

Erlestoke Parish Council

Internal Audit Report 2019-20

Stuart J Pollard

*Director
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 Annual Governance and Accountability Return (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 of necessity undertaken our review for the year remotely: we wish to thank the Clerk in assisting the process, providing all necessary documentation in a blend of electronic and hard copy format to facilitate completion of our review for the year and sign off of the Internal Audit Certificate in the year's AGAR.

Internal Audit Approach

In undertaking the review for the year, we have again 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 has been 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 Certificate in the Council's AGAR, which requires independent assurance over several internal control objectives.

Due to the low volume of transactions, we have again applied a direct substantive testing approach to the year's transactions.

Overall Conclusion

We are pleased to acknowledge the positive actions taken by the relatively new Clerk to address previously raised issues and thank her for the clarity of documentation provided in support of the year's transactions.

We have, however, identified a few areas where the spreadsheet cashbook requires a few adjustments and will require appropriate action going forward. Full detail of these and the other minor issues identified this year are set out in the body of the detailed report with resultant recommendations further summarised in the appended Action Plan.

Based on the overall satisfactory conclusions drawn from completion of our review programme for the year, we have duly signed off the Internal Audit Certificate in the year's AGAR assigning positive assurances in each relevant area.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliation

The Council operates two bank accounts with Lloyds (Treasurer's and Business Instant), with transaction detail recorded in a spreadsheet cashbook, which we consider more than adequate given the level of annual transactions.

We have reviewed the content of the cashbook noting a few issues where corrections to the content are required, primarily affecting the entry dates of transactions where the following basic accounting principles should be applied, as the Council's accounts are prepared and maintained on a Receipts and Payments basis rather than Income and Expenditure (i.e. no allowance is made for year-end creditors and accruals). The cashbook should, consequently, reflect the dates when transactions physically occur as far as the Council is concerned, not the bank: -

- Where payments are made by cheque, they should be recorded in the cashbook in chronological / sequential order on the date that is recorded on the cheque, generally the date of Council approval, not based on the date they clear the bank account
- Where payments are made by Direct Debit or Standing Order, they should be recorded on the date the payment is processed through the bank account
- Where online payments are made, they should strictly be entered on the date that the payment is processed by the Council: however, please note that on occasions there may be a 24 hour (or more) delay in the bank processing such transaction and their appearance on the bank statements.

We have specifically noted that the February and March 2020 salary payments were entered in the cashbook prior to 31st March 2020, but were not actually approved and processed until May 2020 due to the Covid-19 situation: consequently, they should not have been included in the 2019-20 cashbook and will also need to be removed from the year-end bank reconciliation with the total payment value for the year reduced accordingly. Consequently, these two payments should be entered in the 2020-21 cashbook. We have amended the 2019-20 cashbook and year-end bank reconciliation provided for our examination accordingly and provided the Clerk with an updated version. These amendments will obviously the total spend during 2019-20 and will need to be reflected in a revised AGAR with reduced payment values at Section 2, Boxes 4 & 6 for the financial year and a corresponding increased year-end balance to be recorded at Boxes 7 & 8.

We also note that, as in previous years, the bank charged a "safe custody" fee of £7.50 and then reversed the entry on the same date on the relevant bank statement. We note that the Clerk has followed this up with the bank and, hopefully, resolved the issue and that no similar contra entries will arise in 2020-21. Due to the small sum involved, we have not amended the contra entries in the 2019-20 cashbook.

We are pleased to note that, following our 2018-19 report recommendation, the salary overpayment to the former clerk has been repaid during 2019-20 and been recorded appropriately in the cashbook.

We are also pleased to note that the bank reconciliations prepared and recorded in the cashbook at the end of each quarter are now being scrutinised appropriately.

Conclusions and recommendation

We are pleased to acknowledge the overall improvement in the quality of data entry with only the above relatively minor issues to be addressed. As indicated above, we have, in conjunction with the Clerk amended the 2019-20 cashbook, removing the two salary payments not processed until May 2020: they will need to be recorded in the 2020-21 cashbook accordingly.

R1. Cashbook transactions should be recorded in the cashbook on the appropriate dates as set out in the body of the report to record transactions from the Council's perspective, not the bank's.

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 (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 also aim to ensure that appropriate policies, procedures and protocols are in place to prevent and provide a reasonable assurance of the detection of any fraudulent or corrupt activity.

We are pleased to note that the Council has adopted revised Financial Regulations (FRs) and SOs in line with the latest NALC model documents at the May 2020 meeting including appropriate reference to the extant Public Contracts Regulations 2015. At the commencement of our review, we noted that both documents referred to a limit of £25,000 for formal tender action and suggested to the Clerk that a lower value would seem more appropriate. We note from reviewing the latest meeting minutes (1st July 2020) that following our verbal suggestion, the limit has been reduced to £5,000.

We have examined the Council minutes for the year and to date in 2020-21 as posted on the Council's website to determine whether any issues exist that may have either a legal or financial impact on the Council and its future financial stability, whilst also ensuring that, as far as we may reasonably be expected to ascertain as we do not attend meetings, the Council has neither considered nor is considering any actions that may result in ultra vires expenditure.

The Transparency Code for Smaller Authorities, which became mandatory from 1st April 2015, requires all councils with an annual budgeted turnover of less than £25,000 to publish on a website the following detail:

- Annual Governance and Accountability Return (AGAR)
- Internal audit report
- Payments over £100
- Year-end accounts
- Assets
- Councillor's responsibilities
- Minutes and agendas

Examination of the Council website as it stands currently indicates that the 2018-19 AGAR detail has not been posted, whilst all other elements have been posted apart from the year-end accounts, although these would be effectively covered by posting the full AGAR detail.

Finally, in this area, we note that the Council again meets the qualifying criteria to seek exemption from the "limited Assurance" external audit regime.

Conclusions and recommendations

We understand that, in accordance with the UK's 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. *The existing Financial Regulations and Standing Orders should be further reviewed to take account of the new versions of the NALC model documents once promulgated.*
- R3. *The full Annual Governance and Accounting Return (AGAR) should be posted on the website as required by both the Transparency Code and Accounts and Audit Regulations 2015.*

Review of Payments and VAT

Due to their very low volume, we have reviewed all payments made during the year to ensure that the following criteria were met:

- Payments are supported by a trade invoice or acknowledgement of receipt
- Members are scrutinising all payments and evidencing their review accordingly
- VAT has been calculated correctly and is recovered at appropriate intervals
- The Council at a Council meeting approved each payment, and
- Payments have been correctly analysed in preparation of the year-end Statement of Accounts.

In examining the documentation provided, we have noted that, as last year, only one invoice was held in relation to the monthly standing payment to Zen Internet on the file of processed payments and that is made out to Councillor Jonik. Whilst the monthly payments are minimal, they include VAT, which the Council is able to reclaim and has, as suggested last year been routinely identified in the quarterly spreadsheet cashbooks. As indicated in last year's report, in order to ensure that no issues arise with regard to recovery of the VAT incurred, arrangements should be made to ensure that the invoices are made out in the name of the Council rather than an individual and copies of all should be acquired and retained in support of the VAT reclaims to be submitted.

We have reviewed the procedures in place for the processing of invoices noting that the former clerk initiated a system of "Remittance advices" that are signed by two members and attached to trader invoices. We are also pleased to note that the invoices / payment documentation, as well as the "Remittance advices", now (generally) include the signatures of the Clerk acknowledging receipt of goods / services, although that is not specifically referred to (the stamp purely records "received, date and Clerk's signature" and its payment (including the payment date) and councillors' signatures.

The "Remittance Advice" attached to each payment also bears members' signatures and detail of the payment date and method (cheque and bank transfer). In line with best practice and to facilitate effective cross-referencing of payments to the individual documents (particularly important in the case of standard monthly payments by direct debit or standing order), all such payments should, ideally, be allocated a sequential number throughout the year, which should

also be recorded on the supporting documentation, as though it were a cheque number (e.g. for bank transfers – Bt1; Bt2, Bt3 et seq and direct debits – dd1; dd2 and dd3, etc seq).

In examining the invoices processed during the year, we have noted a few instances, mostly minor, where the VAT element of the payment had not been identified. The most significant relates to the Clerk's SLCC training paid on cheque no. 649 in August 2019 (VAT of £68.00 incurred). Other small amounts of VAT have been incurred by the Clerk for the occasional stationery supplies acquired during the year totalling £9.01. We have, on the previously referenced updated cashbook provided to the Clerk, highlighted these entries in yellow so that they may be included in the VAT reclaim for the year when prepared.

In line with that, we also note that no VAT reclaims have, as yet, been prepared and / or submitted to HMRC for repayment covering expenditure in 2018-19 or 2019-20.

Conclusions and recommendations

We are pleased to acknowledge the actions taken to address our recommendations in last year's report: however, the Council may wish to further consider the acquisition of a suitably designed single composite rubber certification stamp to be affixed to each invoice which would reduce the need for the separate copy "Remittance advice" to be retained and attached to invoices / payment documentation.

- R4. All payments should be supported by an appropriate invoice or pro forma duly certified as approved for payment by the Chairman and be made out in the name of the Council to ensure that any VAT incurred may be recovered (this specifically applies to the Zen Internet invoices).*
- R5. Consideration should be given to the acquisition of a suitably designed rubber certification stamp to be affixed to every invoice approved for payment replacing the need to attach a copy of the Remittance advice" to each payment docket.*
- R6. The Clerk should prepare VAT returns covering 2018-19 and 2019-20 as soon as practicable to help ensure that the 3-year time limit for submission is not exceeded: future reclaims should then be prepared and submitted to HMRC covering the full financial year.*

Assessment and Management of Risk

All councils must, in accordance with the requirements of the Governance and Accountability Manual (G&AM), develop, review, update (if appropriate) and re-adopt formally at least once in each financial year a risk assessment document. We are pleased to note that the former document has been reviewed, submitted to and adopted by the Council at May 2019 full Council meeting.

The Council is insured by Zurich: we have examined the insurance schedule and consider the level of cover afforded to be appropriate for the Council's current requirements with Employer's and Public Liability cover both in place at £10 million and Fidelity Guarantee cover set at £25,000.

Conclusions

We are pleased to record that no issues arise in this area this year warranting formal comment or recommendation. We do note, however, that the risk register was not included among the documents re-adopted at the May 2020 Council meeting and remind the Clerk and Members that this will need to be re-adopted, following review and any necessary update, prior to 31st March 2021.

Budgetary Control and Reserves

We note that the Council has, following due deliberation determined its budgetary and precept requirements for 2020-21 formally approving and adopting the latter at £6,805 at the December 2019 full Council meeting.

As last year, we note that members receive periodic financial information, including detail of bank balances, receipts and payments since the previous meeting. We have examined the year-end position noting an amended (as per the previous issues identified in this report) retained total fund balance of £11,065 (£11,122 as at 31st March 2019).

As last year, we note the holding of Section 106 funds of £1,145 and, although not formally minuted or identified, the existence of earmarked funds for play equipment renewal (£1,000) and traffic calming (£1,000) within the overall reserve balance leaving a General Reserve balance of approximately £8,000, which equates to approximately a year's revenue spending at current levels, which is considered appropriate for the Council's ongoing spending requirements.

Conclusions

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

Review of Income

The Council has very limited income sources arising from the annual precept, recovered VAT (when claimed), occasional grants and very limited amounts of bank interest. We have checked and agreed all cashbook transactions to bank statements and other available supporting documentation for the financial year with no issues arising other than the previously mentioned absence of VAT reclaims for 2018-19 and 2019-20.

Conclusions

No additional issues have been identified in this area requiring further comment or recommendation.

Petty Cash Account

No petty cash account is in use at the Council with any out-of-pocket expenses incurred by the clerk reclaimed and paid accordingly through the usual trader payment procedure.

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.

The 1996 Employment Act requires that all employees be provided with a formal contract of employment and we are pleased to note that the Clerk has been provided with and signed an appropriate contract, which clearly sets out her employment terms and conditions.

HMRC Basic PAYE Tools software is used to calculate the clerk's gross pay and any resultant tax and / or NI liability, although we note that the Clerk's earnings are below both thresholds for deductions to apply.

At the outset of this year's review, the Clerk advised that she was aware that she had overpaid herself during the year applying an incorrect hourly rate. Consequently, we have worked out the correct payments that should have been applied since her appointment in late February 2019 and provided her with the relevant calculation detail, so that she may check it and make an appropriate adjustment with her next salary payment to be processed. Given that our review took place in early July 2020, there will, most probably, have been further overpayments in the first 3 months of 2020-21, which will also require amendment.

The salary calculations have been complicated by the introduction of revised national NJC spinal points from 1st April 2019, together with a pay award. We have calculated the "correct" salary payments from the Clerk's appointment date to 31st March 2020 and subsequently, assuming the direct assimilation from Scale point 18 on appointment to the equivalent scale point 7 from 1st April 2019.

We are aware that negotiations were under way on a national pay offer to be applied from 1st April 2020, but believe that negotiations have stalled due to the Covid-19 crisis. We will endeavour to advise the Council when and if we hear of the satisfactory conclusions to those negotiations, but also suggest the Clerk periodically checks the NJC website for updates.

The current edition of the G&AM applying up to and including 31st March 2019 requires that the cost of any "home working" allowance be included as a Staff Cost in the AGAR at Section 2, Box 4. In checking the salary payments to the Clerk during the year, we have noted that payment of this allowance has not always been included in the "Staff costs" column of the cashbook and has, consequently not been recorded appropriately in the 2019-20 AGAR presented for our examination: we have again made appropriate amendments to the cashbook detail in the revised version provided to the Clerk.

This position will change with effect from 1st April 2020 following revision to the Governance and Accountability Manual (G&AM) to be applied from 1st April 2020, with purely staff employment costs (i.e. gross salary and employer's NI and any Pension costs) included in Section 2, Box 4: the "Home working" allowance will, consequently need to be recorded as a Section 2, Box 6 cost in future years' AGARs. We have provided the Clerk with an electronic copy of the revised G&AM and draw attention to tis revision and the revised disclosure requirements for staff costs (Page 17 refers).

As indicated in the first section of this detailed report, the February and March 2020 salary payments were not actually processed until May 2020: as the AGAR detail is correctly presented in a Receipts and Payments format, these 2 salary payments should also be excluded from the AGAR Section 2 detail and will need to be recorded in the 2020-21 AGAR accordingly. We

have, as indicated above, removed these 2 payments from the 2019-20 cashbook detail – they will need to be added to the 2020-21 cashbook detail, applying the revised G&AM disclosure requirements for 2020-21.

Conclusions

Whilst we do not consider that a formal recommendation is warranted in this area this year, the Clerk will, unless the Council determines to accept the overpayment and waive recovery, need to refund the overpaid salary payments made by the Council from the date of her appointment up to and including at least her June 2020 salary.

Care will need to be taken when entering pay detail in the 2020-21 cashbook to include the February and March 2020 payments made in May 2020 and heeding the revised guidance as regards the exclusion of costs such as the “home working” allowance from the Staff costs value at Section 2, Box 4 of the 2020-21 AGAR.

Fixed Asset Registers

The G&AM requires all councils to maintain a record of all assets owned: we are pleased to note the previous actions taken to establish an appropriate register. No new assets have been acquired during 2019-20 nor have any, as far as we are aware, been disposed of during the year: consequently, the value to be disclosed in the year’s AGAR at Section 2, Box 9 remains unchanged from that in 2018-19.

As reported last year, many of our clients have developed a photographic register of assets, such as street furniture. We are pleased to note the action taken by the Council to prepare such a register during 2019-20.

Conclusions

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

Investments and Loans

The Council has no funds held in investments nor does it have any loans in existence repayable either by or to itself. Monthly interest on the bank deposit account is accounted for appropriately, subject to our previous comments on the need to maintain appropriate accounting records throughout the financial year.

Statement of Accounts and AGAR

The AGAR Section 2 now provides the Council’s statutory Accounts subject to external audit certification: however, as the annual turnover is below £25,000, the Council has again opted for exemption from an external audit, although it will, in line with the requirements of the Transparency Code, still be required to publish a raft of information on the Council’s website.

We have reviewed the financial information at Section 2 of the AGAR as presented for our examination: due to the issues reported previously in this report, detail in Boxes 4, 6, 7 & 8 have required amendment and the AGAR will consequently require re-adoption by the Council to approve the amended values. We have provided the Clerk with the required information, together with a copy of the amended cashbook reflecting the necessary amendments.

Conclusions

No additional issues arise in this area warranting formal comment, subject to appropriate amendments being made to the AGAR financial detail, and we have duly signed off the Internal Audit Report in the year's AGAR assigning positive assurances in each relevant area.

Rec. No.	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	Cashbook transactions should be recorded in the cashbook on the appropriate dates as set out in the body of the report to record transactions from the Council's perspective, not the bank's.	
Review of Corporate Governance		
R2	The existing Financial Regulations and Standing Orders should be further reviewed to take account of the new versions of the NALC model documents once promulgated.	
R3	The full Annual Governance and Accounting Return (AGAR) should be posted on the website as required by both the Transparency Code and Accounts and Audit Regulations 2015.	
Review of Payments and VAT		
R4	All payments should be supported by an appropriate invoice or pro forma duly certified as approved for payment by the Chairman and be made out in the name of the Council to ensure that any VAT incurred may be recovered (this specifically applies to the Zen Internet invoices).	
R5	Consideration should be given to the acquisition of a suitably designed rubber certification stamp to be affixed to every invoice approved for payment replacing the need to attach a copy of the Remittance advice" to each payment docket.	
R6	The Clerk should prepare VAT returns covering 2018-19 and 2019-20 as soon as practicable to help ensure that the 3 year time limit for submission is not exceeded: future reclaims should then be prepared and submitted to HMRC covering the full financial year.	