

Waltham on the Wolds & Thorpe Arnold Parish Council

Internal Audit Report 2019-20

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*For and on behalf of
Auditing Solutions Ltd*

Background

Statute requires all town and parish councils to arrange for an independent internal audit examination of their accounting records and system of internal control and for the conclusions to be reported each year in the AGAR.

This report sets out the work undertaken in relation to the 2019-20 financial year. Due to the impact of the Covid-19 pandemic, we have undertaken our review for the year remotely: we wish to thank the Clerk for assisting the process, providing all necessary documentation in electronic format to facilitate completion of our review for the year and sign off of the Internal Audit Certificate in the year's AGAR. We have, obviously in the circumstances, reduced the volume of transactions examined, whilst still ensuring governance and financial controls remain effective.

Internal Audit Approach

In undertaking the review for the year, we have had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts and AGAR. As the Council's Internal Auditor and under the present audit arrangements, we have a duty to complete the internal audit report, as part of the Council's AGAR process, which covers the basic financial systems and requires assurances in ten separate areas.

Overall Conclusion

We have identified a number of areas where the Council needs to take positive action to further strengthen fiduciary controls and ensure compliance with best practice and extant legislation. Details of the areas examined and work undertaken, together with identified issues, are set out in this report with resultant recommendations further summarised in the appended Action Plan.

We have duly completed the IA Report in the year's AGAR assigning appropriate assurances in each of the relevant areas.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Clerk has continued to use the Scribe accounting software to maintain the Council's accounting records in 2019-20: the system operates effectively and provides the Council with all necessary and relevant financial information to facilitate its internal monitoring of performance. Two bank accounts are in use with HSBC (Current and Deposit); the only transactions on the latter are all minor interest earnings, whilst the current account is used for all day-to-day transactions, payments all being made by cheque, together with direct debits for telephone and water costs. We note that the HSBC accounts were closed and re-opened during the year with regard to the change of Clerk.

Our objective in this area of review is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. We have accordingly: -

- Ensured that the coding structure is appropriate for budgetary purposes;
- Verified the accurate carry forward of the closing balances for 2018-19 into the 2019-20 Scribe accounts;
- Checked a representative sample in the receipts and payments "cashbooks" generated by Scribe to transactions recorded for the financial year by reference to the supporting bank statements; and
- Checked and agreed detail on the combined accounts bank reconciliation prepared as at 31st March 2020.

We are pleased to note that, following the appointment of the new Clerk in November 2019, payments due are now reported to the next Council meeting along with a bank reconciliation, which is signed off by the Chair.

Conclusions

We are pleased to record that the control position has improved considerably under the new Clerk, and therefore no significant issues have been identified in this area.

Review of Corporate Governance

Our objective here is to ensure that the Council has a robust regulatory framework in place; that Council and Committee meetings are conducted in accordance with the adopted Standing Orders (SOs) and that, as far as we are reasonably able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation.

We are pleased to note that the Council has formal SOs and Financial Regulations (FRs) in place, both of which were reviewed and re-adopted by the Council in March 2019, together with a Statement of Internal Control and Reserves Policy. Both SOs & FRs are broadly based on the latest NALC model documents. However, a new Model Form of FRs was issued by NALC in mid-2019, which the Council has yet to review and adopt.

We note that, with regard to tendering procedures, SO18a(v) shows £5,000, whereas FR11.1(h) shows £25,000. We believe that these figures should be the same, at a level which reflects the Council's pattern of large expenditure (a figure of £5,000 is recommended).

We have also reviewed the Council's Minutes as posted on the website, and have found no issues of concern over the points raised in our last report issued in December 2019.

We believe that the Council is subject to the Transparency Code requirements implemented in 2015, even though there is an apparent anomaly for Councils with an annual turnover between £25,000 and £200,000. Compliance with at least the Smaller Authorities Code is regarded as Best Practice, with regard to the tenets of Open Government. Compliance with the Code can be enhanced by publishing the full Internal Audit report (in addition to the AGAR).

Conclusions and recommendations

- R1. *Standing Orders and Financial Regulations should be subjected to further review and update bringing them more closely in line with the latest NALC Model documents, also ensuring a consistent value is assigned for formal tender action.*
- R2. *Tendering levels should be the same between the relevant SOs and FRs. We would recommend that, given the Council's normal expenditure patterns, these be agreed at £5,000.*
- R3. *The Council should formally adopt, and fully comply with, the Transparency Code for Smaller Authorities which has been in place since 2015, including publishing the full Internal Audit report.*

Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Appropriate documentation supports payments, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due and/or an acknowledgement of receipt, where no other form of invoice is available;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct expense codes have been applied to invoices when processed; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We are pleased to note that, following the appointment of the new Clerk, there is evidence that Councillors are initialling invoices approved for payment, which was not apparent on invoices earlier in the financial year managed by the previous Clerk. While the Minutes note that a list of payments has been approved, no detail is provided.

We have test-checked a representative sample of invoices. Again, there appears to be a significant improvement in control under the new Clerk.

However, we continue to have concerns over reclaimable VAT. In the case of one significant payment (voucher 66, for £7,000 + VAT), the invoice was made out to the Church, rather than the Council, and therefore VAT was erroneously reclaimed even though the invoice was properly tendered and approved by the Council. There is also evidence that other invoices (such as BT bills) are not properly being named to the Council. It is important for budgetary control purposes that all possible VAT is reclaimed, but only where supported by a proper VAT invoice or receipt in the name of the Council and with a correct VAT registration number.

It was noted that use of a Debit Card for the Clerk was approved in October 2019, but there is no evidence that this has been used in the 2019/20 financial year.

Conclusions and recommendations

- R4. *The detailed list of payments agreed at each Council meeting should be attached to, and published with, the approved Minutes.*
- R5. *Every effort should be made to support payments with a valid VAT invoice or receipt clearly showing the name of the Council, and a valid VAT registration number. In the case of the identified payment (voucher 66) a retrospective VAT receipt in the name of the Council should be sought from the contractor to support the 2019/20 reclaim should any subsequent inspection be undertaken by HMRC.*

Assessment and Management of Risk

Our aim here is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks to minimise the opportunity for their coming to fruition. We have:

- Examined the Council's insurance policy with Axa (renewable in August 2020), and note that appropriate cover is in place for both Employer's and Public Liability cover at £10 million each, together with Fidelity Guarantee cover at £150,000, all of which we consider appropriate for the Council's present needs; and
- Noted that the Council has reviewed and re-adopted a suitable Risk Assessment at the September 2019 full Council meeting. This is in a good format, but it is recommended that specific high-level risks be allocated to a named Councillor for monitoring and mitigating action, with a more frequent review of this corporate document by the Council (eg. quarterly).

Conclusions and recommendation

- R6. *Specific risks should be allocated to a named Councillor for monitoring and mitigating action, with a more frequent review of this corporate document by the Council (eg. quarterly).*

Budgetary Control & Reserves

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and level of precept to be drawn down from the District Council: also, that an effective reporting and monitoring process is in place. We also aim to ensure that the Council retains appropriate funds in general and earmarked reserves to finance its ongoing spending plans and cover any unplanned expenditure that might arise.

We are pleased to note that, following due deliberation on the Council's budgetary requirements for 2020/21, the Council approved and adopted, at its January 2020 meeting, a Precept of £44,992, including project costs of £8,000, which was properly recorded in the Minutes.

While we note from the Minutes a single reported occurrence of review of the 2019/20 budget position during the year (August 2019), we would recommend that actual and projected variances to the approved budget be a feature of financial reporting to every Council meeting. The Scribe software can generate this information very simply.

While we note that the approved budget for 2020/21 contains an amount of £8,000 for a playground project (an earmarked reserve), we remain concerned at the high level of balances (General Reserve), which still represents approximately 1 years normal expenditure, against a recommended level of 6 months of normal expenditure.

Conclusions and recommendations

- R7. *The Council should review actual and projected variances to the approved budget at every Council meeting.*
- R8. *The Council should review the need for earmarked reserves for specific needs, and otherwise review the level of its General Reserve, which could affect future Precept considerations.*

Review of Income

The Council has relatively limited sources of income, primarily the annual precept, support grants, allotment rents, football club fees, bank interest and occasional grants and donations.

Our objective in this area is to ensure that all income due to the Council is identified and recovered within an appropriate period and is also banked promptly. We have test-checked a sample of these transactions from original documentation to the cashbook and the bank statements.

With regard to allotment rents, we would recommend that a periodic review of the level of fees (which may not necessarily result in an increase) be undertaken.

Conclusions and recommendation

- R9. *The Council should review its fees and charges on a periodic basis (NB. the Clerk has agreed to put this issue on the agenda for the November 2020 meeting).*

Petty Cash Account

The Council does not operate a petty cash account, any expenses incurred being reclaimed and repaid through the normal invoice process.

Review of Staff Salaries

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HMRC legislation as regards the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme.

We note that the payroll has been outsourced to an external accountancy firm, who provide all relevant documentation pertaining to the clerk's net salary payment and tax / NI deductions. We have test-checked a representative transaction.

Conclusion

We are pleased to record that no issues have been identified in this review area.

Investments and Loans

We aim in this area of our review process to ensure that the Council is taking appropriate action to ensure interest earning capabilities are maximised whilst safeguarding the Council's resources. As indicated earlier in this report, we note that the Council retains all its funds in current and deposit accounts with HSBC, the latter generating small amounts of monthly interest

No loans are in existence either payable by or to the Council.

Conclusion

No issues arise in this area warranting formal comment or recommendation.

Fixed Asset Register

The Governance and Accountability Manual sets out the reporting requirements for Fixed Assets in the AGAR. We have been provided with a copy of the Council's Register of Fixed Assets as at 31/3/2020, as recorded on Scribe. This shows an historic cost value of £30,194. However, many assets marked as 'pre-2016' have not been individually valued, but given a global value of £14,161, which we have been informed was on the advice of a previous internal auditor.

We believe, in conjunction with PKF Littlejohn, that this treatment is incorrect. Every effort should be made to identify the original purchase cost of individual assets from former financial records and Minutes. Where this is not possible, JPAG guidance is to give a nominal value of £1 to each asset that is still in the ownership of, and of use to, the Council, any other asset being formally written off by the Council.

We are pleased to note that evidence of a photographic record of assets is now included in the Asset Register.

Conclusions and recommendations

Urgent action is required to review the status of all assets recorded in the Council's asset register and, if they are still in the Council's ownership and serviceable, their nominal value should be included in the AGAR each year.

R10. The Council should undertake a full review of the assets listed currently in the asset register establishing whether they are still owned and serviceable: where they are no longer in existence, they should be removed from the register, whilst the value of the remaining serviceable assets should be recorded with either the original purchase cost or, where this is not reasonably ascertainable, a nominal value as required by JPAG. This will require a revaluation of the asset value reported in the AGAR (Box 9), with appropriate variance reporting.

Annual Governance and Accountability Return (AGAR)

All Councils are required to prepare and submit to their appointed external auditor each year a completed AGAR before 30th June, although those councils with receipts and payments of less than £25,000 may claim exemption.

This Council, with annual receipts in excess of that value, is required to complete and submit an appropriate AGAR: consequently, the Council has failed to comply with extant legislation for 2018-19 resulting in the external auditor issuing a Public Interest Report.

We have checked and agreed the values to be reported in the 2019-20 AGAR to the underlying year-end financial detail, as reported by the Scribe software, subject to our comments in relation to fixed assets where we consider the reported value to be materially incorrect.

We have duly signed off the Internal Audit Certificate in the 2019-20 AGAR with caveats based on issues identified in the preceding sections of this report.

Rec. No.	Recommendation	Response
R1	<i>(Corporate Governance)</i> Standing Orders and Financial Regulations should be subjected to further review and update bringing them more closely in line with the latest NALC Model documents, also ensuring a consistent value is assigned for formal tender action.	
R2	<i>(Corporate Governance)</i> Tendering levels should be the same between the relevant SOs and FRs. We would recommend that, given the Council's normal expenditure patterns, these be agreed at £5,000	
R3	<i>(Corporate Governance)</i> The Council should formally adopt, and fully comply with, the Transparency Code for Smaller Authorities which has been in place since 2015, including publishing the full Internal Audit report.	
R4	<i>(Review of Expenditure)</i> The detailed list of payments agreed at each Council meeting should be attached to, and published with, the approved Minutes.	
R5	<i>(Review of Expenditure)</i> Every effort should be made to support payments with a valid VAT invoice or receipt clearly showing the name of the Council, and a valid VAT registration number. In the case of the identified payment (voucher 66) a retrospective VAT receipt in the name of the Council should be sought from the contractor to support the 2019/20 reclaim should any subsequent inspection be undertaken by HMRC.	
R6	<i>(Management of Risk)</i> Specific risks should be allocated to a named Councillor for monitoring and mitigating action, with a more frequent review of this corporate document by the Council (eg. quarterly).	
R7	<i>(Budgetary Control and Reserves)</i> The Council should review actual and projected variances to the approved budget at every Council meeting.	
R8	<i>(Budgetary Control and Reserves)</i> The Council should review the need for earmarked reserves for specific needs, and otherwise review the level of its General Reserve, which could affect future Precept considerations.	

Rec. No.	Recommendation	Response
R9	<i>(Review of Income)</i> The Council should review its fees and charges on a periodic basis (NB. the Clerk has agreed to put this issue on the agenda for the November 2020 meeting).	
R10	<i>(Fixed Asset Register)</i> The Council should undertake a full review of the assets listed currently in the asset register establishing whether they are still owned and serviceable: where they are no longer in existence, they should be removed from the register, whilst the value of the remaining serviceable assets should be recorded with either the original purchase cost or, where this is not reasonably ascertainable, a nominal value as required by JPAG. This will require a revaluation of the asset value reported in the AGAR (Box 9), with appropriate variance reporting.	