and kept up to date in accordance with the guidelines. Without an up to date Fixed Asset Register, there is a risk that fixed assets have not all been recorded, nor is it apparent if fixed assets have been sold or acquired by the Parish Council during the year.

It was noted that assets relating to MMRGT (Maulds Meaburn Recreation Grounds Trust) have also been included in the councils Fixed Asset register but are not identified as MMRGT. This was identified in the Internal Audit Review last year and a recommendation made accordingly. The guidance in The Governance and Accountability for Local Council document details that

Section 1.49 – The council as trustee

".....Trust assets held by the Council as custodian or managing trustee should, however, be recorded in the Council's asset register and identified there as 'charity assets held by the council as trustee' with their value excluded from the total."

Recommendation 4

In accordance with guidelines assets relating to MMRGT should be identified as 'charity assets held by the council as trustee' in the council's Fixed Asset Register.

Outstanding from 2014/15

The Fixed Asset Register does not currently record expected income against its assets. The guidance in The Governance and Accountability for Local Councils document details that

Part 2, Section 2.74, 8, Asset Control

“If investments are held, the asset register will be a more active record; it should include details of cost, values, and expected income that can be checked against the actual income.”

The Old Police House asset is the only asset generating income. On review of the income received from the Old Police Station House asset, it was noted that the monthly rental income received differs to the expected monthly rental income. The Tenancy Agreement dated 1 July 2015, states £410 per calendar month from 01/06/15 and the cash book receipts shows £405 received monthly throughout 2015/16. .

Recommendation 5

- a) Consideration should be given to including expected income from the income generating assets, on the Fixed Asset and Investments Register
- b) Investigate as to why the actual monthly income figure received for the Old Police House differs from the expected income as per the Tenancy Agreement.

9 Bank Reconciliation

The bank reconciliation is a reconciliation of the balances shown on the statements with those calculated in the financial records. The bank reconciliation is carried out on a quarterly basis and includes the Nat West bank account and two new Penrith Building Society Accounts figures. The Penrith Building Society accounts opened during the year are for 'General Reserves' and 'Police House Reserves'. They replace the Cumberland Building Society accounts which were closed during the year.

In accordance with the Financial Regulations, Section 2.2, the reconciliations are now being signed by a member as evidence of verification.

Good controls are in place to ensure that regular bank reconciliations are carried out in a timely manner and adequately documented.

10 Year-end Procedures

Accounts are prepared on a receipts and payments basis and supporting documentation was found to be in place. Year-end procedures are carried out, adequately documented and in a timely manner.

MMRGT – Maulds Meaburn Recreation Ground Trust

The council act as sole trustee for the MMRGT. As part of the Annual Return (Section 4k), the Internal Auditor is required to confirm whether the council has met its responsibilities as a trustee. On review of the MMRGT the following was found:

An annual return is submitted to The Charity Commission by the Parish Clerk as required by registered charities and a separate bank account is in place for transactions relating to the trust.

A recommendation was made following last year's Internal Audit review that

'In accordance with the guidelines:

A) meetings of the Council when it is acting as a charity trustee must take place separately from those of the council acting as the council. Separate minutes must be kept. In order to avoid confusion, trust business should always be minuted separately from the council business. Separate notices and agendas for meetings should be issued.'

The Parish Clerk confirmed that MMRGT meetings have taken place separately with separate minutes kept during 2015/16.

A recommendation was also made last year following the Internal Audit review that

'In accordance with guidelines:

B) Assets relating to MMRGT should be identified as 'charity assets held by the council as trustee' in the council's Fixed Asset Register.'

The assets relating to MMRGT are included in the council's Fixed Asset register but have yet to be identified as MMRGT. With reference to section 8 above, the Fixed Asset Register for CRPC has not been up-dated and approved by Committee during 2015/16. It is understood that a review was due to take place in January 2016 but due to the resignation of the Chair in January the review was re-scheduled to April 2016. Therefore, the recommendation made last year is still outstanding. Refer to recommendation 4 above.

It was noted during the Internal Audit Review for Risk Management (section 3 above) that the Risk Assessment relating to the Lyvennet Beck that flows through Maulds Meaburn Village Green is now under the management of the MMRGT. Previously it was reviewed and considered by CRPC and would have been included in the annual review. Through enquiry it was established that the risk assessment for the Lyvennet Beck has not been reviewed / up-dated during 2015/16. As mentioned above, it is understood that due to the changes with the resignation of the Chair the document's review has been delayed to the next MMRGT meeting to be held in April 2016.

Recommendation 6

Ensure that the Risk Assessment for the Lyvennet Beck, which is now under the management of the MMRGT, is reviewed and up-dated regularly.

Part 3 – Follow-up of recommendations

CROSBY RAVENSWORTH PARISH COUNCIL

FINANCIAL YEAR: 2014/15

Recommendations were originally made in the Internal Audit Report for the Financial Year Ended 31st March 2015.

| Recommendation 2014/15 | Follow-up | Current Position |
|--|--|---|
| <p>Recommendation 1 To ensure that there is no confusion arising from the Standing Orders and Financial Regulations during the procurement process, the Parish Council should review the content to ensure that any conflicting guidance is resolved.</p> | <p>The documents have been reviewed and amended during the year. The meeting date was 26th May 2015 – items 020/15 and 021/15.</p> | <p>Implemented</p> |
| <p>Recommendation 2 Changes to an employee's salary should be documented by a written statement to the employee. The Parish Council should record evidence of approved changes in employment contracts in employee records.</p> | <p>The Parish Clerk is in receipt of an email confirming the salary figure of £2,500 for 2015/16 from the Chair. A record of the approved changes to the salary has not been documented in the employment contract in the employee records held by the Parish Council.</p> | <p>Partially Implemented</p> |
| <p>Recommendation 3 a) That the renewal arrangements with C Mitchinson & Co Accountants acting as agents are documented. b) Establish whether the letter from HMRC is 'up to date'. This will ensure that Payroll controls are in place and adequately documented.</p> | <p>a) The Clerk emailed the renewal arrangements to the Accountants. However, the cost arrangements with the Accountants could not to be verified as this was not mentioned in the documentation. b) Since the Interim Internal Audit Report of 26 February 2015, confirmation has been received from C Mitchinson & Co that '<i>authorisation only needs to be carried out once not annually</i>'.</p> | <p>a) Implemented b) Implemented</p> |

| Recommendation 2014/15 | Follow-up | Current Position |
|---|---|--|
| <p>Recommendation 4 Enquiries should be made to establish whether the Thwaytes Valuation figures are still current and how often a valuation is required. .</p> | <p>The Parish Clerk confirmed that the Valuation figures from 2011 are to be reviewed during 2016/17.</p> | <p>Implemented</p> |
| <p>Recommendation 5 In accordance with the guidelines:</p> <ul style="list-style-type: none"> a) Meetings of the Council when it is acting as a charity trustee must take place separately from those of the council acting as the council. Separate minutes must be kept. In order to avoid confusion, trust business should always be minuted separately from council business. Separate notices and agendas for meetings should be issued. b) Assets relating to MMRGT should be identified as 'charity assets held by the council as trustee' in the council's Fixed Asset Register. | <ul style="list-style-type: none"> a) MMRGT meetings have taken place separately with separate minutes kept. b) Outstanding | <ul style="list-style-type: none"> a) Implemented b) Outstanding |