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# **South Hinksey Parish Council**

*Internal Audit Report 2008-09*

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## **Background and Scope**

The Accounts and Audit Arrangements introduced from 1<sup>st</sup> April 2001 require all Parish Councils to implement an independent internal audit examination of their Accounts and accounting processes annually. The Council implemented the process several years ago under the auspices of the previous Clerk, utilising the services of a local person. Subsequent to the Clerk's retirement in March 2007, we were invited to tender for the engagement and were subsequently appointed in January 2008.

This is, therefore, our third report on the financial transactions and governance of the Council and relates to the 2008-09 financial year.

## **Internal Audit approach**

In undertaking our review we have, and will continue to have, regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts. However, in view of the low number of transactions throughout the year and the simplicity of their verification, we have employed direct substantive tests rather than selective sampling techniques.

This report summarises our conclusions on each of the key areas covered by the annual Internal Audit Certificate in the Council's Annual Return for the year. Any recommendations arising from our work have, as last year, been summarised in an Action Plan appended to the Report. We would ask that the report is presented to members and that the issues arising are considered and responded to in due course, indicating the proposed courses of remedial action. We are pleased to acknowledge the efforts being made by the recently appointed clerk to improve the quality of record keeping, which should make management of the Council's affairs easier in the longer term. We also wish to acknowledge the positive reactions by members and the recently appointed clerk to our prior year report and the consequent improvements made

The Clerk and members should remain mindful that appropriate detail of all significant variances in the data recorded in Section 1 of the Annual Return, of which there are a significant number this year, will require further explanation to the external auditors when submitting the Annual Return.

Should the Council's external auditors require a copy of this report or access to the internal audit files, they can be made available on request.

## **Overall Conclusion**

Overall, we conclude that the Council has effective systems in place to ensure that transactions are accurately reflected in the Statement of Accounts: however, we would ask that the identified amendments (in the body of the report) are made to the Annual Return prior to re-submission to BDO Stoy Hayward. We would also ask that we be provided with a copy of the amended detail in due course.

# Detailed Report

## Review of Accounting Records and Bank Reconciliations

The Council has continued to have little success in retaining a Clerk for any period of time in recent years and we trust that the most recently appointed incumbent will remain in post for some time in order to provide the Council with a period of stability.

We are pleased to note that the recently appointed Clerk has followed our previous suggestion and set up the accounting records on Excel spreadsheets, which provides greater potential for in-year reporting of performance against budget, together with simplifying the year-end Accounts preparation task. We note that the clerk has not elected to use the spreadsheet columns to analyse receipts and payments during the year, instead identifying a code for transfer of the data into, we assume, as we have not been provided with a copy of the detail, a further spreadsheet for preparation of the year-end Annual Return detail.

We have checked and agreed detail of all transactions in the cashbooks to bank statements for the two accounts operated with HSBC with no issues arising, apart from noting that one cheque (no. 100447) has been cancelled during the year and written back into the cashbook as a receipt, rather than as a negative payment. Such action results in inflated values for receipts and payments for the financial year

We have also checked and verified the accuracy of the closing bank reconciliation for the year (i.e. as at 31<sup>st</sup> March 2009) and are pleased to confirm that no issues arise, apart from noting that one cheque drawn in December 2008 remained unpaid at the financial year-end.

We note, within the Clerk's responses to our 207-08 report recommendations that bank charges of £8.00 arising from the non-clearance of a cheque from FoSH was followed up and recovered, although the amount has not, evidently, been deposited in the Council's bank account.

### *Conclusions and recommendations*

***We are pleased to acknowledge the improvements made in the accounting documentation now being maintained, but believe that the clerk could further simplify the task of analysing receipts and payment at the financial year-end and during the year for comparison to budget by using further analysis columns separating receipts and payments into their respective and approved budget headings.***

- R1. *Greater use should be made of the spreadsheet columns to analyse receipts and payments between their various constituent elements in order to simplify the task of reporting actual performance against the approved budget during the course of the year and in preparation of the year-end Accounts.*
- R2. *Where cheques remain unpaid for an undue period, efforts should be made to establish whether or not the cheque is still required or if a replacement needs to be issued.*

- R3. *Where cheques are cancelled or written back as no longer required, the correct accounting treatment is to record them as negative payments, not as receipts, as the latter action has the effect of overstating both receipts and payments.*
- R4. *Further action should be taken to establish the status of the recovery of the bank charges arising from the non-acceptance of the CoSH cheque deposit in 2007-08.*

## **Review of Corporate Governance**

Our objective in this area is to ensure that the Council is complying with best practice and has put in place appropriate arrangements to ensure that good governance is practiced and observed.

We are pleased to acknowledge the efforts of the recently appointed clerk to improve the Council's performance in this area, with positive action being taken to prepare and ensure the formal adoption of Standing Orders and Financial Regulations. We have reviewed the content of both documents and consider them appropriate for the Council's needs.

We have also continued our review of the Council's minutes for the year to ensure that no issues exist or are developing that may have an adverse affect on the Council's financial stability either currently or in the foreseeable future and are pleased to note that no such issues appear to exist currently, apart from noting that the Council appears to have not considered adoption of the Model Scheme of Publication prior to 31<sup>st</sup> December 2008 as required by the Freedom of Information Act 2000.

### ***Conclusions and recommendation***

***We are pleased to acknowledge the positive action taken in this area to address issues identified in our prior year report. No matters arise other than to remind the Council that it needs to comply with the requirements of the Freedom of Information Act and adopt formally a Scheme of Publication.***

- R5. *The Council should, if not already actioned, ensure that it complies with extant legislation and adopts formally the Model Scheme of Publication.*

## **Review of Payments**

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures;
- Funds are expended in accordance with approved budgets;
- Payments are supported by appropriate documentation, either in the form of an original trade invoice or other appropriate form of document confirming the

payment as due and/or an acknowledgement of receipt, where no other form of invoice is available;

- The correct analysis in the cashbook has been applied to invoices when processed; and
- VAT has been appropriately identified for subsequent recovery and that submissions have been returned in a timely manner.

### ***Conclusions and recommendations***

***We note that, most probably due to the changes of clerk during the course of the year, that several payments are unsupported by appropriate documentation and would ask that greater efforts are made in future to ensure that either a formal trade invoice or, in the absence of such, a proforma invoice is prepared and certified for payment by the Council Chairman.***

***We also note that VAT has not, as yet, been identified on the numerous expense payments made to councillors and previous clerks during the year and acknowledge the new Clerk's intention to review the position and recover any VAT with the year's reclaim when it is submitted. We would urge that such action is taken as soon as practicable. We would also again commend greater use of analysis columns in the spreadsheet cashbook in order to simplify the task of analysing expenses between the various budget heads.***

*R6. The Clerk should ensure that an appropriate documentation is retained on file supporting each and every payment: a proforma should be prepared and certified for payment by the Council Chairman where no such document is available.*

## **Assessment and Management of Risk**

We have recorded previously that the former Clerk and internal auditor were satisfied that appropriate risk assessment measures were in place: our examination of the minutes also provided evidence (January 2007 meeting) that members considered this area to have been “carefully covered” in the past.

The Council minutes for 2008-09 give no indication of any further consideration of the financial risks to which the Council may be exposed, although we note that a suitable document has been prepared subsequent to the year-end (dated April 2009) and will presumably be presented to and be adopted by members.

Allianz continues to provide the Council with insurance cover: we have examined the current year's insurance schedule (i.e. that for the year ending June 2009). We note the intention to review and increase Fidelity Guarantee cover when considering renewal of the policy for 2009-10 and would remind the clerk and Council of the Audit Commission's guidance (i.e. that cover should be set at the year-end balance in hand plus a half-year's precept: this would, at current values, require cover to be set at £14,100 (£10,200 + £4,100).

### *Conclusions and recommendation*

*No significant issues arise in this area of review although we would remind members of the need to review and increase Fidelity Guarantee cover in line with the Audit Commission's recommended level.*

*We have also noted a few anomalies between the Asset Register and insurance schedule detail, as set out in the subsequent section of this report.*

*R7. The Council should review and consider increasing the level of Fidelity Guarantee cover from the minimum of £2,000 currently in place to an increased level in line with the Audit Commission recommended formula.*

## **Budgetary Control and Reserves**

We are again pleased to acknowledge the Clerk's intention to strengthen the budget determination process and actions already taken to prepare a more detailed analysis of intended spending for 2009-10 than appears to have existed hitherto.

We also note that the Council minutes (January 2009) confirm that the level of precept for 2009-10 was discussed and agreed by the Council; the value being set at £8,200.

It would appear that no interim budget monitoring reports are circulated to members and, as indicated previously, we consider that extension of the use of analysis columns in the spreadsheet cashbook would further facilitate comparison of actual receipts and payments with the approved annual budget at any time during the year.

The total year-end reserves have risen considerably to £10,200 (£5,650 at 31<sup>st</sup> March 2008) and comprise earmarked funds of £3,578 (Burial Ground) and £2,621 overdrawn Community Woodland), leaving a General Reserve fund balance of £9,261. We note from the Clerk's covering commentary provided for our examination that the overdrawn Community woodland balance has been redressed in early 2009-10 with the receipt of grant funding of £4,614.

### *Conclusions*

*No matters arise warranting formal comment, other than to remind the Clerk and Council that the land sale proceeds of £3,200 may, under local government legislation, only be applied for capital spending purposes or to finance loan repayments and as such must be "ring-fenced" and not be applied for ongoing revenue spending.*

## Review of Income

The Council has only limited sources of income in addition to the annual precept, comprising burial and associated fees, allotment rents, various grants and donations, together with bank interest and recovered VAT.

We have checked and agreed all cashbook income entries to bank statements and supporting documentation, also undertaking a more detailed review of burial fee income, agreeing that received to the Burial Register.

We noted last year that the second instalment of the bi-annual allotment rent for 2007-08 did not appear in the accounting records, nor had any income been received from this source in 2008-09, although we note that the Clerk is pursuing this, as it appears that there may well have been a change in the agreement with the tenant a couple of years ago.

We also noted last year that a grant from Oxford County Council Highways of £874 was payable to the Parish Council for 2007 and that, following appropriate action, this has now been recovered.

### *Conclusions and recommendation*

*We are pleased to acknowledge the Clerk's ongoing actions to identify and pursue the income due to the Council. We have not been provided with detail of undertaker's or monumental stonemasons' applications for interments and erection of memorials and would ask that these details be provided in future years for our examination.*

*We also note that, of the three burials taking place during 2008-09, income has only been received for the first interment. It may well be that for the last two has been received after the financial year-end and we seek confirmation that the amounts due to the Council have in fact either been recovered or are being followed up actively by the clerk.*

R8. *The Clerk should continue to pursue recovery of the outstanding allotment rent, also ensuring that the two most recent sets of interment fees are recovered and banked accordingly.*

## Petty Cash

*The Council does not operate a petty cash account, any "out-of-pocket" expenses incurred by the Clerk or members being repaid through the general invoice payment procedures.*

*As indicated earlier in this report and already acknowledged by the new Clerk, VAT on his and members expenses needs to be identified and included in the annual reclaim submitted to HMRC.*

## Salaries and Wages

We note that salaries have been paid to the two previous incumbents in the Clerk's post, tax and NI contributions being deducted from the first officer in post, but, seemingly, not the second.

The recently appointed Clerk has not received any salary in 2008-09 and consequently we have not been able to determine whether or not the Council intends to operate a PAYE scheme for his earnings. We are, however, pleased to note that a formal Contract and Particulars of Employment have been prepared and been signed by the Clerk and Council Chairman.

### *Conclusions and recommendation*

*We note that, in analysing the payments made during the year, the cost of advertising for a replacement clerk has been included as a staff cost for inclusion in the Annual Return at Box 4 of Section 1. This entry should only include detail of the actual employment costs of staff (i.e. gross pay and the Council's NI and superannuation contributions).*

*R9. The Annual Return entry at Box 4 of Section 1 should be amended to record only the direct cost of staff employment, not charges associated with recruitment.*

*R10. The Council should ensure that either a formal PAYE scheme is enacted for the new Clerk or that formal confirmation is obtained from him confirming that he is declaring his Council earnings to HMRC.*

## Asset Registers

The 1996 Accounts and Audit Regulations required that all councils establish and maintain inventories/asset registers of buildings, land, plant and equipment, etc. owned by them. We are pleased to note that the Council has complied with the Regulations.

We note that the values recorded in the asset register have been updated during 2008-09, although they are not in line with those reported on the year's insurance schedule, a marginal variance of £57 existing.

Additionally, we note that a residual valuation of £7,000 has been included within the figures in the Annual Return and Accounts in relation to the Nature Reserve and other agricultural land. We note that the Clerk is currently discussing the value of these assets with the Valuation Office and will update the Asset Register accordingly, once their value has been confirmed.

We also note that the strimmer remains on the insurance schedule, despite being shown on the Asset Register with a NIL value since 2002. If the strimmer has been disposed of, it should be removed from the insurance schedule.

### ***Conclusions and recommendation***

*R11. The Clerk and Council should review the Asset Register and Insurance Schedule ensuring that they are synchronised and record the same values for assets, the former being updated annually to reflect the RPI increases applied to asset values.*

*R12. Where assets, such as the strimmer, have been disposed of, they should be deleted from the insurance schedule.*

## **Investments and Loans**

*The Council holds no specific investments nor loans requiring separate disclosure.*

## **Statement of Accounts and Annual Return**

We note that the spreadsheet cashbook includes a coding structure for analysing receipts and payments into various elements. We have analysed the year's expenditure in the spreadsheet cashbook into a suitable columnar format to arrive at detail for inclusion in a Summary of Receipts and Payments Account for the year. Detail of which has been entered onto our own document, a copy of which has been provided to the Clerk electronically for his consideration and future use, together with the updated cashbook spreadsheet.

As in previous years, no detailed Supporting Statement has been prepared for and, whilst the Annual Return now forms the Council's statutory Accounts, best practice would be observed were more detailed supporting notes to the Accounts prepared providing the electorate with greater detail of the Council's financial standing, assets and commitments. We have provided the Clerk with a suitable Word format for such disclosures and would suggest that its usage be reinstated in future years.

We have identified a number of adjustments as being necessary to the detail in Section 1 of the Annual Return and have provided the Clerk with the revised detail, which should be recorded on the Return prior to submission to the Council for adoption and subsequent onward transmission to BDO Stoy Hayward for their final certification. The amendments, once made, will require initialling by the Clerk and Chairman.

The Clerk will also need to be mindful of the need to provide BDO Stoy Hayward with appropriate detail of all variances in the detail at Section 1 of the Return where they exceed 15%.

### ***Conclusions***

*There are no further specific recommendations arising that have not been raised elsewhere in this report, other than to remind the Clerk and members of the need for the amendments to be made to Section 1 of the Return to be initialled by both the Clerk and Chairman prior to submission to the external auditor.*

***On the assumption that the necessary amendments, as detailed earlier in this report, to the detail in Section 1 of the Annual Return will be made, we have signed off the Internal Audit Certificate in the Annual Return assigning positive assurances in each relevant area.***

*R13. The Clerk should prepare a formal and more detailed Statement of Accounts than that set out in Section 1 of the Annual Return in order to provide the electorate with a more detailed summary of the Council's financial transactions and standing.*