

**TOLLESHUNT D'ARCY  
PARISH COUNCIL**

**INTERNAL AUDIT  
REPORT  
2017 / 2018**

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Internal Auditor  
May 2018**

**CONFIDENTIAL**

## Introduction

I have now examined the records for 2017/2018 using, as the basis of my review, the internal control objectives required by the external auditor as part of the Annual Return. I would like to take this opportunity to express my appreciation to Mrs. Michelle Curtis for her assistance and for the straight forward and helpful way with which she presented the Council's procedures and records.

## Findings

A summary of the Annual Return control objectives, together with my findings and recommendations are listed below:

### A. Control Objective

**Appropriate books of account have been properly kept throughout the year.**

#### Finding

A combination of computerized spreadsheets, an old computerized accounting system and payroll software have been used to record the Council's financial transactions for 2017/18. During my audit I was able to extensively check that the transactions were consistent with those recorded by the bank, in the year end accounts and the Annual Return.

At the year end these systems provided the information required in the annual accounts prepared by the Clerk and the latest Annual Return.

These arrangements are not robust and rely upon the specialist skills and experience of the new Clerk.

### B. Control Objective

**The council's financial regulations have been met, payments were supported by invoices, expenditure was approved and VAT appropriately accounted for.**

#### Finding

I understand that the Council's Standing Orders and the Financial Regulations were adopted on the 3<sup>rd</sup> January 2018.

During 2015 new Accounts and Audit Regulations were introduced which include details of the new audit framework set out in the Local Audit and Accountability Act 2014.

Under the new audit framework parish councils with an annual turnover not exceeding £25,000 will be exempt from routine external audit. In place of the audit **these smaller** authorities will be subject to transparency requirements laid out in the "Transparency

Code". This will enable electors to access relevant information about the authorities accounts.

As in previous years further issues for all authorities to consider are outlined in PKF Littlejohn's email accompanying the 2018 Annual Governance and Accountability Return (AGAR) instructions. This included compliance with the new Governance and Accountability for Smaller Authorities in England A Practitioners' Guide to Proper Practices to be applied in the preparation of statutory annual accounts and governance statements March 2018

I quote below guidance from the guide relating to council governance:

“ Authorities are subject to a range of regulations, which can change more frequently than primary legislation. It is important, therefore, to be aware of new regulations that are issued as well as keeping up to date with the latest versions of existing ones. NALC, and SLCC provide updates and training on developments in this area.”

As part of its annual governance review to prepare its annual governance statement (see Section 1 of the Guide), an authority needs to scrutinise the actions it has taken during the year, and the decisions that it has made, and satisfy itself that it has acted properly within its powers and in accordance with any relevant Regulations.”

During 2017/18 payments were supported by invoices, expenditure was approved, authority for payments were all recorded and VAT appropriately accounted for. At the 31<sup>st</sup> March 2018 all VAT paid had been reclaimed.

### C. Control Objective

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

#### **Finding**

I understand from the Clerk, that the risk assessment based on the approach used at Tollesbury was reviewed and approved by the Council in March 2018, to facilitate the completion of the 2018 Annual Return.

In March 2018, a new “Practitioners Guide” regarding Governance and Accountability for Local Councils was published with changes to the external audit requirements, including those relating to Risk Assessment.

I attach an extract of the manual at Appendix A, which includes 6 typical categories of what might help the process of risk identification. These include “legal – breaking the law or being sued” and IT – failure of IT systems or misuse. The Risk Assessment and Management document approved by the Council in March 2018 broadly follows the approach recommended in the Practitioners Guide except there is no mention of the need to comply with the new Data Protection Regulations which

come into force this month. This would be relevant to both the legal and IT risk categories.

At the time of my last visit when I discussed this issue with the Clerk I was told that the Council was intending to take advantage of the Data Protection Officer scheme provided by Maldon District Council at an annual cost of £100. I was provided with copies of the guidance Maldon had already distributed and felt that it was superior to that which I had seen provided to other Councils which I audit.

It is understood that the legislation may now be amended so that Local Councils may be exempt from the need to appoint an "independent data protection officer" and the function could then be performed by the Clerk. This late proposal has confused an already complicated situation and does not identify any extra resources to comply with the new requirements. In any event the Clerk will be involved in extra work but the support of Maldon's external specialist should reduce the time involved especially training and keeping up to date with the compliance issues that are likely to arise in the first year of the legislation.

The Practitioners Guide suggests that because of the limited nature of internal resources Councils will often buy services in from specialist external bodies. In my opinion participation in the Maldon District Council's Data Protection Officer scheme at an annual cost of £100 would be a prudent investment in the first year of the new arrangements.

#### **D. Control Objective**

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

##### **Finding**

The annual precept requirement did result from an adequate budgetary process. Progress against the budget was regularly monitored during 2017/18.

#### **E. Control Objective**

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

##### **Finding**

The receipts received during 2017/18 other than the £19,129 precept were:

- £3,838.04 VAT was received in the period ended 31<sup>st</sup> March 2018. A further £113.71 was claimed on the 23<sup>rd</sup> April 2018 which related to the period 1<sup>st</sup> January 2018 to 31<sup>st</sup> March 2018

- £2,490 Burial Ground fees.
- £180.00 received from the Recreation Ground.
- £16.60 interest income was earned in 2017/18. although the Council had on average over £25,040 on deposit at the bank during the year.

#### **F. Control Objective**

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

##### **Finding**

There is no petty cash.

#### **G. Control Objective**

**Salaries to employees and allowances to members were paid in accordance with council approvals, and PAYE and NI requirements were properly applied.**

##### **Finding**

I have been provided with a contract of employment for the current Clerk. During 2017/18 she has been paid at an hourly rate consistent with the contract of employment and her upgrade agreed by the Council in November 2017.

In addition the Clerk was paid £297 for burial ground duties which is consistent with the Burial Clerks contract of employment to this remuneration.

I was able to verify that all PAYE and NI requirements were met during 2017/18 and that the PAYE year end returns have been submitted to HMRC by the Clerk.

The law on workplace pensions has changed which applies to the Council. The Pensions Regulator acknowledged on the 2<sup>nd</sup> May 2018 that it had received Tolleshunt D'Arcy's declaration of compliance.

#### **H. Control Objective**

**Asset and Investment registers were complete and accurate and properly maintained.**

##### **Finding**

I have examined the Register of Assets provided for audit examination which includes insurance valuations which can be reconciled with the insurance policy.

The Value of Assets on the Annual Return at the 31<sup>st</sup> March 2018 is £200,205 which is consistent with the 2018 asset register.

The latest "Practitioners Guide" regarding Governance and Accountability for Local Councils, published in March 2018, included some changes to the external audit requirements relating to Asset Registers.

The previous requirement can continue to be used this stated that:

"Most assets will be first recorded in the asset register at their actual purchase cost. In some cases the purchase cost may not be known and a proxy cost should be substituted. A proxy cost is a value for the asset which is estimated by the council based on external advice. Councils may apply the insurance value of the asset at the time of first recording as a proxy. Whether actual or proxy cost is used, for accounting purposes the first recorded value of the asset will not change throughout its life."

I understand that the records which were available at the time of the current Clerk's appointment could not meet these requirements. Values for assets were agreed when the insurance was renewed in October 2017 and will be used in the future so as to meet the external audit requirements.

#### **I. Control Objective**

**Periodic and year end bank account reconciliations were properly carried out.**

##### **Finding**

Bank reconciliations were carried out throughout the year and the reconciliation as at the 31<sup>st</sup> March 2018 was formally recorded and agreed during the audit.

#### **J. Control Objective**

**Accounting statements prepared during the year were prepared on the correct accounting basis, agree with the cash book, and were supported by an adequate audit trail from underlying records.**

##### **Finding**

The Accounting statements prepared during the year were prepared on a receipts and payments basis, they agree with the cash book, and are supported by an adequate audit trail from underlying records.

**K. Control Objective**

**Trust funds (including charitable). The council has met its responsibilities as a trustee.**

**Finding**

Last year the council stated that it was a sole trustee and discharged its accountability responsibilities for the fund's assets including financial reporting and, if required independent examination or audit.

**Recommendations**

With reference to the above findings I recommend that the Council speedily progress the following-

- A review of its accounting arrangements with consideration given to the acquisition of a computerized accounting system.
- Ensuring that when it completed its annual governance statement the authority did ensure that it had complied with the external auditors requirements including the new Practitioners Guide and that this is clear in its Minutes.
- A review of its asset register and insurance cover, including appropriate documentation, as advised giving due consideration to the latest "Practitioners Guide".
- The Risk Assessment and Management document approved by the Council in March with regard to the issue of compliance with Data Protection requirements.
- Clarify whether it still is a Sole Trustee and has met its responsibilities as a Trustee.

**Opinion**

After extensive checking of the Council's records and accounts, I have found the systems to be sound. During the year 2017/18 most of the procedures and processes required by the external auditor have been improved by the new Clerk and operated effectively.

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M. G. Howard F.C.P.F.A

20th May 2018

## AGS assertion 5: Risk management

## Background

- 5.87. Risk is an uncertain event or condition that, if it occurs, will have an effect on the achievement of an authority's objectives. Risk management is the process whereby authorities methodically address the risks associated with what they do and the services which they provide. The focus of risk management is to identify what can go wrong and take proportionate steps to avoid this or successfully manage the consequences. Good risk management allows stakeholders to have increased confidence in the authority's corporate governance arrangements and its ability to deliver its priorities.
- 5.88. Risk management is not just about financial management; it is about protecting the achievement of objectives set by the authority to deliver high quality public services. The failure to manage risks effectively can be expensive in terms of litigation and reputation, and can impact on the ability to achieve desired outcomes. The authority generally and members individually are responsible for risk management.
- 5.89. Risk management is an ongoing activity that comprises four elements:
- identifying risks;
  - assessing risks;
  - addressing risks; and
  - reviewing and reporting.

## Identifying risks

- 5.90. In order to manage risk, an authority needs to know what risks it faces. Identifying risks is therefore the first step in the risk management process.
- 5.91. It is not possible to present a suggested list of the specific risks which authorities face as the range, nature, complexity and scale of the business of authorities vary. Similarly, the priorities and service delivery objectives of one authority will differ from those of others. For this reason each authority should identify, for itself, the key risks to achieving successfully its priorities and service objectives. However, there are some typical categories of risks that might help in the process of risk identification:
- financial – loss of money;
  - security – fraud, theft, embezzlement;
  - property – damage to property;
  - legal – breaking the law or being sued;
  - IT – failure of IT systems or misuse; and
  - reputational – actions taken could harm the authority's public reputation.

## Assessing risks

- 5.92. Once the authority has identified its key risks, the next step is to assess the potential consequences of a risk occurring (impact) and consider how likely this is (likelihood).
- 5.93. The assessment of potential impact and likelihood need not be any more complex than assigning a simple numerical score, say 1 – 3, and multiplying the two scores to arrive at a



risk assessment for each risk of high, medium or low. The risk assessment enables the authority to decide which risks it should pay most attention to when considering what measures to take to manage them.

5.94. Authorities could use a simple risk assessment matrix as follows:

<b>Likelihood</b>	Highly likely (3)	Medium (3)	High (6)	High (9)
	Possible (2)	Low (2)	Medium (4)	High (6)
	Unlikely (1)	Low (1)	Low (2)	Medium (3)
		Negligible (1)	Moderate (2)	Severe (3)
		<b>Impact</b>		

#### Addressing risks

5.95. Risk is unavoidable, and every organisation needs to take action to manage risk in a way which it can justify to a level which is tolerable. The response to risk, which is initiated within the organisation, is called 'internal control' and may involve one or more of the following standard responses:

- **Tolerate** the risk - for risks where the downside is containable with appropriate contingency plans; for some where the possible controls cannot be justified (e.g. because they would be disproportionate); and for unavoidable risks, e.g. terrorism.
- **Treat** the risk - a common response which can mean imposing controls so that the organisation can continue to operate; or setting up prevention techniques.
- **Transfer** the risk – buying in a service from a specialist external body or taking out insurance. Some risks cannot be transferred, especially reputational risk.
- **Terminate** the activity giving rise to the risk - it may be best to stop (or not to start) activities which involve intolerable risks or those where no response can bring the risk to a tolerable level.

5.96. Areas where there may be scope to use insurance to help manage risk include the following:

- The protection of physical assets owned by the authority – buildings, furniture, equipment, etc. (loss or damage).
- The risk of damage to third party property or individuals as a consequence of the authority providing services or amenities to the public (public liability).
- The risk of consequential loss of income or the need to provide essential services following critical damage, loss or non-performance by a third party (consequential loss).
- Loss of cash through theft or dishonesty (fidelity guarantee).
- Legal liability as a consequence of asset ownership (public liability).

5.97. The limited nature of internal resources in most authorities means that those wishing to provide services often buy them in from specialist external bodies. Areas where there may be scope to work with others to help manage risk include the following:

- Security for vulnerable buildings, amenities or equipment.
- Maintenance for vulnerable buildings, amenities or equipment.
- The provision of services being carried out under agency/partnership agreements with principal authorities.
- Banking arrangements, including borrowing or lending.
- Ad hoc provision of amenities/ facilities for events to local community groups.
- Markets management.
- Vehicle or equipment lease or hire.
- Trading units (leisure centres, playing fields, burial grounds, etc.).
- Professional services (planning, architects, accountancy, design, etc.).

#### Reviewing and reporting

5.98. Once the key risks have been identified and assessed they should be recorded, for example in a risk register. Members should review the risk register not less than annually. This could be achieved by risk management being a standing item at authority or committee meetings.

5.99. An example of a simple risk register can be found in Appendix 1 on page 35.

5.100. Support for authorities wishing to improve their risk management arrangements, over and above that provided by this guidance, is available through training that may be requested from NALC, SLCC and ADA, or from other training providers. In identifying training needs, parish and town councils may wish to seek the professional input of their insurance provider and refer to various elements of the [National Training Strategy for town and parish councils in England](#).