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York Teaching Hospital 
NHS Foundation Trust

Internal Audit Report

Scrayingham Parish Council Annual Return 2014/15

Auditor: John Roberts

Date: 4 June 2014

Report Distributed to:

PHIL JONES, Chairman
SHEENA FLOWERS, Parish Clerk



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Section 1 – Executive Summary

The Annual Return is a statutory document that must be completed annually by every Town and Parish Council. An Internal Audit review of the systems and controls in place is required to enable full completion of the Annual Return.

Our review found that effective systems and controls are in place at the Parish Council and have been in operation during the financial year ended 31 March 2015. We set out in the table below, the internal control objectives reviewed and our conclusions on whether, in all significant respects, the control objectives were being achieved throughout the financial year to a standard adequate to meet the needs of the council.

Internal Control Objective		Agreed (Yes/No)
A	Appropriate books of account have been kept properly throughout the year.	Yes
B	The Council's financial regulations have been met, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.	Yes
C	The Council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.	Yes
D	The annual precept requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.	Yes
E	Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.	Yes
F	Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.	N/A
G	Salaries to employees and allowances to members were paid in accordance with council approvals, and PAYE and NI requirements were properly applied.	Yes
H	Asset and investments registers were complete and accurate and properly maintained.	Yes
I	Periodic and year-end bank account reconciliations were properly carried out.	Yes
J	Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, were supported by an adequate audit trail from underlying records, and where appropriate debtors and creditors were properly recorded.	Yes
K	The council met its responsibilities as a trustee.	N/A

During the review we identified a number of areas where systems and controls could be improved. We have therefore made the following recommended actions to improve control:

- The 2014/15 cash book should be amended to include three payments totalling £351 that were drawn in March 2015 but were not recorded in the cash book as expenditure in 2014/15. The bank reconciliation should be redrafted to identify these payments as cheques unpresented at the bank at 31 March 2015.
- The accounting statements included in the Annual Return should be amended prior to submission in order to reflect the above payments, and the amended accounting statements should be re-signed and dated by the RFO and Chair, and ratified at the next Parish Council meeting.

- The Parish Council should prepare and formally approve a financial regulations or procedure document which identifies the council's expected procedures and controls.
- A formal review of the council's risk assessment should be undertaken at the July 2015 meeting as planned.
- An itemised budget should be prepared to support the annual budget approved by the Council. Variances from the itemised budget should be reported to the Council during the year.

Further details in relation to these recommended actions are reported in Section 4 – Schedule of Findings & Recommendations.

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Section 2 - Audit Objectives, Scope & Methodology

Objectives & Scope

The objective of the review is to provide to the Chairman and Council Members, an opinion on whether the control objectives set out in the Internal Audit section of the Annual Return are reasonably met.

The review evaluated the following control objectives:

- Appropriate books of account have been kept properly throughout the year.
- The Council's financial regulations have been met, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.
- The Council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.
- The annual precept requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.
- Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.
- Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.
- Salaries to employees and allowances to members were paid in accordance with council approvals, and PAYE and NI requirements were properly applied.
- Asset and investments registers were complete and accurate and properly maintained.
- Periodic and year-end bank account reconciliations were properly carried out.
- Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, were supported by an adequate audit trail from underlying records, and where appropriate debtors and creditors were properly recorded.
- The council met its responsibilities as a trustee.

Methodology

The objectives of this review were achieved by:

- Liaising with the Parish Clerk.
- Reviewing financial regulations and documentation.
- Reviewing the risk register and risk assessments.
- Reviewing minutes of meetings.
- Recording, evaluating and testing the systems in place.
- Writing the internal audit report and completion of the Internal Audit section of the Annual Return.

Section 3 – Controls Evaluation

This matrix sets out the control objectives and expected controls which we expected to see and test as part of this audit.

Where expected controls are either not in place or are not being applied consistently, a recommendation may be raised. Details of all recommended actions to improve controls are given in Section 4 – Schedule of Findings & Recommendations.

Control Objective	Expected Control	Control Design	Control Effectiveness	Recommended Action
A. Appropriate books of account have been kept properly throughout the year.	A RFO/Clerk has been appointed with specific duties.	Adequate	Fully Met	
	The RFO/Clerk has adequate financial and accounting and VAT skills.	Adequate	Fully Met	
	The RFO/Clerk has been provided with training and tools to undertake the role.	Adequate	Fully Met	
	Books of account are adequately safeguarded and access controlled.	Adequate	Fully Met	
	The books of account are maintained and up to date.	Adequate	Partly Met	1
	The books of account are arithmetically correct.	Adequate	Fully Met	
	The books of account are regularly balanced.	Adequate	Fully Met	
	The books of account are independently checked on a regular basis.	Adequate	Fully Met	
<p><u>RFO/Clerk</u></p> <p>Ms Sheena Flowers was appointed as Parish Clerk with effect from 1 January 2014. The appointment of Ms Flowers was unanimously confirmed at the meeting of the Parish Council held on 9 December 2013 (Minute No. 5). The Parish Clerk is not a qualified bookkeeper or accountant, but is experienced at maintaining business accounts. The Parish Clerk has not required any specific training or tools to undertake the role during 2014/15.</p> <p><u>Books of Account</u></p> <p>Parish income and expenditure is recorded in a Parish Council cash book. The cash book is maintained as an electronic spreadsheet. This is retained on the Parish Clerk’s personal laptop computer but is password protected and is regularly backed up to a memory stick. A paper copy of spreadsheet is also retained.</p> <p>A review of the cash book confirmed that it is arithmetically correct and balanced. However, a review of cheque book stubs identified two payments of £159 and £12 in relation to 2015/16 insurance cover and church hall hire respectively and one payment of £180 in relation to Parish Clerk’s salary that were drawn in March 2015 but were not recorded in the cash book as expenditure in 2014/15. (Cheque nos. 143, 144 and 145). These items were approved for payment at the meeting of the Parish Council on 23 March 2015. Consequently, expenditure recorded in the 2014/15 financial statements is understated by £351 and total cash balances are overstated by £351.</p> <p>The cash book was presented to the Parish Council for review at its meeting on 11 May 2015, along with a bank reconciliation and bank statements. Parish Council minutes of this meeting confirm that this review was minuted as approved.</p>				



Control Objective	Expected Control	Control Design	Control Effectiveness	Recommended Action
B. The council's financial regulations have been met, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.	Financial regulations are in place and are distributed to all members of the council. The financial regulations are regularly reviewed and approved by the council.	Not Met	N/A	2
	Procedures for approving expenditure and the receipt and payment of invoices are documented and provide a clear audit trail from council decision to the books of account.	Not Met	N/A	2
	Expenditure is individually itemised on the agenda for approval by council.	Adequate	Fully Met	
	All payments in the cashbook are supported by invoices, authorised and minuted.	Adequate	Fully Met	
	There is no backlog of unposted transactions.	Adequate	Fully Met	
	VAT on payments is identified, recorded and reclaimed.	Adequate	Fully Met	
	<p>Expenditure is formally approved at meetings of the Parish Council in advance of payment. However, a financial regulations document or procedure document is not in place which formalises the procedures and controls in place in relation to expenditure.</p> <p>Non-pay expenditure totalling £354 is recorded as 2014/15 expenditure in the Parish Council cash book. Testing of all nine non-pay items found that all were supported by invoices or payment receipts, and all were minuted as approved at meetings of the council.</p> <p>The Parish Council is not VAT registered and therefore does not reclaim VAT on purchases from the HMRC. Expenditure incurred by the council in 2014/15 included only one item with a VAT charge. This related to the 2012/13 external audit fee which was invoiced at £120 plus £24 VAT. Half of this fee was paid in 2012/13 with the balance of £72 paid in May 2014/15. There was no charge for the 2013/14 external audit.</p> <p>All items of expenditure are paid by cheque. The council does not make any payments in cash or by standing order or direct debit. Expenditure in 2014/15 did not include any payments that required separate recording as s137 expenditure.</p>			
Control Objective	Expected Control	Control Design	Control Effectiveness	Recommended Action
C. The council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.	The council undertakes an annual risk assessment.	Adequate	Partly Met	3
	Risk assessments are minuted together with any required actions.	Adequate	Fully Met	
	Risk assessments cover all the council's activities, assets and employees.	Adequate	Fully Met	
	Councillors are involved with the risk assessments.	Adequate	Fully Met	
	Councillors are provided with an up to date copy of the council's risk assessment.	Adequate	Fully Met	
	Insurance cover is appropriate and adequate.	Adequate	Fully Met	
	<p>The Parish Council undertakes an annual risk assessment. The latest risk assessment was undertaken at the Parish Council meeting on 31 March 2014 (Minute No. 3) and is published on the Parish Council website. The risk assessment identifies five risk categories: financial, insolvency, fraud, public liability and employee liability. Each risk category has been assessed as having a high impact but low likelihood. No risks are identified as requiring action. The risk assessment was presented to and considered at the council meeting on 23 March 2015 (Minute No. 2a). The council plans to undertake a formal review of the risk assessment at its July 2015 meeting.</p> <p>Insurance cover is renewed annually and includes cover in relation to public and employee liability. A quote of £159 for 2015/16 insurance cover was considered and agreed unanimously at the Parish Council meeting on 23 March 2015.</p>			

Control Objective	Expected Control	Control Design	Control Effectiveness	Recommended Action
D. The annual precept requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.	There is a clear documented budget process, which is reviewed and approved by the council.	Not Met	N/A	2
	An annual budget is prepared in support of the council's precept.	Partially Inadequate	Partly Met	4
	Councillors are fully involved in the preparation of the annual budget.	Adequate	Fully Met	
	Actual expenditure against the budget, and are regularly reported to the council. Any significant variances from budget are adequately explained.	Adequate	Fully Met	
	The council reviews its reserves and such reviews are minuted together with any actions.	Adequate	Fully Met	
	<p>An annual budget of £1,500 for 2015/16 was proposed and agreed at the Parish Council meeting on 1 December 2014 (Minute No. 2). However, this is not supported by an itemised budget.</p> <p>Reserve balances are approximately £7,000 at 31 March 2015. The Parish Council does not have any immediate plans in place to utilise these reserve balances, and agreed at its meeting on 1 December 2014 to request a zero precept for 2015/16 thereby providing a "precept holiday" for parishioners. Consequently, the council plans to reduce reserve balances during 2015/16.</p> <p>Actual expenditure is reported monthly to meetings of the Parish Council.</p> <p>The Parish Council does not have a documented budget process.</p>			
Control Objective	Expected Control	Control Design	Control Effectiveness	Recommended Action
E. Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.	Procedures from invoice to banking are documented and provide a clear audit trail to the books of account.	Not Met	N/A	2
	All income is recorded and promptly banked.	Adequate	Fully Met	
	The precept received agrees to the Council Tax authority's notification.	Adequate	Fully Met	
	Income processes are independently verified throughout the year.	Adequate	Fully Met	
	<p>In 2014/15 the Parish Council received parish precept income from Ryedale District Council totalling £1,400. This was consistent with the Parish Council's precept request. The precept was received direct into the Parish Council's community bank account in two instalments of £700 on 16 April 2014 and 17 September 2014.</p> <p>The Parish Council did not receive any other income (cash or non-cash) during 2014/15. Confirmed by discussion with the Parish Clerk that the council does not own any income generating assets.</p> <p>Procedures in relation to the receipt, recording and banking of income are not documented.</p>			

Control Objective	Expected Control	Control Design	Control Effectiveness	Recommended Action
F. Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.	The council maintains a petty cash float that is appropriate and relevant to the scale of the council's operations.	N/A	N/A	
	Confirmed by discussion with the Parish Clerk that the council does not operate a petty cash float system. All payments made by the council are transacted by cheques drawn on the Parish Council's community bank account. These are itemised and approved at meetings of the council in advance of payment.			
Control Objective	Expected Control	Control Design	Control Effectiveness	Recommended Action
G. Salaries to employees and allowances to members were paid in accordance with council approvals, and PAYE and NI requirements were properly applied.	Payroll procedures are documented and provide a clear audit trail to the books of account.	Not Met	N/A	2
	The council is aware of changes to the NI, PAYE and pension legislation.	Adequate	Fully Met	
	Changes to wages, salaries and payments are approved by council and all changes are minuted.	Adequate	Fully Met	
	Wages, salaries and expenses paid agree with those approved by the council.	Adequate	Fully Met	
	NI and PAYE are correctly calculated and deducted throughout the year.	Adequate	Fully Met	
	PAYE/NIC is properly operated by the council as an employer.	Adequate	Fully Met	
	The council undertakes independent verification of payroll processes throughout the year.	Adequate	Fully Met	
	<p>The appointment of Ms Flowers as Parish Clerk from 1 January 2014 was unanimously confirmed at the meeting of the Parish Council held on 9 December 2013 (Minute No. 5). Although council minutes do not refer to the monthly salary to be paid from 1 January 2014, minutes of the meeting held on 19 May 2014 (Minute No. 4) approve the quarterly payment of £180.</p> <p>Expenditure in relation to the Parish Clerk's salary totalling £660 is recorded as 2014/15 expenditure in the Parish Council cash book. Testing of four payments found that all were minuted as approved at meetings of the council.</p> <p>No other salaries or allowances were paid by the Parish Council during 2014/15.</p> <p>As a result of changes to the employment status of Town and Parish Clerks, Parish Councils are now required to register with the HMRC as an employer and deduct NI and PAYE. Minutes of the Parish Council meeting held on 19 January 2015 record that Autela Payroll Services have been appointed by the council to deal with the payment of the Clerk which will include correct deductions of PAYE and NI. Autela Payroll Services have advised the council that no NI and PAYE is deductible from the salary paid to the Parish Clerk during 2014/15.</p> <p>Payroll procedures are not documented.</p>			

Control Objective	Expected Control	Control Design	Control Effectiveness	Recommended Action
H. Asset and investments registers were complete and accurate and properly maintained.	Asset and investment register procedures are documented and provide a clear audit trail to the books of account.	Not Met	N/A	2
	The council maintains a register of all material assets or assets in its care.	Adequate	Fully Met	
	Assets and investment registers are up to date.	Adequate	Fully Met	
	Councillors have access to up to date copies of the council's asset and investment registers.	Adequate	Fully Met	
	The registers are reviewed by the council on a regular basis and that these reviews are minuted together with any actions required.	Adequate	Fully Met	
	The existence of assets and investments is regularly independently verified.	Adequate	Fully Met	
<p>An asset register is maintained by the Parish Council and is published on the Parish Council website. The existing asset register comprises 10 individual assets purchased at a total cost of £60 but with an estimated total value of £4,600. This includes two telephone kiosks purchased from BT for £1 each and valued at £2,000 each.</p> <p>The asset register was most recently updated in July 2014 following receipt of a replacement village notice board at Leppington. The asset register was presented to and considered at the council meeting on 23 March 2015 (Minute No. 2a). The council plans to undertake a formal review of the asset register at its July 2015 meeting.</p> <p>The condition of individual assets is regularly reviewed by inspection and a register is maintained of the inspections undertaken and planned.</p> <p>The Parish Council does not hold any investments. Consequently, an investment register is not maintained.</p> <p>Asset and investment register procedures are not documented.</p>				

Control Objective	Expected Control	Control Design	Control Effectiveness	Recommended Action
I. Periodic and year-end bank account reconciliations were properly carried out.	Bank account reconciliation procedures are documented and provide a clear audit trail to the books of account.	Not Met	N/A	2
	Bank reconciliations are regularly done for all accounts.	Adequate	Partly Met	1
	Bank reconciliations are supported by bank statements and cashbook.	Adequate	Fully Met	
	Balancing entries in any reconciliation are explained.	Adequate	Fully Met	
	Bank reconciliations are independently checked throughout the year.	Adequate	Fully Met	
	Bank balances and reconciliations are reported to the council.	Adequate	Fully Met	
	<p>The Parish Council maintained one community bank account throughout 2014/15. The council is currently holding discussions with the bank in relation to opening a sub-account to be used solely for the payment of the Parish Clerk's salary.</p> <p>Due to low number of income and expenditure transactions, a bank reconciliation is undertaken annually by the Parish Clerk. A bank reconciliation as at 31 March 2015 was prepared by the Parish Clerk on 5 May 2015 and was presented along with the cash book and bank statements to the Parish Council for review at its meeting on 11 May 2015. Parish Council minutes of this meeting confirm that this review was minuted as approved.</p> <p>Testing confirmed that the closing balance shown on the reconciliation was consistent with the closing balances recorded on both the bank statement and cash book at 31 March 2015. However, as three cheque payments drawn in March 2015 for the total value of £351 were not recorded in the cash book as expenditure in 2014/15 the bank reconciliation prepared by the Parish Clerk does not identify these payments as cheques unrepresented at the bank (See objective 1).</p> <p>Bank account reconciliation procedures are not documented.</p>			

Control Objective	Expected Control	Control Design	Control Effectiveness	Recommended Action
J. Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, were supported by an adequate audit trail from underlying records, and where appropriate debtors and creditors were properly recorded.	The council reviews which accounting basis (Receipts and Payments or Income and Expenditure) should be used.	Adequate	Fully Met	
	Year-end accounts are prepared on the correct accounting basis.	Adequate	Partly Met	5
	The accounts agree with the cashbook.	Adequate	Fully Met	
	There is an audit trail from underlying financial records to the accounts.	Adequate	Fully Met	
	Debtors and creditors are properly recorded, where appropriate.	Adequate	Fully Met	
	The council undertakes independent verification of the underlying processes throughout the year.	Adequate	Fully Met	
	<p>The Parish Council's 2014/15 financial statements are prepared on a receipts and payments basis. This basis is unchanged from the previous year. Entries in the 2014/15 financial statements are supported by the council's cash book and bank statement.</p> <p>Total fixed assets are recorded at £602 in the financial statements. This is unchanged from the position at 31 March 2014 and reflects the fact that the council has not purchased any fixed assets in 2014/15.</p> <p>The Parish Council has no debtors or creditors at 31 March 2015 that require recording in the financial statements.</p> <p>The 2014/15 financial statements were signed off by the Parish Clerk/RFO on 11 May 2015 and by the Chair of the Parish Clerk on behalf of the Council on 11 May 2015.</p> <p>A review of cheque book stubs identified two payments of £159 and £12 in relation to 2015/16 insurance cover and church hall hire respectively and one payment of £180 in relation to Parish Clerk's salary that were drawn in March 2015 but were not recorded in the cash book as expenditure in 2014/15. (Cheque nos. 143, 144 and 145). These were approved for payment at the meeting of the Parish Council on 23 March 2015. Consequently, expenditure recorded in the 2014/15 financial statements is understated by £351 and total cash balances are overstated by £351.</p>			
Control Objective	Expected Control	Control Design	Control Effectiveness	Recommended Action
K. Trust Funds (including charitable). The council met its responsibilities as a trustee.	The council meets its responsibilities as a trustee.	N/A	N/A	
	Confirmed by discussion with the Parish Clerk that the council is not responsible for the administration of any trust funds.			

Section 4 - Schedule of Findings & Recommendations

Finding	Risk	Recommendation	Management Response	Responsible Officer	Target Date
<p>1. Cash Book/ Bank Reconciliation</p> <p>A review of cheque book stubs identified two payments of £159 and £12 in relation to 2015/16 insurance cover and church hall hire respectively and one payment of £180 in relation to Parish Clerk's salary that were drawn in March 2015 but were not recorded in the cash book as expenditure in 2014/15. (Cheque nos. 143, 144 and 145).</p> <p>Consequently, the bank reconciliation presented to the Parish Council meeting on 11 May 2015 does not identify the above three payments as cheques unrepresented at the bank at 31 March 2015.</p>	<p>Payments accounted for in the incorrect period.</p>	<p>The 2014/15 cash book should be amended to include the three payments drawn in March 2015 that are currently excluded.</p> <p>The bank reconciliation should be redrafted to identify these payments as cheques unrepresented at the bank. (See Governance and Accountability for Local Councils – A Practitioner's Guide, page 73)</p>			

<p>2. Financial Regulations and Financial Procedures</p> <p>An approved financial regulations or procedure document is not in place at the Council which records expected procedures and controls.</p>	<p>Expected procedures and controls are not followed in practice.</p>	<p>A financial regulations or procedures document should be prepared and formally approved by the Council.</p> <p>The document should record expected procedures and controls in relation to the following:</p> <ul style="list-style-type: none"> • Approving expenditure, receipt and payment of invoices • Budget process, including approval and monitoring • Income invoicing, receipting and banking • Petty cash • Payroll • Assets and investments • Bank account reconciliation • Accounting statement 			
<p>3. Risk Assessment</p> <p>The latest risk assessment was undertaken at the Parish Council meeting on 31 March 2014 (Minute No. 3) and is published on the Parish Council website.</p> <p>A risk assessment has not been undertaken in 2014/15. However the council plans to undertake a formal review of the risk assessment at its July 2015 meeting.</p>	<p>Risks are not identified and managed.</p>	<p>The council should undertake a formal review of the risk assessment at its July 2015 meeting as planned. Subsequent risk assessment reviews should be scheduled in the Parish Council's work plan.</p>			

<p>4. Annual Budget</p> <p>An annual budget of £1,500 for 2015/16 was proposed and agreed at the Parish Council meeting on 1 December 2014 (Minute No. 2). However, this is not supported by an itemised budget.</p>	<p>Risk of unplanned expenditure.</p>	<p>An itemised budget should be prepared to support the annual budget approved by the Council.</p> <p>Variances from the itemised budget should be reported to the Council during the year.</p>			
<p>5. Accounting Statements</p> <p>As the Parish Council prepares its accounting statements on a "receipts and payments" basis.</p> <p>As three payments drawn in March 2015 were not recorded as expenditure in the 2014/15 cashbook, expenditure recorded in the 2014/15 financial statements is understated by £351 and total cash balances are overstated by £351.</p>	<p>Accounting statements mis-stated.</p>	<p>The accounting statements included in the Annual Return should be amended to report a corrected carried forward cash balance of £6,494 (£6,845 less £351). Staff costs and other payments should also be amended to report £840 (£660 plus £180) and £525 (£354 plus £171) respectively.</p> <p>The amended accounting statements should be re-signed and dated by the RFO and Chair, and ratified at the next Parish Council meeting.</p>			