

Tilney St Lawrence Parish Council

Internal Audit Report 2019-20

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Background

The Accounts and Audit Regulations introduced from 1st April 2001, as amended periodically, require all Town and Parish Councils to implement an independent internal audit examination of their accounting records and systems of internal control and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR). The Council has complied accordingly in terms of independence from the Council decision making process appointing us at Auditing Solutions Ltd to provide the service to the Council.

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 his assistance, 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 our review, we have had regard to the materiality of transactions and their susceptibility to 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 remain 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 number of internal control objectives.

Overall Conclusion

We have concluded that, on the basis of the programme of work undertaken this year, the Council has again maintained adequate and effective internal control arrangements. We are again pleased to acknowledge the quality of records maintained by the Clerk and thank him for his assistance, which has ensured the smooth progress of our review process.

We have completed and signed the 'Internal Audit Report' in the year's AGAR, having concluded that, in all significant respects, the control objectives set out in that Report were being achieved throughout the financial year to a standard adequate to meet the needs of the Council.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

Our objective here 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 note that the Clerk is maintaining the cash book using an Excel spreadsheet which we consider more than adequate for a Council of this size. Three bank accounts are in place, two with TSB and one with Unity Bank.

As part of our review process, we have: -

- Checked and agreed the opening balances for 2019-20 to the closing cashbook balances and certified AGAR for 2018-19
- Ensured that appropriate analysis of receipts and payments exists in the spreadsheet cashbook
- Agreed detail of transactions, as recorded in the spreadsheet cashbook, verifying all on each account in use during the year to relevant bank statements
- Ensured that the accounts remain “in balance” at the financial year-end
- Ensured that no long outstanding unrepresented cheques or other anomalous entries exist
- Noted that bank reconciliations are prepared, reviewed and are signed off quarterly by members, and
- Ensured the accurate disclosure of the combined bank balances in the year’s AGAR.

Conclusions

We are pleased to report that there are no issues arising 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 meetings are conducted in accordance with the adopted Standing Orders and that, as far as we are reasonably able to ascertain, as we do not attend Council or Committee meetings, 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 ensure that no issues affecting the Council’s financial stability either in the short, medium or long-term exist, also that no legal issues are in existence whereby the Council may either be considering or have taken decisions that might result in ultra vires expenditure being incurred.

We noted in last year’s report that revised Standing Orders were reviewed and re-adopted by Council at their meeting in October 2018: we now also note that revised Financial Regulations have been reviewed and adopted by Council at their meeting in October 2019.

We are also pleased to note that both documents refer to the 2015 EU Regulations in relation to contracting and tendering, specifically in the need to formally advertise any contractual work in excess of £25,000 on the Government Contract Finder Website. We note that the

Council has set a financial limit of £25,000 for formal tender action: however, with annual expenditure of around that value, we consider that a lower value of £10,000 would be more appropriate for formal tender action.

Conclusions and recommendation

We are pleased to report that there are no significant issues arising in this area of our review process, although, as above, we suggest that consideration be given to setting a lower value for formal tender action.

We understand that, following the UK's exit from the EU, NALC are preparing a further revision to both SOs and FRs which will be promulgated in the summer of 2020. We suggest that, once available, the Council revisits its extant documents and makes all appropriate amendments in due course.

R1. Consideration should be given to setting a lower, than the current £25,000 value, for formal tender action.

Review of Payments

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets
- 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
- The correct expense analysis has been applied to invoices when processed, and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

Due to the impact of the Covid-19 "lockdown" and our need to undertake the year's review remotely, we have selected a small sample of 16 payment transactions in the cash book for the year to ensure compliance with the above criteria. Our test sample totals £8,250 and equates to 26% by value of non-pay related spending in the year. We are pleased to record that no issues have been identified with all the criteria duly met in our test sample, also noting that all payments are reported to Council and recorded in the minutes.

We are pleased to report that a VAT reclaim has been prepared and submitted to HMRC in respect of the year to 31st March 2020 and have agreed the detail to the cashbook.

Conclusions

No issues arising in this review area warranting formal comment or recommendation.

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 in order to minimise the opportunity for their coming to fruition.

We have examined the Council's approach to risk management noting that the Council approved its updated financial risk assessment at their meeting in May 2019 and consider the document appropriate for the Council's present requirements.

We also note that the Council's insurance cover is provided by Ecclesiastical Insurance and have reviewed the policy with Public and Employer's liability both in place at £10 million and Fidelity Guarantee set at £150,000 all of which we consider appropriate for the Council's present requirements.

Conclusions

We are pleased to report that there are no issues arising in this review area.

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 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, whilst also retaining appropriate sums to cover any unplanned expenditure that might arise.

We note from our review of the minutes that members are provided with quarterly reports detailing performance against the approved budget and have reviewed the year-end outturn with no unanticipated or unexplained variances apparent.

We are also pleased to note that, following due deliberation, members approved the 2020-21 budget and precept at the meeting held in December 2019 setting the latter at £23,407.

We have again considered the appropriateness of the level of reserves to meet the Council's ongoing revenue spending requirements and development aspirations noting that reserves at the year-end total £22,927 (£21,476 as at 31st March 2019) including Earmarked Reserves of £3,551. The residual General Reserve balance of £19,376 equates to approximately 6 months' revenue spending, which is in line with current guidance of between three and twelve months' revenue expenditure.

Conclusions

We are pleased to report that there are no issues arising in this area of our review process warranting formal comment or recommendation.

Review of Income

In considering the Council's income streams, we aim to ensure that robust systems are in place to ensure the identification of all income due to the Council from its various sources, to ensure that income is invoiced in a timely manner and that effective procedures are in place to pursue recovery of any outstanding monies due to the Council.

The Council has a limited range of income sources other than the annual precept, including Grants, VAT Refunds, Brickyard Rent and occasional other income. We noted last year that the Brickyard rent is subject to a five-year agreement expiring in 2023 and have ensured that the rent received in 2019-20 is in line with the agreed lease.

We also note the receipt in July 2019 of a PWLB loan for conversion of footlights to LED lighting: the amount received (£14,398) will, if as is normally the case with PWLB loans, be net of the PWLB admin charge. Consequently, the full gross value of the loan should be recorded as income in the year with the admin charge regarded as an expense.

Conclusions and recommendation.

The Accounts and AGAR detail will require amendment to reflect the full value of the PWLB loan receipt in the year with the admin cost recorded as expenditure.

R2. The Accounts and AGAR values of receipts and payments should, if, as is normally the case, the PWLB loan was received net of their admin charge, be amended to record the gross value of the loan as a receipt in Box 3 of the AGAR, with the admin cost included as an "Other Expense" at Box 6.

Petty Cash Account

No petty cash account is in use, the clerk reclaiming any "out of pocket" expenses with his monthly salary payment, which is subject to the general authorisation and payment procedures referred to earlier in this report.

Review of Staff Salaries

In examining the Council's payroll function, we aim to confirm that existing 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. To meet that objective, we have: -

- Ensured that the Clerk's salary has been assimilated to the revised national NJC spinal structure effective from 1st April 2019
- Ensured that the salary is being paid in line with the Council's approved rate on that spinal scale by reference to the March 2020 payslip
- Noted that the salary payment is approved as part of the monthly payment process
- Ensured that tax and NI deductions (where appropriate) have been made based on the PAYE code shown on the payslip and NI Table

- Checked to ensure that the necessary payroll submissions to HMRC have been processed utilising the bespoke “PAYE Tools” software, which the Clerk uses for the regular payroll processing, and
- Ensured that the appropriate month’s deductions and contributions have been paid over to HMRC in a timely manner.

Conclusions

We are pleased to report that there are no issues in this area of our review process 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.

Asset Registers

The Governance and Accountability Manual – “The Practitioner’s Guide” requires that all Councils develop and maintain an appropriate register of its assets including all land, buildings, vehicles, furniture and equipment.

We are pleased to note that a formal asset register is in place as was approved for 2018-19 by Council at their meeting in June 2019. We presume that, once the Council is next able to meet the 2019-20 register will be similarly approved and adopted. We are also pleased to note that the register has been prepared using purchase cost uplifted or decreased to reflect the acquisition or disposal of any assets during the financial year, the major change being in relation to footway lighting and its conversion to LED lighting.

We have also ensured the accurate reporting of the total asset value, as recorded in the register, to the disclosure in Section 2 of the year’s AGAR.

Conclusions

No issues arise in this area of our review warranting formal comment or recommendation, although we again suggest that, in line with best practice and to assist the smooth processing of any insurance claim or police investigation in the event of any damage occurring to Council property, consideration be given to the development of a photographic register of the Council’s assets.

Investments and Loans

Our objectives here are to ensure that the Council is “investing” surplus funds, be they held temporarily or on a longer term basis in appropriate banking and investment accounts; that the Council is obtaining the best rate of return on any such investments made; that interest earned is brought to account correctly and appropriately in the accounting records and that any loan repayments due to or payable by the Council are transacted in accordance with appropriate loan agreements.

We have confirmed that the Council holds no long-term investments requiring disclosure in the Statement of Accounts as a Fixed Asset.

We also noted last year the formal DCLG approval for a loan which has been drawn down from PWLB during the current financial year: we have checked the loan repayments made during the financial year to the PWLB payment requests, also ensuring the accurate disclosure of the residual loan liability at the financial year-end in the AGAR by reference to the UK Debt Agency's published detail on its website.

Conclusions

We are pleased to report that no issues exist in this area of our review process, other than in relation to the treatment of the gross value of the new loan received during the current financial year (Recommendation R2 refers).

Statement of Account and AGAR

The 1996 Accounts and Audit Regulations required all Councils to prepare annually a detailed Statement of Accounts, together with supporting statements identifying other aspects of the Council's financial affairs.

We have reviewed the Statement of Accounts and AGAR detail, as generated from the accounting spreadsheet, with no obvious errors or anomalies in the detailed content, other than the minor amendment required with regard to the PWLB loan admin charge, which will require the values at Boxes 3 & 6 to be increased accordingly (Recommendation R2 refers).

Conclusions

No significant issues have been identified in relation to the verification of detail in the Statement of Accounts and AGAR this year.

We are pleased to report that, on the basis of work undertaken during the course of our visit to the Council during the year, we have duly "signed off" the Internal Audit Certificate of the AGAR assigning positive assurances in each relevant category.

| Rec. No. | Recommendation | Response |
|---------------------------------------|---|----------|
| Review of Corporate Governance | | |
| R1 | Consideration should be given to setting a lower, than the current £25,000 value, for formal tender action. | |
| Review of Income | | |
| R2 | The Accounts and AGAR values of receipts and payments should, if, as is normally the case, the PWLB loan was received net of their admin charge, be amended to record the gross value of the loan as a receipt in Box 3 of the AGAR, with the admin cost included as an “Other Expense” at Box 6. | |