

Erlestoke Parish Council

Internal Audit Report 2020-21

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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 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 continued to undertake our review for the year remotely: we wish to thank the Clerk in assisting the process, providing all necessary documentation 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.

Overall Conclusion

We are pleased to acknowledge a steady improvement in internal control by the Clerk, despite the restrictions due to the Covid-19 pandemic. While we have made a number of observations and recommendations for further improvement, noted two negative assertions in our report, and highlighted a number of required changes to Sections 1 and 2 of the 2020-21 AGAR, these do not significantly detract from what is essentially a reasonable system of financial control.

We would ask that Council now carefully consider this report, and return the completed Action Plan in due course.

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 that the concerns we expressed last year are still apparent, with particular reference to the February and March 2020 salary payments to the Clerk, which were not processed until May 2020. This necessitates a number of required changes to the 2020-21 AGAR (Section 2), which we have detailed below. We would, therefore, reiterate our guidance from our 2019-20 report concerning the correct application of Income and Expenditure (I&E) accounting:

- 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.

We are pleased to note that the bank reconciliations prepared and recorded in the cashbook at the end of each quarter are now being scrutinised by an independent Councillor in accordance with Financial Regulation 2.2

Conclusions and recommendation

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 note that the Council reviewed its Standing Orders and Financial Regulations in March 2021, in line with the latest NALC Model Forms. These important governance documents also reflect the change in tendering levels to £5,000 that we recommended in our 2019-20 report.

We have examined the Council minutes for the financial year 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

While some of these items are recorded on the website, the Council should keep compliance with this legislation under review.

We are also required to comment on the Exercise of Public Rights, which is an important control allowing interested parties to inspect the Council's records for the year under review. The requirement is that the records must be available for 30 working days (Monday to Friday, allowing for any Bank Holidays), and must be widely publicised. Unfortunately the 2019-20 Exercise, which took place in Autumn 2020, was incorrectly calculated at only 25 days, which we are required to highlight in our report.

Conclusions and recommendations

R2. Council should continue to review its compliance with the Transparency Code 2015.

R3. The period for the Exercise of Public Rights should be properly calculated for the 2020-21 Accounts and future years.

Review of Payments and VAT

Due to the current restrictions, we have reviewed a representative sample of transactions for the year to determine whether 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.

Further to the comments we made in 2019-20, we are pleased to note that the position has significantly improved, and we have found no issues of concern.

We also note that outstanding VAT was reclaimed in March 2021. This should be the subject of at least an annual reclaim.

Conclusions

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

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. Unfortunately this requirement was not met during the 2020-21 financial year, which we are required to reflect in our report and which also affects the Council's Governance Statement (Section 1, Assertion 5) in the AGAR. We note, however, that such an assessment is due to take place in early 2021-22.

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 and recommendation

R4. Council must ensure that a full risk assessment exercise is undertaken on at least an annual basis.

Budgetary Control and Reserves

We note that the Council has determined its budgetary and Precept requirements for 2021-22, formally approving and adopting the latter at £6,805 at the December 2020 Full Council meeting.

The balances at 31 March 2021 total £12,216. The Council has approved Earmarked Reserves of £5,000 (for Election costs, playground repairs and a general reserve), leaving a balance of £7,216. This represents over 1 years Precept against a Best Practice recommendation of 50% (6 months transactions). While we acknowledge that small Councils have a reduced ability to flex their balances within a short timeframe, the level of balances should be kept under review, particularly at the annual budget setting meeting.

Conclusions and recommendation

R5. Council should keep its level of reserves under regular review.

Review of Income

The Council has very limited income sources other than the annual Precept, recovered VAT, occasional grants and very limited amounts of bank interest. We have checked and agreed all cashbook transactions to bank statements for the financial year with no issues arising.

Conclusions

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

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.

We have test-checked the pay records for the Clerk with no issues arising. We are pleased to note that the NJC 2020 pay award, which was backdated to 1 April 2020, has been properly approved by the Council.

Conclusions

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

Fixed Asset Registers

The G&AM requires all councils to maintain a record of all assets owned, valued at either original cost price or, where this cannot be ascertained, an appropriate valuation which can be a nominal £1.

We note that, following comments made to the Clerk during our 2019-20 review, the valuation of some assets (such as the War Memorial) have been significant reduced to meet the above standard. This has resulted in a reduction in the reportable asset value to £18,525, which needs to be reflected in Box 9 of the 2020-21 AGAR. Box 9 for the total at 31 March 2020 should also be clearly restated to the same figure.

Conclusions and recommendation

R6. The asset valuation (Box 9) on the 2020-21 AGAR should be restated to a total of £18,525.

Investments and Loans

The Council has no funds held in investments (other than the Lloyds Bank accounts), 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 referred to elsewhere in this report, detail in Boxes 1, 4, 6 and 9 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.

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 appropriate 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	Council should continue to review its compliance with the Transparency Code 2015.	
R3	The period for the Exercise of Public Rights should be properly calculated for the 2020-21 Accounts and future years.	
Risk Management		
R4	Council must ensure that a full risk assessment exercise is undertaken on at least an annual basis.	
Budgetary Control		
R5	Council should keep its level of reserves under regular review.	
Fixed Asset Registers		
R6	The asset valuation (Box 9) on the 2020-21 AGAR should be restated to a total of £18,525.	