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13th May 2016

The Chairman  
Cringelford Parish Council

Dear Sir,

**Internal Audit for the year ended 31st March 2016**

I thank the Council for re-appointing me to carry out the internal audit for the 2016 accounts. I remind you that, according to the Local Councils' Governance and Accountability Guidance, the purpose of internal audit is to review whether the systems of financial and other control are effective; neither the internal nor the external auditor can be expected to look for fraud. I do not give an opinion on the accounts, I am required to review controls and give recommendations.

I attended the Town Council offices on 9<sup>th</sup> and 10<sup>th</sup> May 2016 and carried out the following work on the Council's books and records:

- 1. Proper Bookkeeping:**
  - checked a sample of payments from the minutes and the cashbook to invoices, including all large amounts
  - completed a sample of receipts from cash book to supporting documentation
  - reviewed VAT documentation
- 2. Financial Regulations:**
  - reviewed S.137 payments to ensure under limit
  - Financial Regulations were reviewed by the Council in February 2016
  - Standing Orders were amended in October 2015
- 3. Risk Arrangements:**
  - reviewed minutes for unusual items
  - the risk assessment was reviewed regularly by the Finance Advisory Group
- 4. Budgetary Controls:**
  - reviewed budget
  - regular comparisons carried out of actual spending to budget figures
- 5. Income Controls:**
  - reviewed receipt of precept
  - reviewed significant income during year

- discussed systems for processing letting income
- 6. Petty Cash**
    - petty cash is not used much; mainly for tractor fuel and office sundries
  - 7. Payroll Controls:**
    - payroll is outsourced
    - checked some of the tax calculations and pension payments for reasonableness
  - 8. Asset Controls:**
    - reviewed asset register values which are based on insurance schedule and/or cost
    - reviewed minutes for significant additions
    - checked additions to supporting documentation
  - 9. Bank Reconciliation:**
    - ensured carried out regularly
  - 10. Year-end Procedures:**
    - reviewed year-end bank reconciliation
    - reviewed accounts for unusual items
    - annual return prepared using income and expenditure method
    - checked large creditors and debtors to supporting documentation
    - year-end VAT return equals the figure in the accounts

The above tests and review work showed the accounts are supported by invoices and receipts and agree to year-end bank statements. As last year the current parish clerk was only employed by the Council part-way through the financial year so I have not paid so much attention to control systems for the earlier months. I have discussed the current controls with Sonya and made some recommendations.

I have signed the internal auditor's part of the Annual Return.

I make the following comments for completeness, but fully accept that some of these issues relate to months before the new clerk was appointed.

- 1. VAT**

I note that a VAT specialist has checked the VAT records. I have therefore not carried out any work on the partial-exemption situation. I have checked that VAT on a sample of payments has been correctly separated in the accounts. The VAT returns are done quarterly and the year-end balance in the Accounts equals the Return for 31<sup>st</sup> March 2016.
- 2. Payroll**

The total of employment costs is required to be entered on the Annual Return. The amount for 15/16 employment costs includes payments made to sub-contractors where no PAYE or NIC was paid (eg Steve Jackman) and some small sundry admin costs (eg premises licence £70). I believe that the figure should only include those who were employed by the Council and that therefore the employment line on the Annual Return is therefore overstated by those amounts and the Other Payments total is understated by those amounts.

However, I also feel that the staff severance pay of £15,025 should be included in Staff Costs, rather than in Other Payments – Mazars would be able to advise on this – so this means that the net change is that Other Payments are overstated and Staff Costs are understated.

**3. Risk**

As last year, the Council has completed a very comprehensive risk assessment for all aspects of the Council's business and has highlighted several areas of high risk. It has also highlighted that the Community Centre and Pavilion are making a "loss" and I am pleased to note that the precept has been set to include these costs and to make an overall surplus.

As last year, I note also that there has been some discussion about building up reserves earmarked for future repair or replacement of Council assets, but no monies have been moved to earmarked reserves. I would recommend that the Council should allocate some of its general reserves or working capital fund to earmarked funds.

I should like to take the opportunity to thank Sonya and Andrew for their hospitality and for their assistance with the year-end paperwork. Please let me know if you require an interim audit during the 16/17 year. I would suggest sometime in December so that there are 8 or 9 months of the year to review.

Yours faithfully,

*Pauline James*

Pauline James BA,  
Cert of Higher Education in Community Engagement and Governance