

# **North Baddesley Parish Council**

## **Internal Audit Report**

**For the year ended 31<sup>st</sup> March 2019**

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**North Baddesley Parish Council**  
**Internal Audit Report for the Year Ended 31st March 2019**

We provided an internal audit service to North Baddesley Parish Council for the financial year ended 31<sup>st</sup> March 2019 and, acting independently, we examined the system of internal control by undertaking the following tests, set out on Page 3 – ANNUAL INTERNAL AUDIT REPORT - of the Annual Governance and Accountability Return, and reported any findings to the Council.

This report is made to you, in accordance with the terms of our engagement. Our work has been undertaken so that we might assess the systems of internal control, as specified by the requirements of the Annual Return – Annual Internal Audit Report, report to you that we have done so, and state those matters that we have agreed to state to you in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than yourselves, for our work, or for this report.

On the basis of our Internal Audit examination, which is limited to the tests indicated (as set out on the Annual Governance and Accountability Return Page 3 – Annual Internal Audit Report), in our view, the Council's system of internal controls is in place, adequate for the purpose intended and effective, and where appropriate, we have made recommendations to the Council.

Signed G Butler FCA  
(Internal Auditor)

Date 31 March 2019

## **Internal Audit Review – Year Ending 31<sup>st</sup> March 2019**

As part of the Internal Audit for the financial period above the following review took place between January to March 2019 at the accountants' premises with the agenda and considerations following the guidance and objectives of internal control prescribed by the audit commission. The objective and related systems are defined below together with comments relating to the period. This review is the formal framework for the Internal Audit for the year but is supplementary to regular internal audit / internal control routines carried out throughout the year, as part of the regular accounting controls.

### **Internal Audit Report Item No.1 (A)**

- *Appropriate books of account have been properly kept throughout the year*
- *Held on computer using an industry standard accounts system and updated by the accountants who also submit quarterly VAT returns. Records of invoicing and individual debtors accounts held by Parish Clerk*

*From the year ending 31st March 2016 a separate set of accounts was kept for the Recreation Ground Charity, with a proportion of costs from the Parish Council Accounts appertaining to the Recreation Ground and Pavilion recharged by the Parish Council. A proportionate transfer of precept is made from the PC to the Charity to fund the relevant costs. A separate Quickbooks Accounts file is operated as an independent financial record. Aside from this, no major system changes have taken place. The council invoices debtors as follows: Pitch Hire (there are 3 football clubs, Baddesley Vets, Southampton Women's and Baddesley Park) Also invoiced is Pavilion hire (regular users are the Camera Club, Guides and Disability Music Group and there are often cases of one-off users for presentations etc.) Other receipts include: Quarterly: – Beadle advertising. Annually:- Rear garden extensions, Community Centre Rent, Rent for allotments.*

### **Internal Audit Report Item No.2 (B)**

- *The council's financial regulations have been met, payments were supported by invoices, expenditure was approved and VAT was appropriately accounted for.*
- *The accountants are given all invoices in support of expenditure. The council approves all expenditure and payments to suppliers at regular committees. VAT accounting is handled by the accountants.*

*There are eight council members. Work requirements are identified, quotes received and work approved by the council. Invoices are approved and paid according to the standing orders and cheques are signed according to a bank cheque mandate. Approval for small works can be made by the Clerk in conjunction with the chairman (up to £500). For amounts over £500, the council will discuss and approve. The main meeting is held on the second Monday in the month and all matters are discussed. A separate meeting concentrates principally on planning applications in the parish.*

### **Internal Audit Report Item No.3 (C)**

- *The council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.*

*Regular council meetings are held at which any problems should become evident. Most issues arising are obviously of a local nature and concerned with the environment, vandalism, traffic safety, provision and upkeep of services and recreational facilities.*

*The Council seeks to obtain best value and quality from its suppliers. The council continues to manage associated changes in a pro-active and positive manner. Insurance cover is re-specified annually.*

Internal Audit Report Item No.4 (D)

- *The annual precept requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.*

- The Finance and General Purpose Committee meets usually in January to discuss expenditure in the previous year against the forecast expenditure for the future period, and whether the same level of expenditure or more or less will be required to deliver the parish services. Additionally, progress against budget is discussed and decisions are made on which grants will be applied for in the coming year.

*The council has a good track record of financial management, operating a continuing system of budgeting and review. Chairman, Parish Clerk and councillors are actively involved in specification of areas for expenditure/improvement and securing funding. Regular quarterly management accounts are produced for information.*

Internal Audit Report Item No.5 (E)

- *Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was properly accounted for.*

- Expected income is budgeted for and pricing policies are discussed at committee. Precept and significant grants comprise the mainstay of council income and are consistently calculated. These are supplemented by invoiced services; Beadle advertising, Allotments income and income in respect of recreational and sports facilities. Bankings are recorded on paying in slips and receipts summaries and subsequently reconciled to the bank account. VAT is correctly charged and accounted for according to income type.

*Major expected income is monitored against budget and previous year actuals. Other sales ledger income is invoiced at regular intervals according to specific price structures. Principal income areas include the Baddesley Beadle publication and rent for rear garden extensions and allotments. Other income is received for use of the recreation ground facilities and tennis courts.*

Internal Audit Report Item No.6 (F)

- *Petty cash payments were properly supported by receipts, expenditure was approved and VAT appropriately accounted for.*

- Petty cash vouchers are submitted to the accountants with payment schedules and are generally thorough. Expenditure is reasonable and VAT is accounted for in the normal way. Expenditure approval is carried out at regular committee. Payment approvals are made at committee and made by the parish clerk and two councillors, at least three signatures (of the Parish Clerk and two councillors) being required on the cheques. Up to date bank signatory mandates are kept in parish files.

*Petty cash payments are noted and recorded as part of the monthly accounting routines.*

Internal Audit Report Item No.7 (G)

- *Salaries to employees were paid in accordance with council approvals and PAYE and NIC requirements were properly applied.*

- The Parish Clerk is salaried; PAYE and NIC is accounted for correctly and remitted to the Inland Revenue. The pay scale is derived from recommended scales drawn up by the NALC (National Association of Local Councils) and recommended by the SLCC (Society for Local Council Clerks). Cleaning of the Pavilion is carried out by subcontractors.

*The council is a member of the Hampshire Association of Local Councils (HALC).*

Internal Audit Report Item No.8 (H)

- *Asset and investment registers were complete and accurate and properly maintained*
- The Asset register is regularly maintained and updated – It is recommended that the Parish Council carry out an annual audit and review of assets, by council representatives with suitable local knowledge, and determine what paperwork exists to support ownership and title to each asset to ensure completeness of the file records.

*It is advised that the Parish Clerk and members / employees and contractors of the parish are vigilant in the custody of parish assets and where replacements occur, ensure that related processes are updated - namely insurance cover provisions. This also features as an ongoing accounting and year end review.*

Internal Audit Report Item No.9 (I)

- *Periodic and year-end bank account reconciliations were properly carried out*
  - The accountants perform this task on a regular monthly & quarterly basis
- This is carried out as a regular accounting control.*

Internal Audit Report Item No.10 (J)

- *Year end accounts were prepared on the correct accounting basis (receipts and payments / income and expenditure), agreed with cash book, were supported by an adequate audit trail from underlying records, and, where appropriate debtors and creditors were properly recorded.*

- The accountants perform this task annually, raising queries where necessary  
*These controls are exercised as part of the year-end accounts procedures*

Internal Audit Report Item No.11(k)

- *For any other risk areas identified by the council (list any other risk areas below or on separate sheets if needed) adequate controls existed.*

- This covers any considerations arising – in particular, areas peculiar to NBPC and its locale. Insurance provision and risk profiling is always a matter for ongoing review and, with particular regard to public liability. During the regular Internal Audit review meetings carried out with the Parish Clerk, it has been agreed that the future considerations, recommendations and structure of Internal Audit should follow the relevant sections and provision of the Local Government Manual. In addition, the Internal Auditor recommended the use of a control document in a spreadsheet format to lead, record and guide consideration and ongoing review of risk management by councillors, with regard to specific assets, and areas of Parish Council responsibility and involvement.

*A number of community initiatives are currently under way in the Parish to improve or maintain provision of local services and facilities – these are outlined below:*

**End of Council's Annual Return Internal Audit Assurance Section & Internal Audit Report**

**North Baddesley Parish Council (the council)**  
**Supplementary - Analysis of risk in Council Systems and Procedures**  
**For the year ended 31 March 2019**

**Scope of the systems review offered in support of the Internal Audit**

The following document does not form part of the Internal Audit Report which is limited to the tests set out in Annual Return Section 4 – Annual Report by Internal Auditor. It sets out the basis of systems and controls currently in place for the financial and general administration of the organisation. In carrying out a review of existing procedures, the aim is to:

1. Confirm the existence of adequate controls where they currently exist
2. Confirm that Standing Orders and other controls are observed at all times
3. Discover and reveal areas of weakness where they are apparent
4. Pro-actively manage and continually assess risk
5. Ensure compliance with statutory requirements and Annual Return Section 4.
6. Review procedures in accordance with generally accepted accounting and audit principles

**1. Overview**

The organisation's reporting and control is based upon income and expenditure reporting. Therefore the key control over the organisation's finances, administration and reporting is its bank account and key supporting documents in respect of account movements. A main current account is used for general transactions and two deposit accounts used for reserves. These are all held with TSB Bank Plc.

**2. Environmental considerations and fundamental aspects**

All financial transactions are entered on an industry standard accounting system, (QuickBooks) on behalf of the council, by the external accountants. This ensures the financial control disciplines imposed by computerised double-entry book-keeping.

Income and expenditure is processed onto the computerised accounts system to produce quarterly accounts for VAT and business accounting purposes, and sub-schedules, analyses and other records are maintained on spreadsheets where necessary. Overall control of the accounting systems is therefore centralised on one system.

The Parish Clerk and external accountants regularly liaise together to update the system with the usual monthly statements and transactions. The accountants process all receipts and purchases onto the system, and reconcile the bank account statements to the system. They also make necessary accruals and prepayments where appropriate at financial year-ends, and produce the quarterly VAT return.

**3. Specific risk analysis**

The specific risk areas of the council's accounting are assessed and set out below with ratings of low, moderate and high associated risk. This provides the basis for the ongoing examination of the systems and procedures of the council to determine the scope of further work in enhancing existing controls and checking their continued effectiveness.

Following the Internal Audit Review in February 2010, it was recommended that a formal incident log was started for any risk events which are notified to the Parish Clerk and upon

which further notifications are made to borough council. The basic spreadsheet format of this was provided by the Internal Auditor, to be adapted by Parish Council as necessary. Further, it was recommended to keep a spreadsheet format document to inform and assess Council risk areas, by reference to specific asset, or locations where Council is responsible or involved in management.

### Area of operation and associated Risk

#### Income

1. Precept: This derives from the number of electors and specified amount per head. This principal income is received direct to the bank from the main paying authority in two tranches, credited to income in April and October.
2. Major grants: readily identified (either cheques or received direct to bank)
3. Sales-ledger: invoice and receipts administered by the Parish Clerk (Cheques)
4. Cash receipts: from hire of recreation facilities, and community hall (Cash banking).

#### Expenditure

1. All expenditure undertaken by the council is listed in the minutes of regular council meetings and payments to contractors are approved at these meetings.
2. Cheques are signed by at least three signatories, one of whom is the Parish Clerk, (usually the Parish Clerk, Chairman and one other councillor) or otherwise in accordance with the bank mandate.

#### Financial and Management Accounting

All system transaction entries, and accounting system controls are performed by external accountants. VAT returns, Statutory Year-End Financial Accounts and Management Accounts are produced by the external accountants, who in the course of their duties perform regular key reconciliations of the Bank Accounts, Debtors, Creditors and VAT/PAYE/NIC Controls and liabilities.

The following key areas have been re-considered and reviewed for risk in the year.

Risk scores associated with these areas are shown below:

<u>Item</u>	<u>Risk score and observations</u>
Standing Orders/Regulations	Low Standing orders / Fin. controls adopted
Responsible Officers Appointed	Low Councillors, Parish Clerk / Accountants
Unusual Financial Activity	Low Bank statements reconciled by external accountants, Expenditure minuted by council.
Precept	Low Properly recorded / banked by transfer
Major Grants	Low Large identifiable items, separately identified on financial statements
Sales Ledger Receipts	Low Cheque bankings
Cash Receipts	Low to Moderate – Recreation facility receipts
(Risk scores table continued)	
Expenditure	Low All payments supported by invoices

Expenditure – VAT	Low	VAT is separately identified, recorded & reclaimed as appropriate
Expenditure – S137	Low	Separately recorded and within limits
Expenditure approval is controlled by council and payments authorised / cheques signed by two or more signatories		
General Accounting/Book-keeping	Low	Carried out by accountants
Management Accounts	Low	Quarterly reporting to council
Documentation of Internal Control	Low	Ongoing review / enhancement by internal audit routines.
Cashbook / Bank Reconciliation	Low	Regular Bank Reconciliations
Budgeting	Low	Established routine in support of Precept
Financial Accounts	Low	Based on computerised system
Debtors	Low	Amounts are materially insubstantial
Creditors	Low	Amounts are authorised by council
Petty Cash	Low	Supported by receipts and vouchers
Salaries	Low	Parish Clerk and Senior Officers only
Statutory – VAT	Low	Returns prepared by accountants
Statutory – PAYE/NIC	Low	Liabilities small, regular payments made
Fixed Assets	Low	Moderate: Asset Register kept / updated
Insurance revaluations	Moderate	i.r.o. property but regularly reviewed

#### **4. Internal Audit Conclusions**

In general, the council has adequate systems in place to meet the fundamental objectives of key internal controls and the safeguarding of assets as set out under the paragraph “Scope of the Internal Audit” at the beginning of the document. The robustness of accounting controls is considerably strengthened through the operation of a computerised accounts system. In addition, the Audit Commission should take comfort from the segregation of duties resulting from the financial and management accounting duties being handled by external accountants, albeit working closely with the Parish Clerk.

Whilst most areas considered have been assessed as low risk, the council should note the following for future follow up and ongoing review.

<b><u>Item</u></b>	<b><u>Comment</u></b>
1. Cash Receipts	Low to Moderate – always vulnerable by their very nature as cash.
2. Documentation of Internal Control	Low – Reviewed/enhanced with risk spreadsheet
3. Fixed Assets - Insurance revaluations	Low – Moderate: Asset Register kept / updated Moderate i.r.o. property but regular reviews
4. Debtors and Creditors	Low Periodic accounts – ensuring all invoiced
5. Petty Cash	Low Supported by receipts and vouchers and authorised by council

--- End of report ---