



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

**ISSUE DATE: 30/04/2017  
STATUS: DRAFT  
ISSUED TO: TOWN CLERK**

## **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 accounts are maintained in a written ledger and appeared free from error other than three cheques had been written back as income rather than reducing expenditure.

### 2. Financial Regulations

Financial Regulations are in place and have been reviewed in the year. We would make the following observations:

- There is no delegation for the authority to spend between the sums of £200 & £1,000 (4.1);
- The Salaries and Investments paragraphs have been omitted;
- No mention is made of the Public Contracts Regulations 2015

To ensure that Financial Regulations are as up to date as possible it is recommended that :

#### Recommendation 1

**The latest available version of the Model Financial Regulations is adapted to the Council's needs and adopted as soon as possible.**

### 3. Payments

A sample of payments was tested.

**Payments are supported by invoices and are duly authorised and included in the Minutes.**

**All grants awarded are done so under s137 of the Local Government Act 1972.**

*Other Powers exist for some of the grants given, e.g. to village halls and such grants should be recorded as having been made under the appropriate Power rather than s137 which is the power of last resort.*

Financial Regulations require the use of purchase orders unless a contract is in place or it would be inappropriate.

**In practice they are not used.**

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 2

**As far as possible a fully priced official order should be sent to suppliers in advance of the delivery of goods. Triplicate books are readily available that would be fit for purpose.**

### 4. Risk Management

*Risk Assessment:*

In order to give a positive response to assertion 5 on the Annual Governance Statement Councils must identify, assess and record risks associated with actions and decisions it has taken or considered taking during the year that could have financial or reputational consequences.

Having identified, assessed and recorded the risks, the authority needs to address them by ensuring that appropriate measures are in place to mitigate and manage risk. This might include the introduction of internal controls and/or appropriate use of insurance cover.

**The Council approaches risk management in a number of ways but has not reviewed its actual risk assessment in the year.**

To ensure that any potential risks with financial or reputational consequences are adequately addressed it is recommended that:

#### Recommendation 3

**Risk assessments, based on proper practice guidance, are carried out at least annually and**

**all new activities are risk assessed prior to commencement.**

*Internal Controls:*

We understand an Internal Control Statement will be produced in May in support of the Annual Governance Statement.

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. Member checking would be one element of this review.

*It is therefore suggested that due regard is given to this guidance when producing an internal control statement and that as part of the ongoing monitoring of the effectiveness of internal controls a regime of Member internal control checks is introduced.*

*Insurance:*

**Statutory insurances are in place and the Fidelity Guarantee is adequate at £250K**

*Business Continuity Arrangements:*

**Computer records are backed-up but not stored remotely.**

*It is suggested that back-ups are lodged with the Chair.*

**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.**

**5. Budget Management.**

*Budget Setting:*

**The budget and precept were set following the production of detailed estimates.**

*Budget Monitoring:*

**Budget monitoring reports are provided quarterly.**

*Adequacy of reserves:*

**Reserves equate to 99% of gross expenditure in 2016/17 at the top end of the generally accepted range of 25% to 100%.**

**6. Income.**

**Aside from the precept and specific grants the main source of income is from burials. A sample was tested and no issues to report were revealed.**

**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; it is therefore recommended that:

**Recommendation 5**

**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 of the payroll revealed no issues to report.**

The Council's staging date for pension auto-enrolment is July 2017 and preparations should be well under way to ensure its obligations are met.

## 9. Assets.

**An asset register is in place but insurance values have been used rather than cost.**

The insurance values in place at 31<sup>st</sup> March 2016 will now be used as a proxy for cost and will remain unchanged until sold.

## 10. Bank Reconciliations.

**Bank reconciliations are completed in a timely manner and are reviewed by Members.**

**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

**The incorrect treatment of cancelled cheques necessitated minor amendments to the Annual Return figures which were otherwise in accord with underlying records.**

**Approval of the Annual Governance Statement was not specifically mentioned in the Minutes in 2015/16.**

*Council must approve the Annual Governance Statement prior to the Accounting Statements and make said decision clear in the Minutes.*

## 12. Transparency Code

We have assessed compliance with the Transparency Code.

**Compliance was generally good, however neither the year end bank reconciliation and variance analysis for 2015/16 nor the details of any land and buildings holdings could be located on the website.**

To ensure full compliance it is recommended that:

### Recommendation 6

**Full compliance with the Transparency Code should be achieved and the Council should consider adopting the Information Commissioner's Model Publication Scheme and publish the suggested documentation in addition to the Code requirements.**