

Annual Internal Audit Report

(to be read in conjunction with Section 4 of the Annual Return)

Name of council:	Aynho Parish Council		
Name of Internal Auditor:	John Marshall	Date of report:	24.06.16
Year ending:	31 March 2016	Date audit carried out:	24.06.16

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 Sadie Patamia, Clerk and Roger Wertheimer, RFO on 24 June 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, neither BDO as External Auditor nor Lynn Lavender, the NALC Internal Auditor raised any audit issues. This year, I identified the following audit and governance issues that the Council should address during the current audit year;

- the Council's Risk Assessment (RA) was last reviewed in March 2015; it follows that no review or therefore(re) adoption of the RA took place during the audit year. 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. I note that risk management appears as a regular item on the Agenda for Council meetings and that the RA document is comprehensive; with that in mind, I have answered 'yes' rather than 'no' to the relevant question in Section 4 of the Annual Return but the Council must conduct a review and (re) adopt the RA during the course of this audit year. me - the annual mowing grant from NCC and the VAT reclaim - were not received during the audit year.
- the same comment applies to the Council's Financial Regulations, although I understood that the Council is in the process of considering the new NALC model Regulations, that take account of recent legal and technical changes with a view to adopting them during the course of this financial year.
- there is a need to properly conduct and record in the Minutes the two separate and sequential processes of firstly setting the Council's budget (a legal requirement) followed by a resolution to set the level of the precept, if that is how the budget is to be funded. Invariably, the financial requirement identified in the agreed budget is satisfied through an equal amount raised via the precept demand but in the event that there is a difference - higher or lower - between the two figures, the reasons for the difference should be explained and justified, especially where the Council holds significant free ie non-earmarked cash reserves.
- the accounts do not include a separate column to record grants and donations made under s.137 of the Local Government Act 1972; the 4 donations made during the course of the audit year (and going forward) must, by law be recorded in this way to demonstrate that the Council operated within the s.137 expenditure cap. The Council should consider whether it

wishes to consider adopting the General Power of Competence provided by The Localism Act 2011. This brings benefits to the Council in that its spending decisions would become largely unfettered and not dependent on having the legal power to do so. The option to adopt GPoC would become available if the Clerk was to undertake a short additional module to extend the CiLCA qualification that she already holds.

- 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. Either way, this practice is illegal and one that is viewed seriously by HMRC, so should cease forthwith. It would seem that there are two main options. The first of these is that all aspects of ASRA's activities (including the management of its finances) are brought directly under the Council's control eg ASRA would effectively become a Committee of the Council, bound by its Standing Orders and with its own Terms of Reference and with all income and expenditure controlled and disbursed by the Council. Alternatively, ASRA operates completely separately from the Council, ideally under a lease for the land and buildings granted to it by the Council, taking responsibility for its own finances, financial decisions and bank account. In this model, ASRA would be neither accountable to the Council, other than via the terms of the lease, nor would it derive any benefits such as items being purchased or the VAT being reclaimed on its behalf, illegally by the Council. Unless the Council, with ASRA chooses the first option, then the funds held in the ASRA bank account must be removed from the Council's year-end accounts at the next year-end.

- currently, not all of the information required by The Transparency Code* to be displayed on the Council's website is available. Appendix A of the Code sets out details of the requirements.

By examination of hard evidence and questioning, I tested all the aspects of the Council's internal controls that I am required to consider at Section 4 of the Annual Return. Notwithstanding the issues set out above (which I accept have arisen, in the main through misunderstanding and genuine oversight) it is clear that the Council wishes to operate and conduct its business in compliance with the proper practices **. I have therefore answered 'yes' to all questions in the hope and expectation that all matters will be fully and properly addressed during the course of this financial year and on that basis, I have completed and signed off section 4 of the Annual Return as required.

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

	Year ending 31 March 2015	Year ending 31 March 2016
1. Balances brought forward	18,182	30,303
2. Annual precept	21,050	21,388
3. Total other receipts	21,612	11,646
4. Staff costs	4,211	4,190
5. Loan interest/capital repayments	0	0
6. Total other payments	27,081	26,229
7. Balances carried forward	30,303	32,918
8. Total cash and investments	30,303	32,918
9. Total fixed assets and long term assets	130,745	135,619
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' are those set out in the publication "Governance and Accountability, A Practitioners' Guide" available at
<http://www.nalc.gov.uk/library/publications/803-governance-and-accountability-with-appendix/file>