

Ash Parish Council

Internal Audit Report 2019-20 (Final Update)

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*For and on behalf of
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 Return.

This report sets out the work undertaken in relation to the Internal Audit for the 2019-20 financial year: The first review of the 25th September, the second review of the 14th January 2020 and supplemented by the work of the final update review of the year on the 26th June 2020.

Internal Audit Approach

The final update review of the 2019-20 financial year, necessary to complete the Internal Audit process has been undertaken remotely due to the Covid-19 virus situation and in accordance with Government advice. All files and supporting document required to complete the audit have been supplied by the Clerk/Responsible Finance Officer and his team, as requested, electronically.

In undertaking our 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 / Annual Return. Our programme of cover is designed to afford appropriate assurance that the Council has appropriate and robust financial systems in place that 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' as part of the Council's Annual Governance and Accountability Return (AGAR) process, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

Based on the satisfactory completion of our programme of work for the year, we have concluded that the Council has, again maintained adequate and effective internal control arrangements. We made only five formal recommendations for improvement during the Internal Audit process this year. The responses are recorded in the main body of this report and in the attached action plan.

We understand that the last few months of the 2019-20 financial year have been particularly challenging for councils, both in terms of their day to day operational and administrative functions during this unprecedented crisis. We take this opportunity to acknowledge the swift transition into an irregular working regime, that has been successfully managed by the Clerk/RFO and the Members, which has proven suitable and effective for the Council's needs. We would like to thank the Clerk/RFO for his assistance during this somewhat challenging remote final update review of the financial year which has ensured the smooth and successful progress of the final review of the year.

We have completed and signed the 'Annual Internal Audit Report', having concluded that the control objectives set out in that Report have been achieved within the financial year to a standard adequate to meet the needs of the Council. We ask that members consider the content of this report and acknowledge that the report has been formally reviewed and adopted by Council.

Ash Parish Council

Review of Accounting Arrangements & Bank Reconciliations

Our objective here is to ensure that the accounting records are being maintained accurately and that no anomalous entries appear in cashbooks or financial ledgers. To that end, we have: -

- Noted that the External Auditor has now concluded their examination of the Council's year end submissions and has issued an unqualified External Audit certificate for the 2018-19 Financial Year.
- Ensured that the financial ledger coding structure remains appropriate and is unchanged compared with the previous year;
- Checked and verified that the closing account balances, as reported in the Statement of Accounts and AGAR for 2018-19, have been correctly rolled forward as opening balances for 2019-20 in the Omega software;
- Checked and verified all transactions on all the Council's accounts and cashbooks for the months of April, July and November 2019, and March 2020;
- Noted that the Council continues to use Cheques as its main payment method rather than move to electronic banking. At the time of the 1st Interim Internal Audit one outstanding had gone 'out of date' another was at the point of doing so. This had been resolved as at the date of the final review of the year; and,
- Noted all Bank reconciliations for the month to 30th November 2019, and the month of March 2020 had been correctly performed and appropriately recorded as having been checked and verified;

Conclusions and recommendations made in prior FY 2019-20 reviews

We note that the Clerk continues to make expense claims for certain Council expenses. We encourage Members to consider acquiring a Debit/Credit card for use by the Clerk to enable the internet purchases to be made for the benefit of the Council.

We further note that the Council continues to use cheques as its preferred payment method. At the time of the 1st Interim Internal Audit one cheque had gone 'out of date' and another was at the point of doing so. Close attention should be paid to ensure that this does not happen in the future.

Finally, in this area of our review, we encourage Members, once again, to reconsider an electronic banking solution both to reduce bank charges and to take control of the Council's cashbook.

- R1. *Members should consider acquiring a Debit/Credit card for use by the Clerk to enable internet purchases to be made for the benefit of the Council. **Response: Not Implemented.***
- R2. *The Clerk/RFO must ensure a process is put in place to manage uncashed cheques to ensure that no further cheques go 'out of date' as this demonstrates poor accounting practice. **Response: Implemented.***
- R3. *Members should reconsider an electronic banking solution for the Council's ongoing payment and receipt needs. **Implemented.***

Review of Corporate Governance

Our objective here is to ensure that the Council has robust corporate governance documentation and processes in place, that Council and Committee meetings are conducted in accordance with the adopted Standing Orders 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 have to date: -

- Examined the minutes of the Full Council and its Standing Committees' meetings (except Planning) for the year to 31st March 2020 to ensure that no significant issues affecting the Council's financial stability either in the short, medium or long term exist.
- Noted that, subsequent to the Clerk/RFO successfully attaining the CiLCA qualification, the Council became eligible for and adopted the General Power of Competence at the Annual Meeting of the Parish Council in May 2019;
- Noted that the Clerk/RFO resigned and left the Council's employ in November of 2019, at which time at which time the Council lost its eligibility to use the General Power of Competence; and,
- Noted that the Council's extant Standing Orders and Financial Regulations were appropriately re-adopted at the Annual Meeting of the Parish Council in May 2019, however, we bring the Council's attention to the fact that, once again new NALC model document Standing Orders and Financial Regulations were issued at the end of May containing the latest Legislative amendments and Best Practice standards.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation.

We take this opportunity to remind Members that on the departure of the current Clerk, who is CiLCA qualified, the Council will immediately lose its eligibility to qualify for the General Power of Competence (GPoC). All projects that have commenced under the GPoC may be completed under the GPoC, however all new projects undertaken by the Council must be undertaken using the relevant power until a new CiLCA qualified Clerk is appointed and the Council formally Resolves that it is once again eligible to adopt the GPoC.

Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Cheques are signed by two elected members of the Council;
- 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;
- An official order has been raised for all purchases and service delivery where one would be expected;

- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct expense codes have been applied to invoices when processed; and,
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have completed testing in this area, examining all those payments individually in excess of £2,500, together with a more random selection of every 25th cashbook transaction, irrespective of value, for the financial year to the 31st March 2020 for compliance with the above criteria. Our test sample was extended to include 73 individual non-pay related payments, equating to 71% of all non-pay related payments to date and a total expenditure of £393,843.

We note the continued use of the certification slip fixed to each payment processed. This enables the payment document to be matched with its corresponding purchase order, assigned a payment reference number, which can be traced via to the corresponding 'Schedule of Payments' that is presented to the Members as an Appendix to the Agenda, reviewed at the monthly meeting of the Full Parish Council, duly authorised and minuted, with the cheques being prepared by the Clerk/RFO at the Council's offices for signature by approved Members. Individual BACS payments can be traced via their unique payment reference to the detail of the corresponding bank statement.

We further note that there is clear evidence that Members scrutinise the Invoices and other Payment documents included on an Order of Payment List and initial these.

Finally, in this area of our review we have checked and verified all the four quarterly VAT returns noting that this has been prepared, submitted to and repaid by HMRC and have verified the accuracy of that reclaim to the underlying Rialtas control account and noted that the year-end reclaim had been corrected recorded in the VAT Control account.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation.

Review of 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 identified in order to minimise the opportunity for their coming to fruition.

We note that Members have duly considered, and formally re-affirmed, Financial and General Risk Management Registers in the June meeting of the Full Parish Council recorded under minute reference 30. We do not consider any further work to be necessary in this area at present, however, we do recommend the Clerk/RFO reviews the new dynamic Risk Management system for Councils, 'Risk Wizard' www.riskwizard.co.uk which provides a browser based solution specifically designed for Council's in England and Wales.

We have examined the year's insurance schedule with Zurich Municipal on a three-year term agreement, active until the 1st July 2022; noting that Public Liability is now set at 15M, Employer's

Liability at £10 million, Hirers Liability at £2 million, Fidelity Guarantee at £2 million Liabile & Slander at £250K and Legal Expenses at £200K, all of which we consider appropriate for the Council's requirements.

We have reviewed the Council's arrangements for the regular inspection of playgrounds and playing fields and note that the Council maintains four recreation areas and six playgrounds, which are inspected bi-weekly by RPI qualified members of the Grounds Staff who complete a written inspection report. Paper copies of the reports are kept on file for a period of three years from the date of the inspection. A quarterly inspection of all areas is undertaken by the Playground Inspection Company, their subsequent report being reviewed in the Amenities, Finance & Administration Committee who agree a programme of works to address the report's recommendations. The Council's playground and recreation area inspection policy was adopted and last reviewed at the meeting of the Full Parish Council in October 2017.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation.

Review of Precept Determination and Budget Control

We aim in this area of our work to ensure that the Council has appropriate procedures in place to determine its future financial requirements leading to the adoption of an approved budget and formal determination of the amount to be precepted on the District Council; that effective arrangements are in place to monitor budgetary performance throughout the financial year and that the Council has identified and retains appropriate reserve funds to meet future spending plans.

The Clerk/RFO and Members undertook a robust Budget setting and Precept determination process for the 2020-21 financial year. The Clerk produced a full and detailed Budget analysis document which formed the basis of the Members' discussions.

The process commenced on the 1st October 2019 and concluded at the January meeting of the Full Council when the Budget was approved and adopted and the Precept was set at £488,080, as formally recorded in the Council's Minutes.

Finally, in this area of our review we have examined the Council's reserves at the year-end taking account of the year's budget outturn with total reserves at 31st March 2020 standing at £1,129,654 (£1,148,247 prior year) comprising of 18 specific earmarked reserves with a total value £1,053,121, unchanged since 31st March 2019, leaving a residual General Reserve balance of £95,606 (£95,602). The latter represents approximately two months' revenue expenditure at FY 2018-19 levels, sitting lower than the current Chartered Institute of Public Finance Accountants (CiPFA) guidance in this area of between 3 and 6 months of reserve at current levels of revenue expenditure.

Conclusions

Whilst the Council continues to hold extremely high levels of earmarked reserves its General Reserve balance is lower than the recommended level. Members should consider the CiPFA guidance in this area when undertaking the Budget setting and Precept determination process to ensure that the Council's working reserves are kept at an appropriate level.

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 the invoice is submitted in a timely manner and that effective procedures are in place to pursue recovery of any outstanding monies due to the Council. We note that, in addition to the Precept, the Council continues to receive income from a variety of sources including Room hire at the Ash Centre, interment and related cemetery management fees, investment interest, recovered VAT, occasional donations grants and S106 monies:

- We have noted that the Council continues to maintain its income information in Rialtas Sales Ledger module;
- We have noted that the Council has again undertaken a formal review of its fees and charges with all increases approved accordingly for 2019-20;
- We have checked and agreed all general sales ledger invoices (room hire, cemetery related income etc.) issued to 31st December 2019, ensuring that the fees charged were in accord with the published scales with no undue delays identified in settlement by customers; and,
- Finally, in this area, we have once again, reviewed the way in which cash and cheque receipts are recorded for banking for the financial year to 31st December 2019 with no issues arising.

Conclusions

Whereas it is noted that the Clerk/RFO has undertaken significant work during the 2019-20 financial year in order to clean up the Sales Ledger, there are still a number of anomalous and historic entries which have not been resolved and several outstanding debts or incorrect payment allocations.

Petty Cash Account

Whilst the amounts expended in this area are extremely limited, we are charged, as part of the Annual Return certification work, with examining the Council's petty cash accounting controls and signing off accordingly in the Return. Our aim is to ensure that appropriate controls are in place, that all expenditure incurred is adequately supported by trade invoices or till receipts, that VAT (where applicable is separately identified and that expenditure incurred is appropriate to the Council's needs.

We have examined the operation of the "Imprest" based petty cash account, which has an approved maximum holding of £250, by reference to the expenditure transactions in April, May, June, July and August 2019 with all the above criteria met accordingly.

We have also checked and agreed the physical cash holding as at the 25th September 2019 and the 14th January 2020 with no issues arising.

As the final update review of the year was undertaken remotely, due to Government directives concerning the Covid-19 situation, it was not possible to check the physical cash holding. We

have however, checked and verified the year-end reconciliation and balance sheet with no issues arising.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation.

Review of 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 HM Revenue and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the LGPS (further revised with effect from 1st April 2017 as regards employee contribution percentage bandings).

The Council continues to manage the production of its monthly payroll inhouse: we have examined the November 2019 payroll detail and have: -

- Ensured that the Council has approved employee pay rates for the Financial Year, together with implementation of the NJC pay award on the new harmonized pay scale for 2019-20, also ensuring that these were correctly applied;
- Ensured that appropriate PAYE tax codes are being applied to employees;
- Checked and verified all Timesheets for the November 2019 pay period had been correctly tabulated, transcribed and authorised and that the corresponding variable pay had been paid at the correct overtime rate;
- Ensured that NI deductions were computed accurately based on the current "tables";
- Ensured that the correct percentage superannuation deductions, based on the revised LGPS and NEST, are being applied where appropriate; and,
- Verified that net salary payments have been made to staff appropriately and been recorded accurately in the accounting records, noting that all salary payments continue to be made by BACS.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation

Review of Fixed Asset Register

The Governance and Accountability Manual requires councils to develop and maintain a register of all assets. The Annual Return requires disclosure of the value of assets retained by the Council as at 31st March, annually, with a revision to the reporting detail issued in 2010 that requires asset values to be reported at cost price or, where that value is unknown, the prior year Annual Return value updated to reflect the cost of any new acquisitions or deletions / disposal.

We note that the Regulations continue to be met, with robust management process in place and appropriate registers being maintained. We are confident that the overall asset values have been

correctly reported in Box 9, Section 2 for 2019-20 in the amount of £3,814,112 (£3,802,112 prior year), in accord with in-year purchases and disposals.

Conclusions

There are no issues arising in this area of our report warranting formal Comment or recommendation. However, we take this opportunity to advise the Clerk and Members that Rialtas now offers an Asset Register Module, to which Assets can be added at point of purchase making the Fixed Asset Register easier to administer.

Review of 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 institutions, 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 the relevant loan agreements.

We have verified detail of the investments in two periodic Term deposits held at Close Brothers and the CCLA Property Fund. We note that the monies held in the CCLA Local Property Development Fund are invested on a 5-year term maturing in May 2024.

We note that there are two further 1 year fixed-term deposits with Close Brothers which matured in May 2020 and that members of the Amenities, Finance & Administration Committee approved the reinvestment of these deposits for a further term of twelve months. Additionally, a further £943,697 is maintained in the Council’s Nationwide Building Society account.

As noted earlier in this report, we have checked and agreed all interest and dividends arising thereon to cashbooks and relevant nominal ledger codes in the Omega software.

We have checked and agreed the two bi-annual PWLB loan instalment repayments (September 2019 and March 2020) from relevant bank statements to their third party “demand” notice as part of the sample payments testing noted earlier in this report. Finally, we have also verified the residual capital balance to that disclosed at Box 10, Section 2 of the Annual Return.

Conclusions made in prior FY 2019-20 reviews

It is incumbent on every Council to ensure, as far as that is reasonably possible, the security of its public funds and to achieve the best rate of interest on those funds. The Council continues to hold almost one million pounds with the Nationwide Building Society. There are two significant issues in this regard which the Clerk/RFO and members should review as a matter of urgency and in concert with its own Investment Strategy:

- i) The Financial Services Compensation Scheme only guarantees upto £85,000 in the event of the failure of any bank, credit union or building society. This means that currently, £898,355 is potentially at risk in the event that the Nationwide Building Society fails.***
- ii) The Council already has funds invested with the CCLA in the Local Authorities’ Property Fund at 4.26% interest where funds are placed with over 80 banks with a Triple-A credit rating. The CCLA also operate a Public Sector Deposit Fund which offer a***

good level of interest on a 30-day basis. The current rate of return on the funds invested in the Nationwide is less than one percent. Given the current rate of return on the CCLA LAPF of 4.26%, a return on investment of approximately £32,057 is being lost to the taxpayer in the financial year.

- R4. *Members should review the Council's Investment Strategy/Policy and revise where necessary to ensure that the Council's approach to the investment of surplus funds continues to, as far as reasonably possible, minimise risk and maximise return on investment. Response: Not implemented.*
- R5. *Members should review alternative investment solutions for the public funds currently deposited with the Nationwide Building Society in light of R4. above. Response: Not implemented.*

Statements of Account and Annual Governance & Accountability Return

The Council's annual Statements of Accounts have, as in previous years, been prepared from the Rialtas accounting software, together with detailed supplementary supporting notes. We have checked and agreed, by reference to the accounting system's closing Trial Balance and other relevant documents, the content of the Statement of Accounts and the supporting notes, detail of which is transferred to Section 2 of the Annual Return.

We have also reviewed the process for identifying and verified the accuracy of year-end debtors and creditors, as disclosed in the Balance Sheet to appropriate supporting documents.

Conclusions

On the basis of our detailed programme of work undertaken during the course of the year on the Council's systems of financial control and satisfactory conclusions drawn from our examination of the content of the detailed Statement of Accounts and the summarized detail set out in Section 2 of the Annual Governance & Accountability Return, we have duly "signed off" the Internal Audit Certificate assigning positive assurances in each relevant category.

Rec. No.	Recommendations	Response
Review of Accounting arrangements & Bank Reconciliations		
R1	Members should consider acquiring a Debit/Credit card for use by the Clerk to enable internet purchases to be made for the benefit of the Council.	<i>Response: Not implemented.</i>
R2	The Clerk/RFO must develop a process is put in place to manage uncashed cheques to ensure that no further cheques go 'out of date' as this demonstrates poor accounting practice.	<i>Response: Implemented.</i>
R3	Members should reconsider an electronic banking solution for the Council's ongoing payment and receipt needs.	<i>Response: Implemented.</i>
Review of Investments and Loans		
R4	Members should review the Council's Investment Strategy/Policy and revise where necessary to ensure that the Council's approach to the investment of surplus funds continues to, as far as reasonably possible, minimise risk and maximise return on investment.	<i>Response: Not Implemented.</i>
R5	Members should review alternative investment solutions for the public funds currently deposited with the Nationwide Building Society in light of R4. above.	<i>Response: Not Implemented.</i>

Rec. No.	Prior Year Recommendation & Responses (FY 2018-19)	Response
Review of Accounting arrangements & Bank Reconciliations		
R1	The Clerk/RFO should respond to the External Auditor after discussion and agreement with members. The response should detail the External Auditor's error in misidentifying the CCLA investment as having been drawn-down rather than the Close Brothers Investment, and advise them that all the information pertinent to their enquiry had already been supplied in the original audit submission that had been sent to them.	<i>Response: The Clerk has resolved this issue and the External Auditor's Certificate has now been issued.</i>
R2	The Clerk/RFO should be provided with appropriate on-site training in use of the Council's Rialtas Omega accounts system, as soon as practicably possible. This should include: Introduction to Rialtas Omega, Earmarked Reserves and Budgeting to ensure that best practice use of the system is adopted and that records are accurately recorded and maintained.	<i>Response: The Clerk/RFO left the employ of the Council. A new Clerk/RFO is in place and should undertake this training.</i>
R4	Cash Books should be created in the Rialtas Accounts system for both the Petty Cash and the CCLA LAPP.	<i>Response: Implemented.</i>
R5	Ideally, all payment documents should be entered onto the Rialtas Accounts system as they are received, but at a minimum, on a weekly basis. Additionally, all list of debtors / creditors and payment schedules should be completed from Rialtas and not by any external means.	<i>Response: Implemented.</i>
R6	Members should consider simplifying the way in which payments, such as the Precept, are journaled onto various Nominal Codes as this process adds a level of complexity which is not required for a council of Ash PC's operational size. Rialtas records the expenditure against nominal codes as part of its internal operations.	<i>Response: Implemented.</i>
R7	Any cheque payment which remains unrepresented for a period of three months or longer should be investigated and either cancelled, or the supplier requested to cash that cheque. Unrepresented cheques must not be allowed to keep 'travelling' on the system without rectification.	<i>Response: Implemented.</i>
Review of Corporate Governance		
R8	Whilst the Council does not meet the qualification criterion to use the General Power of Competence it should consider what Powers it may lawfully utilise to make Resolutions and Payments. The Powers which the Council has utilised must be recorded with the corresponding Resolution.	<i>Response: Implemented.</i>
R9	Members should ensure that they scrutinise the Bank Statement reconciliations and the original Bank Statements, initialling all documents to signify that they have done so.	<i>Response: Implemented.</i>

Rec. No.	Prior Year Recommendation & Responses (FY 2018-19)	Response
R10	The Clerk should refer to 'Charles Arnold Baker' with regard to Best Practice in creating Agenda, taking and recording Minutes. We also recommend that the Clerk takes the on-line Agenda and Minutes course provided by the SLCC.	<i>Response: Implemented.</i>
R11	Members should reconsider an electronic banking solution for the Council's ongoing payment and receipt needs.	<i>Response: Implemented.</i>
Review of Assessment and Management of Risk		
R12	Members are required to review the Council's Health & Safety and Business Risk Registers at least once, annually. The revised/unamended Registers should be presented to the Members at a meeting of the Council, Approved and Adopted, the Member's actions being formally recorded in the Minutes of that meeting.	<i>Response: Implemented.</i>
Review of Precept and Budget Control		
R13	Members should consider CiPFA guidance which advises Councils to establish a General Reserve Fund of between 3 and 6 months of revenue expenditure at current levels.	<i>Response: Not implemented.</i>
R14	The £1,053,120.57 should be properly allocated across the Council's Earmarked Reserves established in Rialtas Omega to enable a proper audit of the Earmarked Reserves usage, and to assist the Council with its budgeting processes and analysis.	<i>Response: Implemented.</i>
Review of Income		
R15	The Clerk/RFO should contact the Christian Mission to ascertain whether their cheque, in the amount of £250 has been cleared. If the cheque has been cleared then the Council's bank should be contacted to trace the monies. If the cheque has not been cleared, then the Christian Mission should be requested to cancel and reissue the cheque for banking in the usual manner.	<i>Response: The Clerk now advises that the cheque in question did not exist and that its recording was a clerical error.</i>
R16	The Clerk should develop a Credit Control Policy including a standard debt recovery process for consideration and, ultimately, Adoption by Members. This will ensure that a consistent Credit Control process is undertaken throughout the year preventing the accumulation of historic debts which have little chance of recovery.	<i>Response: Implemented. Adopted 11.11.2019</i>
Review of Salaries & Wages		
R17	Members should consider outsourcing its payroll and pensions function to a bespoke payroll services provider which may reduce the council's costs, both in terms of time and software charges	<i>Response: Considered but not implemented.</i>