

Horton Parish Council

Internal Audit Report 2019-20

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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 Annual Governance and Accountability Return (AGAR).

This report details the work undertaken in relation to the 2019-20 financial year's AGAR following provision of documentation in support of the year's financial transactions and governance arrangements. Due to the impact of the Covid-19 pandemic, we have, of necessity, undertaken our review for the year remotely: we wish to thank the Clerk and RFO in assisting the process, providing all necessary documentation in electronic format to facilitate completion of our review 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 our review for the year, we have again paid due regard to the materiality of transactions and their susceptibility to any potential misrecording or misrepresentation in the year-end Statement of Accounts / AGAR. Our programme of cover is designed to afford appropriate assurance that the Council's financial systems are robust and operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Internal Audit Report' in the Council's AGAR, which requires independent assurance over a series of internal control objectives.

Overall Conclusion

We have concluded that, based on our review of the year's records, the Clerk and RFO have made further positive progress to ensure that adequate and effective internal control arrangements are put in place. We also wish to acknowledge the actions taken to address issues in our prior year reports.

We have, however, again identified a few issues that require appropriate attention, detail of which is set out in the body of the report with resultant recommendations further summarised in the appended Action Plan.

We have duly signed off the Internal Audit Report in the year's AGAR with positive assurances in each relevant area of the Internal Audit Certificate this year.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The RFO has continued to maintain the Council's accounting records in an appropriate spreadsheet format, based on the example previously provided by us. A single bank account is in operation with Unity Bank.

Our objectives in this area are to ensure that the accounting records are maintained accurately and in a timely manner with detail reconciled routinely to the various bank accounts in use. We have: -

- Checked to ensure that the closing balances reported in the 2018-19 accounts and AGAR have been "rolled-over" correctly as opening balances for 2019-20
- Verified transactions on the Council's bank account for the full financial year due to their low volume
- Verified the content of the year-end bank / cashbook reconciliation, also noting that members are now provided with detail of each quarter-end reconciliation, and
- Ensured that the year-end balance is accurately recorded in the year's AGAR.

Conclusions

Whilst we are pleased to report that appropriate accounting records have been maintained throughout the financial year with reconciliations prepared quarterly, submitted to, reviewed and signed-off by a nominated member, we have again noted a few issues in relation to the presentation of detail in the cashbooks, as follows: -

- *The opening balance recorded in the cashbook should be the CASHBOOK balance as at 31st March at the prior year-end, NOT THE BANK STATEMENT balance. The cheques uncleared as at 31st March each year should not be recorded again in the subsequent year's cashbook, as the expenditure associated with those payments has already been charged in the prior year*
- *Where cheques remain uncleared for 6 or more months, the recipient should be contacted to establish whether they received the cheque and intend to bank it or require a replacement: cheque nos. 391 & 396 raised in 2018-19 remained uncleared at 31st March 2020 and we have, consequently written them back in the January to March 2020 spreadsheet cashbook, as indicated in the next paragraph*
- *Any uncleared cheques should be written back in the cashbook as negative payments with the value(s) also recorded in the expense heading(s), including any VAT, again as negatives. If a replacement cheque is raised, it should be recorded in the normal manner with appropriate analysis in the expense column(s)*
- *Each quarterly payment total value (Column L total for the quarter) should be recorded in Column G (below the sum of the prior quarter's closing balance and in-quarter receipts) and be deducted from that latter sum to give the closing cashbook balance for the quarter, which should then agree with the calculated value below (i.e. year's opening balance, plus receipts to date in year, less payments to date in year).*

We have reworked the cashbook for the year in line with the above detail and provided the Clerk and RFO with updated detail. These amendments affect the values to be reported in the year's AGAR and we have, consequently, provided both officers with the revised detail.

R1. The cashbook records should be maintained as detailed in the body of the report to ensure that accurate information on current year budget performance and is also available for inclusion in the AGAR Accounts Statement.

Review of Corporate Governance

Our objective in this area is to ensure that the Council has robust corporate governance documentation and procedures in place; that Council meetings are conducted in accordance with the adopted Standing Orders (SOs) and that, as far as we may be reasonably expected to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation.

We have examined the Council's minutes for the financial year to determine whether any issues exist that may have an adverse effect, through litigation or other causes, on the Council's future financial stability, also noting that both SOs and Financial Regulations (FRs) have been reviewed and re-adopted by the Council during the financial year.

Whilst acknowledging appropriate reference to the requirements of the 2015 Public Contracts Regulations in both the revised SOs and FRs, we note that the FRs refer to a tender limit of £25,000, which, as indicate in a prior year's report, we consider too high for a Council the size of Horton and suggest that the a more appropriate limit would be £10,000 as in the Council's previous FRs.

We also wish to thank the Chairman for completing our Governance Questionnaire, which, especially in these unusual circumstances where we cannot meet directly with the Clerk, affords us an appropriate degree of assurance as to the soundness of the Council's overall governance arrangements.

Conclusions and recommendation

Whilst no significant issues arise in this area this year, we suggest that a more realistic value for formal tender action should be established and identified in both the SOs and FRs.

We also understand that, following the UKs exit from the EU, NALC were, prior to the current Covid-19 crisis, preparing a further revision to both SOs and FRs which was due to be promulgated in the summer of 2020: this timescale will obviously now slip and we will keep the Council advised as soon as we hear of any developments in this respect.

R2. Members should review the level at which formal tender action is required taking account of the usual annual turnover, ideally setting the value at around £10,000

Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets
- All payments are subject to appropriate approval in accordance with the Council's approved procedures

- Payments are supported by appropriate documentation, 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, and
- VAT has been appropriately identified for periodic recovery.

We have reviewed the Council's approach to the approval and authorisation of release of money to traders and staff and consider that they are generally sound, again noting that invoices bear indication of specific review by members when signing-off cheques.

Due to the impact of the Covid-19 pandemic and social distancing requirements, we have selected a reduced sample of payments for review this year. We thank the Clerk and RFO for providing electronic copies of those invoices in our selected sample of 15 payments totalling £22,670 and equating to 55% of non-pay related expenditure during the year and are pleased to record compliance with the above criteria in each of the selected sample of payments.

Our test sample included three payments to the Clerk in relation to miscellaneous office and other expenses: examination of the documentation provided indicated that several of the expense items, such as paper and printer ink, would be vat-able items. However, looking at the cashbook, it is apparent that the VAT incurred on these items has not been identified for recovery.

We note that the VAT incurred in 2018-19 has been reclaimed and repaid by HMRC early in 2019-20. VAT incurred in 2019-20 totals £4,605.83, apart from the need to reduce the value by £4.44 in relation to the write back of the 2018-19 cheque (No. 391).

Conclusions and recommendation

We are pleased to record that no significant issues or concerns arise from our work in this area this year, although, we consider that greater care is required to ensure that any recoverable VAT on stationery items is identified appropriately for inclusion in the VAT reclaims when prepared and submitted to HMRC: conversely, if not already submitted, we suggest that the VAT reclaim should be reduced by the above £4.44 in respect of the prior year cancelled cheque.

R3. Care should be taken to ensure that all recoverable VAT is identified and recorded appropriately in the cashbook for inclusion on a VAT reclaim when prepared.

Assessment and Management of Risk

Local councils are required to put in place appropriate arrangements to assess and manage all potential risks, financial and other, to which they may be exposed, also ensuring that appropriate insurance cover is in place.

We are pleased to acknowledge the further review and re-adoption in July 2019 of the previously prepared Risk Management & Assessment Register which we consider appropriate for the Council's present needs.

We have examined the current year's insurance schedule with Zurich Municipal and consider that cover is appropriate for the Council's present needs with Employer's and Public Liability cover in

place at £10 million and £12 million respectively, together with Fidelity Guarantee cover at £250,000.

We note from an e-mail exchange with the Clerk that the Council's play area(s) is / are subject to periodic inspections during the year by a member who provides a verbal report to the Council. This is supplemented by an annual inspection arranged by Zurich and undertaken by a suitably qualified agent who provides the Council with a formal report.

In these ever increasing times of litigation, councils should ensure that they are appropriately protected with the councillor undertaking regular inspections receiving the appropriate training and accreditation to undertake the reviews. A formal report on the outcome of each review should also be prepared and retained as the Council could potentially receive a claim for an injury sustained by a child up to the age of 21.

Conclusions and recommendation

The Council needs to take appropriate action to ensure that it is adequately protected in the event of an accident or injury to a child (or adult) utilising the Council's play area(s) with claims in the former case being potentially acceptable up to a child reaching the age of 21. Consequently, we suggest that the Council liaise with its insurer to establish their exact requirements by way of qualification for people undertaking play area inspections and document retention requirements.

- R4. Appropriate arrangements should be put in place for those undertaking periodic play area inspections to receive the appropriate training and accreditation.*
- R5. A formal report detailing the areas examined and any issues / concerns identified with the condition of play equipment and areas should be prepared and retained for up to 21 years in case of a claim being received, subject to the outcome of R5 below.*
- R6. The Council should check with its insurer their exact requirements as regards the retention of play area inspection records and the level of training and accreditation required for those undertaking periodic play area inspections.*

Budgetary Control and 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 the level of precept to be drawn down from the Royal Borough: also, that an effective reporting and monitoring process is in place. We also aim to ensure that the Council retains sufficient funds in general and earmarked reserves to finance its ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

We note that, following due debate, the Council finalised its budget and precept deliberations for 2020-21 formally adopting the latter at the January 2020 meeting at £33,556.

We note that the RFO is again providing members with accounting detail including quarterly bank reconciliations and reports identifying performance against the approved budget and have examined the year-end outturn position noting a few instances where the planned level of spending was exceeded and have obtained appropriate explanations for those variances, which primarily

arose through the reinstatement of the grant to Champney Hall and acquisition of a defibrillator, CCTV for Champney Hall and additional street lighting.

The Council's reserves at the financial year-end have, as a result of the above spending, reduced to £32,500 (£45,700 as at 31st March 2019). The balance equates to approximately 9 months revenue spending at the 2019-20 level and is considered appropriate for the Council's ongoing spending requirements

Conclusions

We are pleased to record that no issues arise in this area this year warranting formal comment or recommendation.

Review of Income

The Council receives income from a very limited number of sources in addition to the precept, primarily by way of grants, bank interest and recoverable VAT. We have agreed detail of income received to bank statements and, where available, other supporting documentation.

Petty Cash Account

The Council does not operate a petty cash account.

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 deductions and employer contributions. We note that the Council uses the services of an external payroll bureau.

To ensure compliance with the above objectives, we have: -

- Ensured that the gross salaries applied in 2019-20 to the Clerk and RFO have been paid at the approved rate of pay, with members approving the Clerk and RFOs' salaries being assimilated to the revised national NJC pay scales effective from 1st April 2019
- Verified the net payments made to both by reference to two months' payslips (February & March 2020) in line with the new NJC spinal point
- Noted that no National Insurance employee deductions or Council contributions were applicable, as the salary for both was below the relevant threshold, and
- Ensured the appropriate and prompt payment of tax deducted to HMRC during the year.

Conclusions

We are pleased to record that no issues have been identified in this area of our review process this year warranting formal comment or recommendation.

We wish to draw the Clerk's attention to the changed rules as regards recording of Staff Cost expenditure in Box 4 of the AGAR which come into effect from the 2020-21 financial year: the

JPAG Practitioner's Guide 2020 refers at Page 17 (we have provided a soft copy to the Clerk for her information).

Asset Registers / Inventories

The Governance and Accountability Manual – The Practitioner's Guide requires all councils to maintain a record of all assets owned. We are again pleased to note that a formal register remains in existence and that it has been updated appropriately to take account of the new acquisitions during 2019-20 with a consequent increase in the asset value reported in the year's AGAR.

Conclusions

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

Investments and Loans

The Council has no long-term investments, nor does it have any loans in place repayable either by or to it.

Statement of Accounts and AGAR

Section 2 of the AGAR now forms the Council's formal Statement of Accounts subject to external audit review and certification. We have examined the content of the detail to be recorded in Section 2 for 2019-20 agreeing that detail to the underlying financial records, subject to the necessary amendments resulting from the write-back of the two 2018-19 cheques that remained unpaid at 31st March 2020.

Conclusions

We are again pleased to record that no additional issues arise in this area this year and, based on the outcome of our work programme for the year, we have signed off the Internal Audit Report in the AGAR assigning positive assurances in each relevant area.

Rec. No.	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	The cashbook records should be maintained as detailed in the body of the report to ensure that accurate information on current year budget performance and is also available for inclusion in the AGAR Accounts Statement.	
Review of Corporate Governance		
R2	Members should review the level at which formal tender action is required taking account of the usual annual turnover, ideally setting the value at around £10,000.	
Review of Expenditure and VAT		
R3	Care should be taken to ensure that all recoverable VAT is identified and recorded appropriately in the cashbook for inclusion on a VAT reclaim when prepared.	
Assessment and Management of Risk		
R4	Appropriate arrangements should be put in place for those undertaking periodic play area inspections to receive the appropriate training and accreditation.	
R5	A formal report detailing the areas examined and any issues / concerns identified with the condition of play equipment and areas should be prepared and retained for up to 21 years in case of a claim being received, subject to the outcome of R5 below.	
R6	The Council should check with its insurer their exact requirements as regards the retention of play area inspection records and the level of training and accreditation required for those undertaking periodic play area inspections.	