

Ripley Parish Council

Internal Audit

Year Ended 31st March 2016



Prepared by: Mulberry & Co
Date of Interim Visit: 16th February 2016
Date of Final Visit:

Law and Regulation Regarding Internal audit

Regulation 6 of the Accounts and Audit (England) Regulations 2011 imposes a duty on local councils to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Internal audit is a key component of the system of internal control.

The purpose of internal audit is to review and report to the council whether its systems of financial and other internal controls over its activities and operating procedures are effective.

Internal audit's role is to assist the council in fulfilling its responsibility to have and maintain proper internal control arrangements and those for the prevention and detection of fraud, error or mistakes

All internal audit work must be reported to the council. Any report by internal audit is addressed to the council, may recommend actions to be taken by the council, and should be treated as a document open to view by local taxpayers.

Two pieces of legislation set out how local councils should behave when accounting for the public funds they manage and what rights local taxpayers have in relation to those accounts. These are the **Audit Commission Act 1998** and the **Accounts and Audit Regulations issued from time to time under the Act**. The requirement for local councils to prepare accounts annually and to subject them to external audit comes from the Audit Commission Act 1998 (the Act). The Act describes the rights of taxpayers and other interested parties in relation to those accounts.

Under the regulations, all local councils must at least once a year conduct in accordance with proper practices a review of the effectiveness of their system of internal control and publicly report the outcome. The Annual Governance Statement in Section 2 of the annual return provides the means for local councils to report to local taxpayers on their system of internal control.

This report is prepared for the council and proper officers of the council named above, for use in fulfilling their obligations under the Audit Commission Act 1998 and the Accounts and Audit Regulations issued from time to time under the Act for preparing the Annual Return and reviewing the effectiveness of their system of internal controls. Mulberry and Co accept no responsibility for any action or inaction taken as a result of the findings of this report and accept no responsibility to any other party other than those named above.

No part of this material may be reproduced in any form without the prior permission of Mulberry & Co.

Contents

Law and Regulation Regarding Internal audit	2
Summary Findings.....	4
Points Forward – Action Plan.....	6
Overview of Council.....	7
Professional Independence and Competence Questionnaire	8
Budget.....	10
Timetable	11
Systems Notes.....	12
Inherent Risk Assessment.....	13
Specific Audit Plan	14
Audit Findings	16
(A) Proper Bookkeeping.....	16
(B) Financial Regulations, Standing Orders & Payment Controls	17
(C) Risk Management.....	19
(D) Budgetary Controls	20

Summary Findings

I enclose my interim report for your kind attention and presentation to the council. I am pleased to report that overall the systems and procedures you have in place are entirely fit for purpose; I therefore make no recommendation for change at this stage.

My audit was conducted in accordance with current practices and guidelines and testing was conducted in line with the inherent risks assessment. Whilst I have not tested all transactions, my sample has where appropriate has covered the entire year to date. Amongst others the following areas were covered in my testing:-

- Review of the Financial Regulations & Standing orders
- Review of the Risk Assessments
- Review of the Budgeting process
- Proper Bookkeeping – review of the use of the RBS package.
- Review of Income
- Review of Salaries
- Review of Fixed Assets

A. BOOKS OF ACCOUNT

The brought forward balances were tested against last year's annual return and there were no errors. Accounting entries are entered regularly onto the RBS accounting system, and accounts are reconciled monthly, with hard copies of the reconciliations printed off for the file. I was pleased to note that there is good documentary evidence to show that these are reviewed internally. The system is tried and tested and entirely fit for purpose for a council of this size. I make no recommendation for change at this stage.

B. FINANCIAL REGULATIONS

The Financial Regulations and Standing Orders were on site and to hand, both these documents are reviewed annually. IA has noted financial regulations will be taken to the next council meeting and standing orders were reviewed earlier in the year. I make no recommendation to change in your financial regulations or Standing Orders at this time.

We chose at random items to test from the financial regulations and we are pleased to confirm that there were no errors or omissions and that council is following these.

- FR 4.5 – Internal auditor appointed and engagement letter approved.
- FR 5.1 Bank mandate still current no changes to councilors or signatories.
- FR 5.2 Schedule of payments taken to council for approval in accordance with regulations, consecutive schedules verified for cut of errors – there were none in evidence.
- FR 5.3 cheque stubs initialed twice
- FR 6.3 Invoices are annotated and approved in accordance with regulations.
- FR 9.3 Fees reviewed annually – council will review and minute annual fees at the next meeting
- FR 11 Contracts. IA has noted evidence that shows proper discussion of quotes and tenders.

Payment procedures, including invoice authorisation and cheque signing are satisfactory; and in accordance with financial regulations, I make no recommendation to change.

C. RISK MANAGEMENT & INSURANCE

Insurance is with Aviva via Came and Company. Asset and money cover appears adequate.

A Regular review of risks is carried out and I am satisfied that appropriate risks are accounted for and documented, **however per FR 17.1 these need to be reviewed at least annually by council.**

D. BUDGET & PRECEPT

The budget is drawn up in the correct and proper manner, regular reviews of budget versus actual are made. The 2016/17 budget is a breakeven budget and the precept is not set to increase due to other income receipts offsetting this.

Reserves are currently £105k – council is aware of high reserves and is actively seeking new premises.

E. INCOME

Income was tested to documentary evidence.

- May 2015 VAT refund agreed to remittance, bank statement, workings, invoices and RBS system
- Precept application similarly agreed
- Burial Income similarly agreed

F. PETTY CASH

Petty cash was tested against receipts – and was reconcilable, with circa £108 in the tin.

G. PAYROLL

Payroll performed by outside firm. Councillors are not paid allowances. Expenses were properly approved and minuted.

H. ASSETS AND INVESTMENTS

The asset registers are up to date and properly maintained. **However, the insurance column on the spreadsheet needs a little housekeeping to ensure correct split across the insured assets and the register may benefit from a notes column.**

I. BANK RECONCILIATIONS

The bank reconciliations for all accounts are properly prepared and presented to council and committee for verification and approval. The system of reconciliation is working correctly.

J. YEAR END ACCOUNTS

TBC at year end.

K. TRUSTEESHIP

N/A

**Mark Mulberry
Internal Auditor
16th February 2016**

Points Forward – Action Plan

Point Forward / Action needed	Auditor notes	Council response
Other		
Risk Management & Insurance	per FR 17.1 these need to be reviewed at least annually by council.	
Assets and Investments	The insurance column on the spreadsheet needs a little housekeeping to ensure correct split across the insured assets and the register may benefit from a notes column.	

Overview of Council

	Work Task	Schedule Ref	Notes/Results
Terms of Engagement			
1	Review terms of engagement letter and confirm appropriate to this year		New engagement letter issued Engagement letter is kept on the correspondence file.
2	Confirm that the professional independence and competence questionnaire has been completed and agreed with the client	1.2	Yes – confirmed and attached
3	Complete Budget	1.3	Completed & Agreed with Client
4	Complete Timetable	1.4	Completed & Agreed with Client
Planning Notes – Understanding the Town & Parish Council			
	Number of electors and size of precept		Electors 1,300 (2014/15: 1,300) Precept £44,494 Grant £3,805 (2014/15: £44,494 – Grant £3,805k)
	Key personnel		<ul style="list-style-type: none"> • Jim Morris Clerk & RFO • 7 councillors
	Type of financial accounting in place i.e. Manual books, computerised system		RBS Alpha – excel and word, outlook Backup to onsite hard drive. This is a minor risk and external back up should be considered.
	Does the council carry out an annual risk assessment and review of financial regs and standing orders, and are they documented.		Yes they are all current
	Does the council have a good control environment (evidence of internal reviews and counter signing of cheques etc)		Ad hoc review by councillors Usual controls
	Any significant changes since prior year (staff or procedures)		New Clerk
	Any there any matters arising from last year's audit and/or management letter		None
	VAT		Not registered s.126
	Petty Cash		Small Float
	Payroll		External Bureau
	Trusts		None

Professional Independence and Competence Questionnaire

The internal audit function must be sufficiently independent from the management of financial controls and procedures of the council which are the subject of review. The person or persons carrying out internal audit must be competent to carry out the role in a way that meets the business needs of the council.

There are two key principles, which all local councils must follow in setting up their internal audit function, regardless of how procured: **independence and competence**.

INDEPENDENCE	
Do you have any specific reliance on the fee to be earned from this assignment	No
Overdue fees	
Does the client/group of clients owe the firm any money which exceeds our normal credit terms?	No
Litigation	
Is there any actual or anticipated litigation between us and the client in relation to fees, audit work or other work?	No
Associated firms	
Are you or your staff associated with any other practice or organisation which has had any dealings with the client council?	No
Family or other personal relationships	
Do you or any of your staff have personal or family connections with the council or its officers?	No
Mutual business interest	
Do you or any of your staff have any mutual business interests with the client or with an officer or employee of the client?	No
Financial involvement	
Do you or your staff, or anyone closely related to you or any of your staff, have any financial involvement in the client in respect of the following:	
Any beneficial interest in shares or other investments?	No
Any loans or guarantees?	No
Goods and services: hospitality	
Have you or any of your staff accepted materials, goods or services on favourable terms or received undue hospitality from the council?	No
Ex-partners or senior staff	
Has any senior officer of the council been a partner or senior employee of the practice?	No
Is the partner or any senior employee on the audit team in negotiations to join the client?	No
Long association	
Have you been acting for more than 10 years? If yes, then consider rotation/engagement quality review. 3rd Year of auditing	No
Provision of other services	
Do we provide any of the following services to the client:-	
Accounting services, book-keeping or payroll services	No
Staff secondments	No
IT services where we are involved in the design, provision or implementation of systems	No
Specialist valuations which are included in the accounts	No
Tax compliance work or tax planning	No

Corporate finance activities	No
Any advocacy services e.g. Tax commissioner hearings	No
Any services relating to the management of the council	No
Any other services that may cause a threat to the firm's objectivity or independence	No
Where any of the above have been answered 'yes', then specify below what safeguards are proposed to maintain integrity and independence:-	
Competence	
Consider the following matters prior to deciding to accept appointment/re-appointment as auditors:	
Are there any particular challenges and risks associated with this client?	No
Do we have sufficient expertise available to undertake this audit engagement?	Yes
Are there sufficient resources available to undertake this audit engagement?	Yes
Having regard to the safeguards identified, I am satisfied that we are independent and competent to perform this audit.	

Budget

		Hours
Planning & Systems Work	Interim Visit	2
File Review and reporting	Interim Visit	1
Financial Procedures	Final Visit	2
File review	Final Visit	1
Total Budget Hours		6
Hourly Rate		£50
Time Cost		£300
Other costs	Mileage	£20
Total Budgeted Cost		£320
Total Budgeted Fee		£350

Timetable

Autumn 2015	Planning and Interim Audit work
Spring 2016	Final Audit work
Spring 2016	Issue Audit Report & Letter

Systems Notes

Ripley PC is a small parish council in the centre of the village in bespoke office. These are rented from the Village Hall Charity. Meetings take place in the church room in the parish church. There are 10 full council meetings per annum.

Expenditure:

The councils Financial Regulations are based on the NALC model. Expenditure has to be authorised by the council before payment can be made; however, the clerk has a pre-authorised emergency limit of £500.

Quotes are obtained depending on the expense type and amount, for those amounts over £1000 two quotes are sought and the publicised tender limit is £10,000. However, if deemed appropriate or significant a quote will be obtained even if below the £1000 limit.

Invoice arrives at the offices; it is then filled in an unpaid folder in a draw. There are up to 10 invoices per month.

Not registered for VAT.

Payment:

The RFO decides whether to raise cheque ready for the next meeting or put on hold until next payment run (with approval from council) In readiness for each meeting the RFO prepares a list of cheques on excel.

At the full council meetings the cheque list is approved, councillors are invited to sign the invoice cheques and cheque stubs at the meeting. Payment is made by cheque only. DDs for utilities.

Each cheque is signed two times and the cheque stub is initialled two times. 2 x councillors.

All councillors are signatories of which 2 councillors are required on the cheque. The mandates are updated circa every 4 years to tie in with council elections.

Following payment the invoice and payment is processed on RBS.

Petty Cash: £100 petty cash float.

General Controls

The council has good general controls

- Bank reconciliation monthly
- Report against budget monthly and quarterly
- Staff – no high turnover
- Passwords on computers
- Lockable cabinets & doors & a safe
- No PAYE or VAT visits

Income

1. Precept 70%+% (bacs)
2. Other balance % (Xmas fair) 30% (Bacs, Cash & Cheques)

Cash and cheques are banked promptly, cash never into the tin.

Assets

£106k – as per fixed asset register

Staff

There are personnel files on all members of staff. Annual appraisals. Council approves wages when there is a scale rate change

Inherent Risk Assessment

Based on the above findings and discussions with council it is my opinion that the inherent risk within the systems of the council is categorised as follows

Work Task	notes	
Are standing orders and financial regulations regularly reviewed	Yes these were on site and were current and reference to a minute	Low Risk
Is council following its written Financial regulations & standing orders	Yes	Low Risk
Does the council have risk assessments in place and are these reviewed at least annually	Yes	Low Risk
Does the council have a committee or working party responsible for internal checking	Yes	Low Risk
Is there evidence of hierarchical review (counter signing bank rec, invoices etc)	Yes	Low Risk
Is there regular reporting against budget?	Yes	Low Risk
Are books and records maintained on a regular basis	Yes	Low Risk
Is the clerk under time pressure	No	Low Risk
Are there complicated transactions?	No complicated transactions	Low Risk
Any changes to key staff	No	Low Risk
Any changes in systems or procedures	No	Low Risk
Is all info on site and to hand?	All info on site and to hand	Low Risk
Any problems in the past	No problems in past	Low Risk
Are there any other factors to consider?	Records neat and tidy	Low Risk

Conclusion & Opinion

I discussed the system above with the RFO and reviewed an invoice picked at random, which contained all the details mentioned above.

The system in place is robust and entirely fit for purpose for a Parish Council of this size. There are good internal controls, policies and procedures in place which are reviewed on an annual basis.

I am of the opinion that the inherent risk in the system is low and would recommend a sample size of 10 when testing in detail and would also state that the internal controls can be relied upon.

Specific Audit Plan

Audit Area Section 4 Annual Return	Notes	Risk of error or misstatement	Tests	Ref
Appropriate books of account have been kept properly throughout the year.	RBS package in place, limited and uncomplicated transactions	Low	Review transactions in cashbook make verbal enquiries. Test arithmetic.	A
The council's financial regulations have been met, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.	Good, simple system	Low	Review invoices and reconcile to cash book in detail. Review minutes and cheque books for authorisations	B
The council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.	Risk assessment policy written risk assessments carried out	Low	Review and comment	C
The annual precept requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate	RBS package used	Low	Review minutes for evidence of council discussion of the same	D
Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.	Simple streams of income = precept and grant in the main	Low	Test to precept application and other documentation as appropriate	E
Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.	Minimal petty cash	Low	Test to petty cash tin	F
Salaries to employees and allowances to members were paid in accordance with council approvals, and PAYE and NI requirements were properly applied.	Payroll processed by external bureau	Low	Test rates and hours are authorised Test net wages to payments due	G
Asset and investments registers were complete and accurate and properly maintained.	Fixed asset register in place	Low	Review insurance schedule and cashbook for missing items off the register	H
Periodic and year-end bank account	Regular reconciliations on RBS	Low	Test reconciliation in detail	I

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.	Receipts & Payments	Low	Test audit trail sufficient for electors rights	J
Trust funds (including charitable) The council met its responsibilities as a trustee.	N/A			K

Audit Findings

(A) Proper Bookkeeping

Objective	To confirm that appropriate books of account have been properly kept throughout the year
------------------	---

The basic record of receipts and payments is always the starting point of an accounting system; the majority of internal controls will work back to that original record. It is essential that the system requires that the **basic cash book is kept up to date** and **balances are regularly verified against a bank statement** or the actual cash in the petty cash tin. This record will also **agree with the supporting vouchers**, invoices or receipts. Even though the arithmetic may be automatic on a computer based system it is necessary to **check that the additions and balancing are correct**. The level of checking will depend on who does what and with what frequency. Where there is a **computer based system**, the reliability of information reported by the system depends on the quality and accuracy of data input, and how it is then processed, and **so tests of the integrity of data input and processing should be considered**. A councillor or member of staff may do the checking or verification; internal audit will test that the checking verification within the system has been undertaken.

Test		Comments / Conclusions / Points Forward
1	Using the previous year's annual return agree the current year's brought forward balances in the cash book.	The cash book balances b/wd agrees to the 2014/15 c/wfd balances.
2	Review the nominal ledger/cashbook for large and unusual entries and agree to supporting documentation	Council uses the electronic RBS system, all entries laid out in clear and logical manner with references and cross references as appropriate to supporting documentation. No data fields have been left blank and the reader can easily identify from the narrative the nature and scope of the transaction. No unusual amounts.
3	Verify arithmetic by casting a sample of the cash book, if this is maintained electronically check one month only	RBS is an electronic system; I have verified the arithmetic by testing the bank reconciliation at months 1-6. There were no errors
4	Is the cashbook maintained and up to date	The RFO/Clerk/Accountant maintains the system on a weekly basis.
5	Is the cashbook regularly balanced	Evidence seen to show bank reconciliations are produced on a regular basis
6	Is the data input by the RFO checked internally	Yes – by council on an ad hoc basis

OVERALL CONCLUSION (Subject to points carried forward in final notes)

Satisfactory – I am of the opinion that the RBS package is being used properly, and that it is fit for purpose for a council of this size. I was pleased to see that the books and records on RBS are regularly maintained and clerk/RFO has a positive attitude to keeping these up to date.

(B) Financial Regulations, Standing Orders & Payment Controls

Objective	To confirm The council’s financial regulations have been met, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.
------------------	---

The first step in establishing a financial system is to identify the general rules applicable at council or committee meetings and in carrying out the council’s business. The Standing Orders, Financial Regulations and other internal instructions do this. **Internal audit should have a copy of the current Standing Orders, Financial Regulations and any internal instructions.** Internal audit’s report to the council will include any recommendations for improvement in these documents arising as a result of their work during the year. The level of checking will depend on the content of the Standing Orders and Financial Regulations. The amount of work may well vary, and more extensive testing of compliance may be needed from time to time, but as a minimum, having established whether the **council has within the year reviewed its Standing Orders and Financial Regulations** for continued relevance, internal audit will test.

In purchase order procedures:

- that the **correct number of estimates, quotes or full tenders** depending on estimated value of contract **have been obtained** (Standing Orders will state the value at which tenders are required; Financial Regulations or Standing Orders will show the value where estimates or quotes only are required);
- that **proper purchase authority by council, a committee or officers** (under clear delegated powers) **is in place**; and
- that a **proper legal power has been identified** for the expenditure.

In purchase payments:

- that the supporting paperwork confirms that there is a **fully approved invoice and authorisation for payment**; and
- that **VAT is identified** appropriately for reclaim.

In most councils these checks can be limited to a sample of transactions selected at random, plus those which are large or unusual, such as each payment for a value in excess of £1,000, or some other figure appropriate to the level of activity of the council. The aim is for **internal audit to check that the systems put in place by management are working and are appropriate.**

Standing Orders and Financial Regulations may well repeat the statutory requirement to maintain ‘a separate account’ of expenditure and income under Local Government Act 1972 section 137 and Local Government Act 1986 section 5. **Internal audit should check annually that such an analysis is kept** and that the **cash limit in section 137 is not exceeded.** Internal audit may scrutinise the resulting list of expenditure and should consider whether the power is being properly used but would not check through for the correct analysis of every item.

Internal audit should also check that **payments of interest and principal** in respect of loans (and investments if any are held) are **in accordance with an agreed schedule.**

Test		Comments /Conclusions /Points Forward
1	Has the council formally adopted standing orders and financial regulations?	Electronic copies given to IA on arrival. These was reviewed and commented upon.
2	Has a Responsible finance officer been appointed with specific duties?	Yes the Clerk is the appointed RFO.
3	Have items or services above the de minimus amount been competitively purchased?	Yes
4	Are payments in the cashbook supported by invoices, authorised and minuted?	<ul style="list-style-type: none"> • FR 4.5 – Internal auditor appointed and engagement letter approved.

	<p>Test a random sample of items to verify that internal controls are operating as described:-</p> <p>Purchase order procedures:</p> <ul style="list-style-type: none"> that the correct number of estimates, quotes or full tenders depending on estimated value of contract have been obtained that proper purchase authority by council, a committee or officers (under clear delegated powers) is in place; and that a proper legal power has been identified for the expenditure. <p>Purchase payments:</p> <ul style="list-style-type: none"> that the supporting paperwork confirms that there is a fully approved invoice and authorisation for payment; and that VAT is identified appropriately for reclaim 	<ul style="list-style-type: none"> FR 5.1 Bank mandate still current no changes to councilors or signatories. FR 5.2 Schedule of payments taken to council for approval in accordance with regulations, consecutive schedules verified for cut of errors – there were none in evidence. FR 5.3 cheque stubs initialed twice FR 6.3 Invoices are annotated and approved in accordance with regulations. FR 9.3 Fees reviewed annually – council will review and minute annual fees at the next meeting FR 11 Contracts. IA has noted evidence that shows proper discussion of quotes and tenders. <p>Tested 6.5 Petty Cash.</p>
5	Has VAT on payments been identified, recorded and reclaimed?	Yes
6	Is s137 expenditure separately recorded and within statutory limits?	Yes – this is below the thresholds
7	Note down if council is registered for VAT or if they use the annual reclaim method	Council is not registered for VAT
8	<p>Review VAT returns for supporting documentation and verify a sample of transactions to</p> <ul style="list-style-type: none"> Invoices Other third party evidence Correct rate of VAT Correct treatment of VAT 	<p>Council used RBS system to record VAT on inputs</p> <p>Vat returns [s.126] have been reviewed. Generally Twice yearly.</p>
9	Review bank account for payments or receipts of VAT	Receipts of refunds in evidence
10	Reconcile VAT returns to cash book	Fully reconcilable
11	Ensure Returns are made on a prompt basis	Twice yearly

OVERALL CONCLUSION (Subject to points carried forward in final notes)

Satisfactory – The nominal ledger balances are brought forward correctly and the postings to the nominal accounts are properly made

(C) Risk Management

Objective	To confirm the council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.
------------------	---

The greatest risk facing a local authority is not being able to deliver the activity or services expected of the council. The council is likely to be managing many of those risks when it **reviews its insurance** and its systems. **The minutes are an essential record of such reviews. Budget setting and insurance review are annual activities;** the review of systems may be less frequent.

It is suggested that **systems should be reviewed** in some detail, unless triggered by external or internal audit reports, or change in risk, at least **every four years** or **on the change of Clerk/RFO**. This might be more appropriate for larger councils on a cyclical basis.

Minutes should be checked by internal audit for any suggestion of unusual activity and evidence that risks are being identified and managed.

Test		Comments / Conclusions / Points Forward
1	Does a review of the minutes identify any unusual financial activity?	No
2	Do minutes record the council carrying out an annual risk assessment?	Yes
3	Is insurance cover appropriate and adequate?	PC is insured by Aviva. Via Came & Co.
4	Are internal financial controls documented and regularly reviewed?	There are internal financial controls which are regularly followed
5	Review financial & Other risk assessment and ensure up to date, note down any significant risks facing the council	Council reviews all risk assessments in a clear and logical manner. Reported to full council on an on-going basis The council has insured itself against the significant risks, including employee fraud etc. There are no operation issues that would cause the council to stop functioning – steps have been taken to ensure safety of electronic records etc.
6	Document retention & Data Back up	Digital information backed up daily on site.

OVERALL CONCLUSION (subject to points carried forward in final notes)

Satisfactory – The council has a positive attitude to risk assessment and documents the assessments and reviews in a logical manner

(D) Budgetary Controls

Objective	To confirm the annual precept requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.
------------------	---

Internal audit will not check the budget but will verify that a budget has been properly prepared by the council and adopted in setting the precept. The regular reporting of expenditure, and variances from budget, is an important part of the proper control of public money. **Internal audit will expect to see the regular reports to council and the variance analysis.** That variance analysis and the decisions of council or committee taken as a result may suggest areas for additional analysis by internal audit. Part of budgetary control is to ensure **adequate but not excessive reserves** or balances. **Progress against budgets should be regularly monitored.** It is particularly helpful when determining the likely precept that will be required for the following year. **Internal audit will be keen to establish that this has taken place.**

Test		Comments /Conclusions /Points Forward
1	Has the council prepared an annual budget in support of its precept?	Yes this was prepared in the proper time period last year.
2	Note how client prepares budget	Zero based approach – per department – uses RBS and excel system
3	Is actual expenditure against the budget regularly reported to the council?	Every finance and council meeting
4	Are there any significant unexplained variances from budget?	There are no significant variances at the year end
5	Review council's reserves and reserves policies and make a note of how many months cover they have and whether this is sufficient for this particular council	Total reserves are £105k (2015 £72k). If this is all general reserves then this would be considered high. General reserves would be considered reasonable at the level of circa £20-30k. I would recommend that council earmark these reserves for future spend for the benefit of the village. I would not recommend reducing the precept.

OVERALL CONCLUSION (subject to points carried forward in final notes)

Satisfactory – The council has budgets in place and evidence suggests performance against budget has been reviewed on at least one occasion. Reserves are reasonable and no evidence of capital and revenue reserves being mixed.

End of interim report