

Waltham on the Wolds & Thorpe Arnold Parish Council

Internal Audit Report 2020-21

*Chris Hall
Consultant*

*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 2020-21 financial year. Due to the continuing impact of the Covid-19 pandemic, we have again 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 been able to undertake a full programme of testing based on online access to the Scribe accounting system, for which we thank the Council and the Clerk, to ensure 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 are pleased to note a considerable improvement in Governance and Financial Control procedures throughout 2020-21, which is to the credit of the Council and the Clerk. The recommendations we have made should therefore be regarded as fine-tuning an already strong Internal Control environment. We attach an Action Plan summarising those recommendations made in this report, which Council should review and complete in due course.

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

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Council continues to use the Scribe accounting system to maintain the Council's accounting records in 2020-21: 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 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.

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 2019-20 into the 2020-21 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 2021.

We are pleased to note that all payments due are reported monthly to Council, signed off by Councillors, and available for viewing from the Council's website.

Conclusions

We are pleased to record that no issues have been identified in this review 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, which were reviewed and re-adopted by the Council at the April and May 2020 meetings respectively, together with a Statement of Internal Control and Reserves Policy. However, a new Model Form of SO's was issued by NALC in late 2020, which the Council needs to review and adopt.

We note that, with regard to tendering procedures, SO18a(v) shows £5,000, whereas FR11.1(h) still 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).

However, from studying the expenditure patterns throughout the year, we are confident that the Council takes the need to demonstrate Value for Money through robust tendering procedures very seriously.

We have also reviewed the Council's Minutes as posted on the website, and have found no issues of concern.

The Council's website shows a good level of compliance with the Transparency Code 2015, with all appropriate reports available for Public download. The requirement for a list of all transactions over £100 is amply met by the monthly lists of approved payments attached to each set of Council Minutes. However, giving the payments list, and other reports such as the Risk and Asset Registers, a link to the Finance tab would aid Public inspection still further.

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. NB. This recommendation was made and agreed in the 2019-20 Internal Audit report, but not properly implemented due to misunderstanding the intent. The Clerk is now fully aware of the purpose of this recommendation.*
- R3. Compliance with the Transparency Code 2015 is good, but could be further enhanced by linking various reports to the Finance tab on the website.*

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 clear evidence that Councillors are approving and initialling invoices and payment schedules at each meeting, details of which are available with the Minutes.

We have test-checked a representative sample of invoices from the Scribe system, with no issues of concern arising.

We note that VAT payments are recovered from HMRC on an annual basis, using the total from the previous year. At 31 March 2021 the sum outstanding for reclaim was £5,589.68. While this practice is acceptable, the Council could improve its cash flow and (albeit minor) interest earnings by reclaiming on a more frequent basis, such as quarterly or half-yearly.

We note limited use of the approved Debit Card by the Clerk during 2020-21, which was reviewed and approved in the same manner as for all payments.

Conclusions and recommendations

R4. Council should consider making more frequent VAT reclaims to improve cash flow and interest receipts.

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 2021 which is the end of a 3-year Long Term Agreement), and note that appropriate cover is in place for both Employer's and Public Liability cover at £10 million each, together with Officers Liability at £500,000, all of which we consider appropriate for the Council's present needs. We also note the significant increase in the cover for new play park equipment, which is the subject of an annual RoSPA review and weekly condition inspections; and
- Noted that the Council has reviewed and re-adopted a suitable Risk Assessment at the June 2020 meeting, and reviewed it again at the November 2020 meeting, which fully meets the requirements of Financial Regulations.

Conclusions

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

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 Precepting Authority: 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 note that, following due deliberation on the Council's budgetary requirements for 2021/22, the Council approved and adopted, at its November 2020 meeting, a Precept of £45,392, including project costs of £8,000, which was properly recorded in the Minutes.

We are pleased to note that the Council undertakes a quarterly review of actual spend against budget, which is attached to the relevant Minutes.

The Scribe system shows Earmarked Reserves of £17,000 at 31 March 2021, which leaves General Reserves of £24,418.67. This represents around 65% (7.8 months net expenditure) of the annual Precept, which is an acceptable level for a Council of this size but needs to be kept under review.

Conclusions

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

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 no issues arising.

With regard to allotment rents, we note that fees are now reviewed annually at the November meeting of Council.

Conclusions

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

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 any tax / NI deductions. We have test-checked a representative transaction, with no issues arising.

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

Further to the concerns expressed in our 2019-20 audit report, we are pleased to note that the Council's Asset Register at 31 March 2021 is now in full compliance with the Governance and Accountability Manual, showing all assets valued at either original cost price or a nominal £1 if historic costs cannot be identified. We are also pleased to note that evidence of a photographic record of assets is included in the Asset Register.

Conclusions

Following significant work by the Council in this area during 2020-21, we are pleased to record that no issues have been identified in this review area.

Annual Governance and Accountability Return (AGAR)

We have checked and agreed the values to be reported in the 2020-21 AGAR to the underlying year-end financial detail, as reported by the Scribe software, with no issues arising.

We have duly signed off the Internal Audit Certificate in the 2020-21 AGAR.

| 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. NB. This recommendation was made and agreed in the 2019-20 Internal Audit report, but not properly implemented due to misunderstanding the intent. The Clerk is now fully aware of the purpose of this recommendation. | |
| R3 | <i>(Corporate Governance)</i> Compliance with the Transparency Code 2015 is good, but could be further enhanced by linking various reports to the Finance tab on the website. | |
| R4 | <i>(Review of Expenditure)</i> Council should consider making more frequent VAT reclaims to improve cash flow and interest receipts. | |