

Annual Internal Audit Report

(to be read in conjunction with the Annual Governance and Accountability Return)

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| Name of council: | Aynho Parish Council | | |
| Name of Internal Auditor: | John Marshall | Date of report: | 24.05.18 |
| Year ending: | 31 March 2018 | Date audit carried out: | 24.05.18 |

Internal audit is the periodic independent review of a council's internal controls resulting in an assurance report designed to improve the effectiveness and efficiency of the activities and operating procedures under the council's control. It is important to note that managing the council's internal controls is a day-to-day function of the council through its staff and councillors and it would be incorrect to view internal audit as the detailed inspection of all records and transactions of a council in order to detect error or fraud. This report is based on the evidence made available to me and consequently the report is limited to those matters set out below.

The council is required to take appropriate action on all matters raised in reports from internal and external audit and to respond to matters brought to its attention by internal and external audit. Failure to take appropriate action may lead to a qualified audit opinion.

To the Chairman of the Council:

I met with Chris Wilson, the recently appointed Clerk and Roger Wertheimer, RFO on 24 May to carry out the year-end audit of the Council; I would take this opportunity to thank them both for their time and assistance. Last year, BDO as External Auditor raised no audit issues; I identified just one issue that I noted has been fully and properly addressed by the Council. This year, I identified the following audit and governance issues that the Council should now address;

- there is no evidence of the Council's Risk Assessment (RA), dated March 2015 having been reviewed during the audit year; the Council's Financial Regulations, reg 20 call for this to be done at the October meeting each year. Furthermore it is deficient in some respects (see comment on 'Reserves' below). The RA is an essential element of the Council's system of internal controls and the review is a fundamental requirement of the Accounts and Audit Regulations 2015. The Council has answered 'yes' to assertion 5 in the Annual Governance Statement, section 1 of the Annual Governance and Accountability Return (AGAR) but a 'yes' answer, in all cases needs to have appropriate supporting evidence such as a reference in a minute.
- similarly, there is no evidence of the Council's Standing Orders and Financial Regulations having been reviewed. The National Association of Local Councils (NALC) has recently issued new model Standing Orders that reflect current legal requirements and best practice and the Council should look to adopt the new model, after 'customisation' as soon as possible. The Financial Regulations should be similarly reviewed, alongside the Council's current working practices to ensure that the two are aligned, as I noted some minor divergencies in respect of VAT reclaim and internal controls checks. The current Financial Regulations do not follow the NALC model template.
- there is no evidence of the details of the 2018/19 budget, neither was it formally approved although I accept that it is probably the minuting rather than the process that is deficient.
- where loose-leaf pages are used to record the official Minutes, each page should have a unique number. Currently pages (and minutes) are numbered from 1, sequentially for each meeting. A more efficient system for page / minute recording was discussed with the Clerk.
- it was acknowledged that the Asset Register is inaccurate (in respect of items listed, values ascribed and ownership) and there is no evidence of it having been recently reviewed,

certainly not in October as required by the Council's Financial Regulations, reg 20.

- at the year end, the Council held free cash reserves of £39,232 an excess of some £16,980 representing approx. 175% of the £22,252 precept. As councils have no legal powers to hold revenue reserves other than those for reasonable working capital needs or for specifically earmarked purposes (which is not the case), an explanation of these high reserves will need to be provided to the External Auditor. Whilst I understood that the replacement of some street lights has been identified as a possible future project, the council has yet to formally consider and / or resolve to do so.
- I noted, again that funds owned by Aynho Sports and Recreation Association (ASRA), now called Aynho Active have been deposited in the Council's bank account and appear in the Council's financial statements and year-end accounts. The financial statement prepared for and tabled at the April 2017 meeting show an income payment (in March 2017) from ASRA of £6,964; I understand that these funds came from ASRA's own bank account. I first drew attention to this practice in my Internal Audit report on year 2015 – 16, dated 24 June 2016 when I said;

“ the Council currently operates one bank account, to service its income and expenditure. However, the funds held in a second account, in the name of the Aynho Sports and Recreation Association (ASRA) are also included in the Council's year-end financial summary. This is incorrect because whilst I understood that the recreation land and buildings are the property of the Council, the management of the facilities is carried out by a separate committee that is completely autonomous from the Council in financial and other respects.

Furthermore, I understood that the Council is reclaiming VAT on expenditure incurred by ASRA using its (ASRA's) funds, based on invoices submitted to the Council by ASRA that may, or may not be in the name of Aynho PC.

I advised you that this was improper and to arrange for the ASRA funds to be physically removed from the Council's accounts. I understood at last year's audit that this had been done and I am therefore surprised to see this payment. I therefore re-iterate my advice.

- one effect of holding this 3rd party cash is that the council's turnover exceeds £25,000; once removed, the council's income and expenditure turnover will be below this threshold figure allowing it to claim exemption from external audit. But that also carries an obligation to comply with The Transparency Code* the requirements of which include the display of certain financial and other information on the Council's website. Appendix A of the Code sets out details of the requirements and the Council does not currently comply.

By examination of the information on the Council's website, hard evidence and questioning, I tested all the aspects of the Council's internal controls that I am required to consider. Notwithstanding the issues set out above, which have caused me to enter a 'no' response to questions C and H in the Internal Audit Report that forms part of the AGAR, I am satisfied that in all significant respects, the remaining control objectives were being achieved throughout the financial year. I accept that the error with 3rd party funds has likely arisen through misunderstanding and that the Council wishes to operate and conduct its business in compliance with the proper practices **

John Marshall
Internal Auditor to the Council
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The figures submitted in the Annual Return are:

| | Year ending 31 March 2017 | Year ending 31 March 2018 |
|--|------------------------------|------------------------------|
| 1. Balances brought forward | 32,918 | 37,673 |
| 2. Annual precept | 21,616 | 22,252 |
| 3. Total other receipts | 6,315 | 3,805 |
| 4. Staff costs | 3,860 | 4,634 |
| 5. Loan interest/capital repayments | 0 | 0 |
| 6. Total other payments | 19,546 | 19,864 |
| 7. Balances carried forward | 37,673 | 39,232 |
| 8. Total cash and investments | 37,673 | 39,232 |
| 9. Total fixed assets and long term assets | 136,719 | 137,135 |
| 10. Total borrowings | 0 | 0 |

* The Transparency Code can be viewed at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/388541/Transparency_Code_for_Smaller_Authorities.pdf

** The proper practices referred to in Accounts and Audit Regulations 2015 are set out in *Governance and Accountability for Smaller Authorities in England (March 2018), A Practitioners' Guide*. It is a guide to the accounting practices to be followed by local councils, and sets out the appropriate standard of financial reporting to be followed. A copy of the guide is available for free download from:

https://www.pkflittlejohn.com/sites/default/files/media/documents/governance_and_accountability_for_smaller_authorities_in_england_2018_sections_1-5_0.pdf