

Annual Internal Audit Report

(to be read in conjunction with Section 4 of the Annual Return)

Name of council:	Norton Parish Council		
Name of Internal Auditor:	John Marshall	Date of report:	20.04.2016
Year ending:	31 March 2016	Date audit carried out:	20.04.2016

Internal audit is the periodic independent review of a council's internal controls resulting in an assurance report designed to improve the effectiveness and efficiency of the activities and operating procedures under the council's control. This report is based on the evidence made available to me. It would be incorrect to view internal audit as the detailed inspection of all records and transactions of a council in order to detect error or fraud. Consequently the report is limited to those matters set out below. Managing the council's internal controls should be a day-to-day function of the staff and management and not left for internal audit.

The council is required to take appropriate action on all matters raised in reports from internal and external audit and to respond to matters brought to its attention by internal and external audit. Failure to take appropriate action may lead to a qualified audit opinion.

To the Chairman of the Council:

I carried out the year-end audit of Norton Parish Council on 20 April; I would take this opportunity to thank Angela Feltham, outgoing Clerk and Richard Oliver, incoming Clerk to the Council and RFO for their time and assistance. Last year, BDO as External Auditor drew attention to a tick having been entered incorrectly in a box relating to Trust Funds and I noted that this year, the box had been marked correctly. For my part, the issue raised by me relating to the proper use of earmarking of reserves has still not been properly addressed by the Council; this is disappointing because I raised it both at the intermediate audit in February 2015 and the year-end audit in April 2015.

In the year-end report, I said '*There is still a need for the Council to provide clarity and certainty in respect of the proposed usage of its earmarked reserves*' and this remains the case. Indeed, the situation is somewhat worse this year because the Reserves Statement prepared for the 31 March 2016 year-end clearly indicates that two withdrawals were made from the Recreation Ground earmarked reserve of £18,000 during the course of the year for purposes unrelated to the proposed Recreation Ground. The first of these transfers, for £1,000 was described as 'to non-earmarked reserves' and the second, of £4,920 was described as 'to support current year financial payments'.

Earmarked reserves, which are set aside for specific purposes and for savings for future projects, should be realistic and approved by the Council. It would seem that currently, the Recreation Ground reserves are being used partly as a savings account, which is inappropriate. Furthermore, earmarking must not be used as a means of artificially reducing the level of general reserves held by the Council. At £18,000 the Recreation Ground

earmarked reserve represents approx. 1.75 x the 2015-16 precept of £10,500.

I note that the Council answered 'yes' to Question 2.7 in the Annual Governance statement 2015/16 (Section 1 of the Annual Return) confirming that it took appropriate action on all matters raised in reports from internal and external audit. The evidence would seem to indicate that this is not the case. Whilst I have answered 'yes' to question D in the Internal Audit report (Section 4 of the Annual Return), this is because the matter of reserves is just one of the issues covered by the question and it is marginal whether the response should properly be recorded by me as 'no'. Where the level of the year-end general reserve held is significantly higher than the precept, an explanation should be provided to the auditor and accordingly, a copy of this report must be included by you as part of the supporting information submitted with the Annual Return when it is sent to BDO as External Auditor, for them to consider. I should add that whilst I am aware of the Resolution passed by the Council at its April 2016 meeting, to review the level of reserves at the upcoming June meeting, this audit relates to the previous year's activities and deals with not only the level of reserves but also the manner in which they are used.

Through examination of hard evidence and questioning, I tested all of the objectives of Internal Controls set out in Section 4 of the Annual Return and, notwithstanding the comments above, in all other respects the objectives were met. I have completed and signed off the Return as required. Should you have any questions about this report or queries about what is required, then please feel free to contact me.

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The figures submitted in the Annual Return are:

	Year ending 31 March 2015	Year ending 31 March 2016
1. Balances brought forward	25,497	25,734
2. Annual precept	8,000	10,500
3. Total other receipts	2,902	2,923
4. Staff costs	4,092	6,353
5. Loan interest/capital repayments	0	0
6. Total other payments	6,573	8,445
7. Balances carried forward	25,734	24,359
8. Total cash and investments	25,734	24,359
9. Total fixed assets and long term assets	69,928	69,589
10. Total borrowings	0	0

The proper practices referred to in Accounts and Audit Regulations are set out in *Governance and Accountability for Local Councils – A Practitioners’ Guide (England) March 2014*. It is a guide to the accounting practices to be followed by local councils, and sets out the appropriate standard of financial reporting to be followed. A copy of the guide is available for free download from

<http://www.nalc.gov.uk/library/publications/803-governance-and-accountability-with-appendix/file>

Please note that Sections 1 – 4 have been updated and can be downloaded from

<http://slcc.co.uk/bookstore/details/governance-and-accountability-for-smaller-authorities-in-england-2016/95/>