

Final Audit Report and Risk Assessment of Financial systems' internal controls for Hordle Parish Council 2017/2018,
prepared by the Internal Auditor and RFO on 08/12/2017.

No.	Internal Control Tests	Findings
1	Proper Bookkeeping	
1.1	Is the Cash Book maintained and up to date? Format used?	A computerised Cash Book based on Sage Line 50 with full analysis codings is used recording both income and expenditure. The software format includes budget information incorporating all accounts held which were up to date and accurate.
1.2	Is the cashbook arithmetically correct?	A full Sage trial balance is maintained and balanced monthly. The Cash Book is analysed by Budget heading codes for both income and expenditure and these are arithmetically correct.
1.3	Is the cashbook regularly balanced?	The Cash Book balance is reconciled to each bank account on a monthly basis. Quarterly review of budget to actual, with notes on any variances, is reported to the Parish Council. The bank reconciliation is signed by the Parish Clerk as Responsible Finance Officer. The Chairman of the Parish Council signs the copies of the bank reconciliations but does not sign the bank statements to confirm the balances shown are accurate to those recorded on the bank reconciliation. Recommendation: We recommend that the Chairman of the Parish Council should sign and date the bank statements on a quarterly basis to confirm they are accurate as part of the Councillors scrutiny role.
2a	Standing Orders and Financial Regulations	
2.1	Has the Council formally adopted Standing Orders and Financial Regulations, and dates approved?	Standing Orders and Financial Regulations were both updated and ratified by the full Parish Council on the 2 May 2017 (Minute reference 9). The Parish Council also ratified and approved other policies at this and past annual meetings and a comprehensive list of these are held on the Parish Council website. Audit note: The Parish Clerk completes a spreadsheet which list the last date that the policy documents were comprehensively reviewed. In discussion with the Parish Clerk it was noted that some policies had not been reviewed for more than three years. It was acknowledged that some of these may no longer be needed by the Parish Council in future.

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		<p>Recommendation: We recommend that all policies should have a comprehensive review every three years and those no longer required should be minuted by the Parish Council and deleted.</p> <p>However it was also noted that there are no formal policies for the following areas:</p> <ul style="list-style-type: none"> • Reserves policy • Disaster Recovery policy. <p>Recommendation: We recommend that a review of the current policies held should be undertaken to confirm those that are no longer needed. We further recommend that policies should be drawn up and adopted by the Parish Council for Reserves and Disaster Recovery and these should be displayed on the Parish Council website.</p>
2.2	Has an RFO been appointed with specific duties noted in both contract and Financial Regulations?	<p>The Parish Clerk is also the Responsible Finance Officer and the specific duties and levels of responsibility are included within the Financial Regulations.</p> <p>Audit Note: <i>It is noted that the title on the job specification for the Parish Clerk includes the Responsible Finance Officer role but there are no details of the duties recorded in the job specification documentation.</i></p> <p>Recommendation: We recommend that the job specification for the Parish Clerk and Responsible Finance Officer should include detailed requirements for carrying out the role.</p>
2.3	Have items or services above a de minimis amount been competitively purchased?	<p>The Parish Clerk has a £600 de-minimis level to purchase Supplies and Services without the approval of the Parish Council from the budget. She also has delegated power for emergency needs of up to £500 if required and will obtain approval retrospectively from the Chairman of the Parish Council. Large contracts are subject to normal tendering arrangements. Financial Regulations include updated levels for contract and tendering arrangements.</p>
2b	Payments Controls	
2.4	Are payments in the Cash Book supported by invoices, authorised and minuted?	<p>All expenditure is supported by proper invoices or vouchers, which are checked for accuracy (including VAT). On-line payments are used where appropriate and these are input by the Parish Clerk. They are then authorised by one Councillor on a secure log on before payment is sent. A schedule of the payments is signed each month. These are signed by the Chairman to agree the payments schedule to be paid.</p> <p>Audit Note: <i>We noted that the details recorded on the invoice/payment vouchers do not show</i></p>

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		<p><i>the initials of the Parish Clerk or the Councillor mandated to authorise the payment. We further noted that the schedule of payments presented to the Parish Council is not signed to indicate that payments have been approved. It is also noted that the invoice/payment vouchers filed in the payments file does not show a voucher number that can be cross-referenced to the Cash Book to ensure that these have been entered in the financial ledger correctly.</i></p> <p>Recommendation: We recommend that:</p> <ul style="list-style-type: none"> • the invoice/payment vouchers should be stamped by the Parish Clerk to indicate that the payment has been entered in to the Cash Book and listed on the schedule of payments listing. • the invoice/payment vouchers should be numbered consecutively on the payment file so they can be cross-referenced more easily to the Cash Book. • the payment schedule should be signed and dated by the Parish Clerk and Councillor to show that this has been certified and approved for payment. • payment schedules are reviewed monthly and the Council scrutinise them to ensure that no expenditure has occurred that is outside the delegated powers of the Parish Clerk • the financial risk assessment and management documentation should be updated to show the additional internal controls introduced for the payment of supplier invoices/payment vouchers.
2.5	Has VAT on payments been checked, recorded and reclaimed? Frequency, and refunds into which Account?	<p>Yes – copies of VAT reimbursement claims held on file. Currently submitted on a quarterly basis for reimbursement. Refunds are paid into main HSBC current account.</p> <p>Proper VAT invoices are provided, when relevant, with VAT checked and entered in VAT column in Cashbook. VAT has been claimed for a period up to 30 September 2017. The last VAT claim reimbursement in the sum of £5736.54.</p> <p>Audit Note: See details in paragraph 2.4 re the cross- referencing of payment/voucher numbers to highlight VAT entered on to reimbursement claim forms to show in the Cash Book.</p>
2.6	Is S.137 expenditure separately recorded and in limit?	S137 does not apply as the Power of Competence has been obtained by the Parish Council.
3	Risk Management Arrangements	
3.1	Does a scan of the Minutes identify any unusual financial activity, projects, events etc.?	The Minutes of Parish Council will recommend action where appropriate against the risk assessment and management strategy recorded in the policy. Where

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		<p>appropriate the budget will be adjusted to meet the needs of the Parish Council to minimise risks identified.</p> <p><i>Audit Note; It is noted that the office development was budgeted for through earmarked reserves in 2017/18. The Parish Clerk has now indicated that there are no large projects planned for 2018/2019 other than tree work which is shown in Earmarked Reserves for £5,000 and Budget for £5,000.</i></p>
3.2	Do the minutes record the Council carrying out any annual risk assessments? Play areas/BMX/skateparks regularity of checks and documentation?	<p>Weekly play area/BMX visual inspections are carried out by the Administrative Assistant. Operational physical inspections carried out quarterly by the Parish Clerk.</p> <p>The Parish Council also has an annual independent inspection organised by Nick Adams Engineering. The last one carried out was on 23/05/2017.</p> <p>The Parish Clerk will ensure that monitoring records are kept and maintained. Also monitoring is currently undertaken by Councillors or Parish Clerk to ensure grass cutting services is carried out by external contractors to ensure that they meet standards outlined in the specification documents.</p> <p><i>Audit Note: Certain duties to monitor and inspect Play Equipment and BMX track will be undertaken by a Groundsman who will be appointed in the early part of 2018.</i></p> <p>Recommendations: We recommend that the risk assessment and management documentation should be reviewed to ensure that all areas for which the Parish Council has responsibility are included in this document.</p>
3.3	Is insurance cover appropriate and adequate? Policy numbers and broker/company known? Is Fidelity Guarantee cover level correct?	<p>The Insurance cover is brokered with Came and Co and held with Aviva policy no 24414511CHC on a standard Local Council policy basis. Policy held on long term basis until 25/10/2018. Fidelity guarantee cover is held at £150,000. Public Liability and Employers Liability cover are both £10m.</p> <p><i>Audit Note: It is noted that the level of Fidelity Guarantee Cover is slightly below the recommended amount for this size Parish Council and it should be reviewed regularly as part of the annual assessment of financial risks.</i></p> <p>Recommendation: We recommend that the level of Fidelity Guarantee should be raised to £180,000.</p>
3.4	Are internal financial controls documented and reviewed regularly?	<p>The financial and management risks were documented and updated for 2017/18 at the annual Parish Meeting on the 2 May 2017.</p> <p><i>Audit note: It is noted that the Council's financial systems' and internal controls are reviewed annually.</i></p>

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4	Budgetary Controls	
4.1	Has the Council prepared an annual budget in support of its precept? Is this recorded in Council Minutes and dated?	Annual costings are prepared each October/November and budget setting is agreed at the November meeting each year, this is ratified by the full Parish Council. For the 2018/19 financial year the budget was agreed at the 21 November 2017 Parish Council meeting and the Precept at the Parish Council meeting on the 5 December (Minute 8). New Forest District Council is then notified in December/January of the Precept requirements.
4.2	Is actual expenditure against the budget regularly reported to the Council and minuted?	The Parish Clerk formally presents a quarterly budget update summary (with detailed Income and Expenditure) to Parish Council for information.
4.3	Are there any significant and unexplained variances on budget?	A process is in place to report significant variations and where action is required by the Parish Council. These will be recorded in the Minutes and approved by the Parish Council.
5	Income Controls	
5.1	Is income properly recorded and promptly banked?	Income received from the hirer of Sports pitches (Agreements are in place with Football and Cricket Clubs at Everton and Hordle Recreation Ground showing full terms and conditions for use) plus an agreement for Rights of Way. Payment will be made direct into HSBC bank current account. <i>Audit Note: It is noted that the terms and conditions were reviewed at the Parish Council meeting on the 21 November 2017 where some amendments were made to the use of Sport Pitches for 2018/2019. It is further noted that there is an annual review of the fees by the Parish Council.</i> Also Precept and from New Forest District Council. Further money can be received from New Forest District Council for Community Infa-structure Levy (CIL) although these are unknown sums before notification received from New Forest District Council.
5.2	Does the precept recorded in the Cash Book agree to the District Council's notification? Is there an annual review of the scale of fees?	Two precept receipts are received in April and September each year and are noted in the Cash Book plus any remittance documentation from New Forest District Council will be held on file.
5.3	Are security controls over cash adequate and effective?	Little cash is received by the Parish Council and will be placed in the Petty Cash Tin for safe keeping. These sums are banked on a weekly basis. Keys to the Petty Cash Tin are held in a secure key press to gain access to the cupboard where

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		Petty Cash Tin is held.
6	Petty Cash Procedures	
6.1	Is all petty cash spent noted in a separate book or summary sheet with pro forma and or vouchers to support expenditure. Is VAT extracted?	A separate Petty Cash account is used and transactions are recorded on a petty cash sheet to match sequentially numbered vouchers that support all expenditure. There is a set £80.00 Petty Cash level.
6.2	Is petty cash reported to each Parish Council meeting?	At present no Petty Cash expenditure information is formally reported to the Parish Council as part of the quarterly budget v actual update although it is itemised in the monthly payment schedule. These are allocated in SAGE against the budget item that they are purchased for. Recommendation: We recommend that a summary of the Petty Cash expenditure totals is reported on a quarterly basis as part of the budget v actual information provided to the Parish Council. The details of which should be recorded in the Parish Council Minutes.
6.3	Is petty cash reimbursement carried out regularly?	Petty Cash payment schedules are reimbursed on a monthly basis.
7	Payroll Controls	
7.1	Do staff salaries/wages paid agree with those approved by the Council & what is review frequency?	The Parish Clerk has been employed by the Parish Council since 2008 and is employed for 37 hours per week. The Parish Clerk is currently on Local Council Scale 2 (point 33). The Administrative Assistant is employed for 20 hours per week. She is currently on Local Council Hourly rate at £10.00 per hour and has been employed since 21 November 2014. The Parish Clerk and Administrative Assistant both belong to the Local Government Pension Scheme (LGPS) and monthly deductions are made for pension contributions. These are paid over to Hampshire Pension Fund on a monthly basis. Audit Note; The Parish Council have agreed to employ a Groundsman from early 2018 at 20 hours per week at a rate of £9.00 per hour.
7.2	Are other expenses to the Parish Clerk or staff reasonable and approved by the Council?	There are few expenses paid but car mileage at the HMRC rate of £0.45p and car parking is paid to Parish Clerk when appropriate.
7.3	Have PAYE/National Insurance Contributions and Pension Contributions been properly deducted by the Parish Council as an Employer? Is payment made to	The Parish Clerk currently runs a monthly payroll enabling processing of monthly payments made to HMRC for PAYE and National Insurance Contributions. Pension deductions are made for the Parish Clerk and Administrative Assistant

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	HMRC and the Pension Provider on a regular basis?	<p>and monthly payments are made to Hampshire Pension Fund. <i>Audit Note: It is noted that the Parish Council have agreed to outsource the payroll function to an outside payroll provider and this is due to take place in early 2018.</i></p> <p>Recommendation We recommend that the Parish Council should ensure that internal checks are in place to ensure that the information produced by the Payroll provider is authorised by Councillors before salaries are paid to members of staff.</p>
8	Assets Controls	
8.1	Does the Parish Council keep an Assets Register of all assets owned including serial numbers? Are annual physical check carried out?	<p>A list of the assets for the Parish Council is recorded on an excel spreadsheet. This shows the historic cost of the item and the date purchased if known. No serial numbers are recorded. Informal physical check of assets is carried out but not recorded on the Assets Register.</p> <p>Recommendation: We recommend that the annual physical checks are recorded to ensure all items are identified and seen at least annually. The Asset Register should be signed and dated to confirm that the inspection has taken place. We also recommend that where known the serial numbers should be recorded on the Assets Register.</p>
8.2	Is the Assets Register up to date, including new items and disposals?	<p>Yes, Asset Register showed all of the current asset items and was up to date and last reviewed in May 2017.</p> <p>Recommendation: We recommend that the Asset Register is reviewed at least once a year and signed by the Parish Chairman to show that a review of all assets has taken place.</p>
8.3	Do asset insurance valuations agree with those in the Asset Register?	<p>Insurance valuations are prepared on an individual basis and grouped by the Insurance Provider for inclusion within the schedule of items insured.</p> <p><i>Audit Note: In discussion with the Parish Clerk is it suggested that items recorded on the Assets Register should be checked against the insurance policy schedule to agree that the details are correct and up to date with the latest insurance values. It was also noted that although de-minimis levels are set at £500 these have not been formally recorded in to Financial Regulations or shown in the Financial Risk Assessment documentation.</i></p> <p>Recommendation: We recommend that:</p> <ul style="list-style-type: none"> • the Assets Register should be reviewed and checked against the insurance policy schedule to agree the details are correct and up to date. <i>(Internal Audit can provide further guidance if required).</i> • a de-minimis level of £500 should be adopted formally by the Parish Council for which items do not need to be recorded in the Assets Register. The details of which should be recorded in Financial Regulations and on the Financial Risk Assessment

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		documentation.
9	Bank Reconciliation	
9.1	Is there a Bank reconciliation for each account held? Note each account showing account numbers. If relevant, review Money Market transfers and documentation.	Yes, HSBC Current Account no 01487191 and HSBC Money Manager Account no 21487205. <i>Audit Note: We discussed with the Parish Clerk the need for the Parish Council to consider its Investment Strategy to ensure its portfolio can maximise return on its investments within acceptable limits of risk. The current balance held in the bank accounts should be reviewed as the Financial Services Compensation Scheme will only cover a maximum of £85,000 held in any one bank account.</i> Recommendation: We recommend that the Parish Council reviews its Investment Strategy to ensure that it maximises its return on investments but should also be mindful of spreading its investment portfolio to minimise the risk of loss so it can recover the maximum amounts under the Financial Services Compensation Scheme.
9.2	Are Bank reconciliations conducted on receipt of statements & with what frequency?	Yes, monthly bank reconciliations of the accounts are prepared when the bank statements are received or online statements produced.
9.3	Are there any unexplained balancing entries in any reconciliation?	Signed/dated, monthly reconciliations held within SAGE computer system, with a Trial Balance printout at the end of each month.
10	Year-end Procedures	
10.1	Are Year-end, final accounts prepared on a Receipts and Payments or Income and Expenditure basis?	The financial statements for the Parish Council are recorded using the Income and expenditure basis.
10.2	Do the accounts agree with the cashbook codings?	Yes, the final accounts can be fully agreed with the analysed Cash book and Trial Balance confirming all balances held by the Parish Council.
10.3	Is there an audit trail from underlying financial records to the accounts, for both receipts & payments?	A full Trial balance is printed and agreed at year-end, grouping items for the end of year accounts.
10.4	Where appropriate, have debtors and creditors been properly recorded? Are the year-end, General and Earmarked reserves held at reasonable levels?	Full summary analysis of debtors and creditors is prepared with the Trial Balance. The budget includes the different types of reserves, Earmarked reserves, CIL funds, General Reserves and Ring Fenced Reserves. There is no written Reserve Policy held by the Parish Council. Recommendation: We recommend that the Council drafts and adopts a Reserves Policy (see paragraph 2.1) that sets out the level of reserves that should be maintained. This should be regularly reviewed, and reserve levels should be monitored throughout the year.

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Signed Tim Light FMAAT
Internal Auditor

Date 13/12/2017

Signed _____
RFO

Date _____

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Action Plan for Recommendations			
No.	Recommendations	Actioned by	Date
1.3	We recommend that the Chairman of the Parish Council should sign the bank statements on a quarterly basis to confirm they are accurate as part of the Councillors scrutiny role.		
2.1	We recommend that all policies should have a comprehensive review every three years and those no longer required should be minuted by the Parish Council and deleted.		
2.1	We recommend that a review of the current policies held should be undertaken to confirm those that are no longer needed. We further recommend that policies should be drawn up and adopted by the Parish Council for Reserves and Disaster Recovery and these should be displayed on the Parish Council website.		
2.2	We recommend that the job specification for the Parish Clerk and Responsible Finance Officer should include detailed requirements for carrying out the role.		
2.4	We recommend that: <ul style="list-style-type: none"> •the invoice/payment voucher should be stamped by the Parish Clerk to indicate that the payment has been entered into the Cash Book and listed on the schedule of payments listing. •the invoice/payment voucher should be numbered consecutively on the payment file so they can be cross-referenced more easily to the Cash Book. •the payment schedule should be signed and dated by the Parish Clerk and Councillor to show that this has been certified and approved for payment. •payment schedules are reviewed monthly and the Council scrutinise them to ensure that no expenditure has occurred that is outside the delegated powers of the Parish Clerk. •the financial risk assessment documentation be updated to show the additional internal controls introduced for the payment of supplier invoices/payment voucher. 		
3.2	We recommend that the risk assessment should be reviewed to ensure that all areas for which the Parish Council has responsibility are included in the documentation.		
3.3	We recommend that the level of Fidelity Guarantee should be raised to £180,000.		

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6.2	We recommend that a summary of the Petty Cash expenditure totals is reported on a quarterly basis as part of the budget v actual information provided to the Parish Council. The details of which should be recorded in the Parish Council Minutes.		
7.3	We recommend that the Parish Council should ensure that internal checks are in place to ensure that the information produced by the Payroll provider is authorised by two Councillors before salaries are paid to members of staff.		
8.1	We recommend that the annual physical checks are recorded to ensure all items are identified and seen at least annually. The Asset Register should be signed/dated to confirm that the inspection has taken place.		
8.2	We recommend that the Asset Register is reviewed at least once a year and signed by the Parish Chairman to show that a review of all assets has taken place		
8.3	We recommend that: <ul style="list-style-type: none"> •the Assets Register should be reviewed and checked against the insurance policy schedule to agree the details are correct and up to date. (Internal Audit can provide further guidance if required). •a de-minimis level of £500 should be adopted formally by the Parish Council for which items do not need to be recorded in the Assets Register. The details of which should be recorded in Financial Regulations and on the Financial Risk Assessment documentation. 		
9.1	We recommend that the Parish Council reviews its Investment Strategy to ensure that it maximises its return on investments but should also be mindful of spreading its investment portfolio to minimise the risk of loss so it can recover the maximum amounts under the Financial Services Compensation Scheme.		
10.4	We recommend that the Council drafts and adopts a Reserves Policy (see paragraph 2.1) that sets out the level of general reserves that should be maintained. This should be regularly reviewed, and reserve levels should be monitored throughout the year.		

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Signed __Tim Light FMAAT_____

Date _13/12/2017_____

Internal Auditor

Signed _____

Date _____

RFO