

Sutton Bridge & Wingland 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 sets out the work undertaken in relation to the 2019-20 financial year. We were due to visit the Council on Monday 28th April 2020 to undertake the year's review: however, due to the impact of the Covid-19 pandemic, we have undertaken our final review for the year remotely and wish to thank the Clerk for his assistance in the process in these trying times, 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 for the year, we have again had regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts/AGAR. We have employed a combination of selective sampling techniques (where appropriate) and 100% detailed checks in a number of key areas to gain sufficient assurance that the Council's financial and regulatory systems and controls are appropriate and fit for the purposes intended.

Our programme of cover is also designed to facilitate our completion of the 'Annual Internal Audit Report' in the AGAR, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

We are pleased to conclude that, based on the programme of work undertaken, the Clerk and Council have continued to maintain effective internal control arrangements during the year with transactions accurately reflected in the detailed Statement of Accounts and AGAR.

The detailed report which follows sets out the scope of our audit work this year and our findings with only one recommendation arising.

We have duly completed and signed the "Internal Audit Certificate" in the year's AGAR assigning positive assurances in each relevant area, 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 in this area is to ensure that accounting records are being maintained accurately and on a timely basis, and that no anomalous entries appear in cashbooks or financial ledgers.

The accounting records have again been maintained using an Excel spreadsheet with two bank accounts in use with TSB and a further account with Unity Bank, the latter account having been opened in 2018-19.

To ensure the appropriateness and accuracy of the recording of transactions, we have:

- Checked and agreed the opening balances for 2019-20 to the closing balances and certified AGAR for 2018-19
- Ensured that the spreadsheet analysis structure is appropriate for purpose
- Verified all transactions for the financial year in each of the three accounts in operation to relevant bank statements
- Verified the accuracy of year-end bank reconciliations (i.e. as at 31st March 2020) on the combined accounts, ensuring that no long outstanding unrepresented cheques or other anomalous entries exist
- Ensured that the accounts remain “in balance” throughout the year, and
- Verified the accurate disclosure of the combined year-end account balances in the AGAR.

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 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 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, consequently: -

- 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
- Noted revised Standing Orders were last reviewed and adopted by Council at their meeting on 30th October 2018
- Also noted that revised Financial Regulations were last reviewed and adopted by Council at their meeting on 29th October 2019
- Noted appropriate reference to the extant EU Regulations in relation to contracting and tendering in both documents, including the requirement to formally advertise any contractual work in excess of £25,000 on the Government Contract Finder Website, and

- Finally noted that, following a discussion of the Council's budgetary requirements, the 2020-21 budget and precept were formally agreed and adopted by Council at their meeting on 17th December 2019, the latter being set at £65,759.

Conclusion

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

We understand that, following the UK's exit from the EU, NALC are preparing a further revision to both SOs and FRs and that they will be promulgated in the summer of 2020.

Review of Expenditure & VAT

Our objective here is to ensure that:

- Council resources are released in accordance with the 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
- Payments are correctly analysed in the accounting records and end of year accounts
- VAT has been appropriately identified and coded to the control account for periodic recovery, and
- Section 137 payments have been identified accordingly and are within the Council's spending limit.

Due to the impact of the Covid-19 pandemic and our need to undertake this year's review remotely and to also reduce the impact on officers, we have selected a limited number of non-pay related transactions for review this year. Our test sample included 26 individual payments during the year including all those individually in excess of £1,000 plus a random sample of others: the total value of £43,650 equated to 76% of the non-pay related expenditure for the year. We are pleased to record that each payment was appropriately supported with the majority bearing the signatures of initials of two members.

To further strengthen control and clarify the significance of the signatures, we suggest that, in line with best practice, consideration be given to the acquisition of a suitably designed stamp to be affixed to each and every invoice / payment docket providing evidence of appropriate review and approval for payment. Ideally, the stamp should include provision for the following detail / signatures / initials: -

- ✓ Clerk's initials / signature confirming receipt of the goods or service and accuracy of the invoice's arithmetic
- ✓ Cheque number or other reference number (this could be the "line number" as recorded in the cashbook): where direct debits / standing orders are paid they are often for the same amount and the recording of a unique transaction reference number would help clarify verification
- ✓ Date of payment
- ✓ Account code or detail of where cost is to be charged, and
- ✓ Initials / signatures of two members approving release of the payment

We are again pleased to note that VAT reclaims are prepared and submitted to HMRC at the end of each quarter and have agreed their detail to the underlying spreadsheet cashbook detail.

Conclusions and recommendation

We are pleased to report that there are no significant issues arising in this review area, although, as indicated above, we consider that control and evidencing approval of the invoices for payment could be better controlled with the application of a suitably designed rubber stamp to each payment docket.

RI. Consideration should be given to the acquisition of a suitably designed rubber stamp to be affixed to every invoice / payment docket evidencing the various stages of approval and confirming members' involvement in the process.

Assessment and Management of Risk

Our objective 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 operational/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 approach to Risk Management noting that the Council last approved the Risk Assessment Register at their meeting on 26th March 2020 with the intention of it being reviewed and re-adopted again in March 2020: due to the present circumstances, the review was delayed until the April 2020 meeting which was held remotely
- Noted that the Council's insurance cover is provided by Ecclesiastical Insurance and have reviewed the policy providing cover to 30th September 2020 with Public and Employer's liability both set at £10 million and Fidelity Guarantee set at £191,500; and
- Noted, as recorded in last year's report, that regular inspections of the Council owned play area are carried out by Councillors, records being kept of these inspections. The play area is also inspected annually by a RoSPA certified Company.

Conclusions

No matters have been identified in this review area warranting formal comment or recommendation given the current restrictions on holding meetings.

Budgetary Control & Reserves

Our objective here is to ensure that the Council has robust procedures in place for identifying and approving its future budgetary requirements and level of precept to be drawn down from the District Council, and that effective budget reporting and monitoring arrangements are in place.

We have considered the procedures in place for preparation and adoption of the Council's annual budget and precept and consider them sound and appropriate for the Council resulting in the formal adoption of a precept of £65,759 for 2020-21 at the December 2019 full Council meeting.

We have again noted from our review of minutes that members continue to be provided with regular budgetary performance reports throughout the year and have reviewed the year-end outturn position with no unexplained or unanticipated variances existing.

We have again considered the appropriateness of the level of retained reserves to meet the Council's ongoing revenue spending requirements and development aspirations: We note that total reserves at 31st March 2020 have decreased to £150,463 (£157,016 as at the prior year-end) with Earmarked Reserves are £57,438. The residual General Reserve balance of £93,025 equates to just over a year's revenue expenditure at the 2019-20 level and is considered more than appropriate for the Council's ongoing revenue spending requirements.

Conclusions

No issues have arisen in this review area this year.

Review of Income

The Council receives income from a variety of sources in addition to the precept by way of cemetery fees, various grants, allotment rents, playing field hire and recoverable VAT.

As part of this year's review, we have been provided with an extract from the Burial Register and ensured that appropriate fees have been invoiced and recovered during the year for a sample of a half-dozen interments. We have also ensured that all allotment income due has been recovered, banked in a timely manner and recorded appropriately in the accounting records.

Conclusions

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

Petty Cash Account

The Council does not operate a petty cash account: any incidental "out-of-pocket" expenses are repaid to the Clerk periodically in conjunction with his salary and are approved and minuted as part of the normal controls exercised over payments.

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 requirements of HMRC in relation to the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme. To meet this objective, we have,

- Noted that the Council approved implementation of the revised national salary spinal points and pay award effective from 1st April 2019
- Noted that the Clerk calculates salaries using the Government's PAYE Tools software
- Checked to ensure that the Council has reviewed and approved appropriate pay scales for staff; we are pleased to note in this regard that appropriate letters have been issued to staff detailing their salary and/or hours, in line with the above changes in the national spinal points, etc
- Checked and agreed the amounts paid to individuals by reference to the approved pay rates, examining payments made in March 2020

- Ensured that PAYE, NIC and superannuation deductions have been made accurately by reference to the HMRC Basic PAYE Tools software and appropriate pension contribution bands, and
- Ensured that the appropriate month's deductions and contributions have been paid over to HMRC and the Pension Fund Administrators in a timely manner.

Conclusions

We are pleased to report that there are no issues arising 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 Register / Inventory

The Governance and Accountability Manual requires that all Councils develop and maintain a register of assets identifying detail of all land, buildings, vehicles, furniture and equipment owned by the Council.

The reporting arrangements for assets in the AGAR require councils to report the value of each asset at purchase cost or at a suitable proxy where that value is not known, and for community assets to be valued at a nominal £1. The value of individual assets should not change from one year to another, other than where new assets are either acquired or old ones disposed of.

We are pleased to note that a comprehensive asset register is in place identifying the type of asset (i.e. by category), its location in the parish, detail of the asset, cost price (net of VAT), insured value and, where known, acquisition date, all of which we consider represents best practice.

We are also pleased to note that a photographic record is now being kept of assets listed in the register.

Conclusions

We are pleased to report that there are no issues arising in this area of our review process warranting formal comment or recommendation. We have also ensured the accurate disclosure of the total asset register value in the year's AGAR.

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 an appropriate investment policy is in place; 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 fixed assets, nor are there any loans with external bodies in existence repayable by or to it.

We were pleased to note in last year's report that the Clerk had prepared an appropriate Investment Strategy which was approved and adopted by the Council in May 2019.

Conclusions

No matters arise in this area this year.

Statement of Accounts 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. Following implementation of the "Limited Assurance Regime" in 2002, the Council's Statutory Accounts are now embodied in the AGAR and are subject to external audit review and certification.

We have reviewed the AGAR detail, as prepared by the Clerk based on the Excel spreadsheet cashbook with no obvious errors or anomalies in the detailed content

Conclusions

No issues have been identified in relation to the verification of detail in the AGAR this year and we have duly signed-off the Internal Audit Report embodied therein with positive assurances in each relevant area.

| Rec. No. | Recommendations | Response |
|----------|--|----------|
| R1 | Consideration should be given to the acquisition of a suitably designed rubber stamp to be affixed to every invoice / payment docket evidencing the various stages of approval and confirming members' involvement in the process. | |