

Oldbury on Severn Parish Council

Internal Audit Report 2020-21

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 2020-21 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 new Clerk in assisting the process, 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.

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. Our programme of cover has been 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' as part of the Council's AGAR process, which requires independent assurance over several internal control objectives.

Overall Conclusion

We are pleased to conclude that, based on the programme of work undertaken during our audit this year, the Council has continued to maintain adequate and effective internal control arrangements, although we have identified one or two areas where action is required, as detailed in the body of the report with resultant recommendations summarised in the appended Action Plan. We ask that the report be presented to the Council and responses to the recommendations be provided in due course.

We have 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.

We take this opportunity to remind the new Clerk of the requirements set out in the guidance notes in the preface to the year's AGAR in relation to the documentation that should be displayed on the Council's website, together with the need to ensure compliance with the timing requirements for publication of the Notice of Public Rights to examine the Council's documentation for the financial year.

Detailed Report

Review of Accounting Arrangements & 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 the Scribe accounting software in use throughout the financial year. Four bank accounts were in use during the year, the main Council's account with NatWest, together with an NS&I account and the two PFC accounts with Santander.

We have undertaken the following work in this area this year: -

- Verified the accurate carry forward of the 2019-20 closing balances as opening balances for 2020-21 in the Scribe accounts;
- Ensured that an appropriate coding analysis of receipts and payments remains in place within the Scribe accounts;
- Verified the full year transactions on all accounts as recorded in the Scribe accounting software by reference to supporting bank account statement details;
- Verified the accurate recording of detail on the combined account bank reconciliation as at 31st March 2021 in Scribe ensuring that no long-standing cheques or other anomalous reconciling entries exist, and
- Ensured the accurate disclosure of the combined bank account balances in the year's AGAR at Section 2, Box 8.

Conclusions and recommendation

We are pleased to record that no significant concerns exist in this area this year. However, the PFC current account with Santander has only been used to pay the monthly N-Power Direct Debit whilst the Deposit account is only earning minimal amounts of interest each month. Consequently, we suggest that consideration be given to closure of the two Santander accounts with residual balances transferred to the NatWest account, although we were aware last year that the former Clerk was considering the potential benefits of switching to Unity Bank, which affords a secure means of electronic banking and payment release procedures and is used by a large number of parish councils nationally.

R1. Consideration should be given to closing the two former PFC accounts with funds transferred to the Council's NatWest Current Account or in another bank offering interest on the deposited balance, although we appreciate that interest rates are minimal in the current economic climate.

Review of Corporate Governance

Our objective here is to ensure that the Council has robust corporate governance documentation and procedures in place; that Council meetings are conducted in accordance with the adopted Standing Orders (SOs); that appropriate controls are in place over the management of public funds and that, as far as we are reasonably able to ascertain as we do not attend meetings, no actions of a potentially unlawful nature have been or are being considered for implementation.

To meet that objective, we have examined the Council's and Standing Committee's minutes for the financial year to determine whether any issues exist that may have an adverse effect, through litigation or other causes, on the Council's future financial stability.

We note that both SOs and Financial Regulations (FRs) have been reviewed and updated in line with the latest NALC guidance both being re-adopted by the Council at the July 2020 meeting;

We understood last year that no formal documentation existed setting out the Council's approved financial procedures (frequently rather derogatorily referred to as "idiot's guides"). Whilst not an essential or legal requirement, we considered that these should be produced in order to help ensure easy and effective continuity management in the event of the Clerk leaving or being absent for an extended period with no opportunity for effective hand-over of the approved processes. The former clerk had indicated her intention to develop appropriate documentation, but we have not been provided with copies of any such detail created in the current financial year: consequently, we reiterate our prior year recommendation in order that this is not overlooked.

Due to the change in Clerk during the year, the new Clerk has been unable to trace as yet the 2019-20 external audit certificate / report and has contacted the external auditors requesting a further copy, which she has agreed to forward for our examination in due course. The Accounts and Audit Regulations require that a raft of financial information be posted on the Council's website annually, detail of which is summarised in the preface to each year's AGAR. We have examined the website noting that most of the required information has been posted including a Notice of Conclusion of the year's Audit: however, the external audit certificate has not, seemingly, been published. Consequently, we remind the new Clerk that she will need to comply with the disclosure requirements for 2020-21.

Conclusions and recommendation

Whilst no significant concerns arise in this area, we reiterate our previous recommendation that, unless already promulgated, appropriate detailed financial procedure notes should be developed and be approved by the Council. As above, we also remind the Clerk of the need to ensure that all required documents are formally publicised on the Council's website.

R2. In order to help ensure effective continuity of service provision and ongoing effective financial control in the event of any long-term absence of key officers and in line with best practice, consideration should be given to the development of formalised financial procedures.

Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and approved 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 payments are being reported to Council;
- VAT has been calculated correctly for periodic recovery;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount; and
- That all payments have been coded appropriately.

Following our 2019-20 review, we understood that revised arrangements were enacted whereby Invoices were checked against the payments list by two councillors, prior to cheques being signed

with an appropriate rubber stamp placed on each invoice. We note that invoices are being scanned and saved to the Scribe accounting software and have examined a sample of 18 payments totalling £8,150 processed during the year: the test sample equates to 59% by value of non-pay related expenditure in the year.

As we have undertaken this year's review remotely, we have not examined the file of original invoices and have consequently been unable to verify that members are actually scrutinising and signing off the original documentation: we acknowledge the potential difficulties of such action in the light of the Covid situation and urge that, once the "lockdown" restrictions are fully lifted and the Council again meets in person, this control should be re-instigated – we have only seen evidence of a few instances among our test sample where the rubber certification stamp acquired by the former Clerk appears to have been affixed to the scanned invoices on the Scribe software.

We note that a single VAT reclaim for 2019-20 was prepared and submitted to HMRC, with repayment duly received in July 2020. We shall ensure appropriate recovery of VAT expended during 2020-21 at our next review.

Conclusions and recommendation

Whilst appreciating the difficulties for members to demonstrate their effective review and authorisation of purchase invoices, we urge that effective control is re-implemented as soon as practicable once life returns to something approaching normality.

R3. The Council should ensure that effective controls over the approval and release of expenditure are operational, ideally with appropriately evidenced documentation of their examination of payments reinstated as soon as is practicable: we also suggest that the signed-off invoices be scanned and saved on the Scribe software.

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 are pleased to note that a formal Risk Register is in place, that it has been reviewed and formally adopted during the financial year, as required by "The Practitioner's Guide" and are pleased to record that we consider that the document remains appropriate for the Council's present requirements.

The Council's insurance cover has been provided through AXA: we have examined the year's schedule and also consider that appropriate cover is in place with Employer's and Public Liability both set at £10 million and Fidelity Guarantee cover at £150,000.

We noted last year that inspections of the playing fields and attached play area are undertaken annually by RoSPA with further on-site inspections undertaken by members of the PFC: we also understood that records of the results of those inspections were maintained. We suggested last year that those individuals undertaking the "local" inspections should receive an appropriate level of RoSPA accredited training, but have seen no indication that the individuals concerned have received appropriate training.

Conclusions and recommendation

We are pleased to record that no significant issues arise in this area currently, although, as indicated above, we suggest that, if not already actioned, all individuals undertaking inspections of the playing fields and play areas receive an appropriate level of RoSPA training: we shall continue to review the Council's risk management procedures and documentation at future visits and report accordingly.

R4. In order to fully protect the Council, all individuals undertaking inspections of play areas should receive an appropriate level of accredited training with the results of their periodic reviews formally recorded and retained.

Precept Determination and Budgetary Control

We aim in this review area 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 parent 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.

We note that the Council has considered its budgetary requirements for 2021-22 agreeing the budget at the January 2021 meeting. Unfortunately, the minutes do not identify the value of the adopted precept for 2021-22 as required and suggest that the value be formally reported and minuted as approved retrospectively at the next full Council meeting.

We are also pleased to note that the Clerk provides members with detail of the Council's budgetary performance at each meeting and have reviewed the year-end outturn report generated by the Scribe software with no areas of concern identified warranting further comment or enquiry.

We also note that the Council hold accumulated funds of £65,880 at 31st March 2021 (£61,900 at the financial year-end, with the Scribe software identifying earmarked reserves of £39,660 within that sum. The residual £26,200 held in General Reserve equates to approximately 41 months' revenue spending at the 2020-21 level and is considered more that appropriate for the Council's present requirements.

Conclusions

There are no issues arising in this area 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, albeit relatively limited sources, to ensure that income is invoiced where appropriate, in a timely manner and that effective procedures are in place to pursue recovery of any outstanding monies due to the Council.

Examination of the Scribe accounts for the year reveals that only limited income has occurred, with monthly income from Busy Bees hire of the pavilion recovered 2019-20 VAT, a recharge for utilities from the Cricket Club and a few donations.

We suggested in last year's report that consideration be given to implementing a formal booking diary for hire of sports and rooms facilities, which has understandably, in view of the Covid situation, neither been required or actioned. We consider it essential that appropriate controls are put in place with an effective audit trail over the hire of Council facilities with a formal booking diary and applications / hire agreements obtained once the facilities are again open to the general public. We do, however, note that the Council has resolved that the public should have free open access to the sports field and MUGA.

We will review the position as part of our 2021-22 interim review and report any further conclusions accordingly at that time.

Conclusions and recommendations

Whilst acknowledging the impact of Covid on the use of Council facilities, we urge that members further consider the position with regard to "free" hire / usage of sports facilities, also implementing a formal diary booking system for room hires once the pavilion is again open to the general public.

- R5. *The continued provision of "free" hire of the facilities should be reconsidered in due course, once the Covid situation has improved.*
- R6. *Once the use of Council facilities returns to a state of more normality, consideration should be given to the implementation of a formal diary recording all bookings to provide the Council with a clear indication of actual usage and potential income.*

Petty Cash Account

The Council does not operate a petty cash account.

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 legislation and the deduction and payment over of income tax and NI contributions. To meet this objective, we have examined the December 2020, plus January and March 2021 salary documentation for the new Clerk. We have:

- Ensured that the Clerk's gross pay has been calculated accordingly by reference to the approved spinal point on the pay scale, noting implementation of the 2020-21 nationally agreed NJC pay award;
- Noted that the Clerk's salary is below both the Income Tax and National Insurance (generally) contribution thresholds, and
- Ensuring the appropriate net salary payment is being made to the Clerk each month.

Conclusions and recommendation

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

Fixed Asset Registers

The Practitioner's Guide requires all Councils to maintain a comprehensive register of all assets owned and leased by the Council. We aim to ensure that such a register is in place, that it is comprehensive and contains all the basic information that should, ideally, be embodied in the record.

We are pleased to note the existence of a detailed register, which has, according to the minutes, been reviewed during the financial year with the appropriate detail and financial values now recorded in the Scribe accounts: we have consequently ensured that the total value of these assets has been recorded accordingly in the year's AGAR at Section 2, Box 9.

Conclusions

No matters have been identified in this area this year warranting comment or formal recommendation.

Investments and Loans

The Council has no "investments" or "loans" in place currently, all funds being held in the four bank accounts with occasional and generally small amounts of interest received.

Statement of Accounts and AGAR

The AGAR, Section 2, now forms the Council's formal Statement of Accounts subject to external audit examination and certification. We have, as a courtesy to the Council, checked and agreed the accuracy of the values to be recorded in the Part 3 AGAR at Section 2 for 202-21 to the underlying detail in the Scribe accounts.

Conclusions

We are pleased to record that no issues have arisen have been identified in this area warranting formal comment or recommendation and have duly signed off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area.

Rec. No.	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	Consideration should be given to closing the two former PFC accounts with funds transferred to the Council's NatWest Current Account or in another bank offering interest on the deposited balance, although we appreciate that interest rates are minimal in the current economic climate.	
Review of Corporate Governance		
R2	In order to help ensure effective continuity of service provision and ongoing effective financial control in the event of any long-term absence of key officers and in line with best practice, consideration should be given to the development of formalised financial procedures.	
Review of Expenditure and VAT		
R3	The Council should ensure that effective controls over the approval and release of expenditure are operational, ideally with appropriately evidenced documentation of their examination of payments reinstated as soon as is practicable: we also suggest that the signed-off invoices be scanned and saved on the Scribe software.	
Assessment and Management of Risk		
R4	In order to fully protect the Council, all individuals undertaking inspections of play areas should receive an appropriate level of accredited training with the results of their periodic reviews formally recorded and retained.	
Review of Income		
R5	The continued provision of "free" hire of the facilities should be reconsidered in due course, once the Covid situation has improved.	
R6	Once the use of Council facilities returns to a state of more normality, consideration should be given to the implementation of a formal diary recording all bookings to provide the Council with a clear indication of actual usage and potential income.	