
Broad Town Parish Council

Internal Audit Report 2019-20

*Chris Hall
Consultant*

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 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 undertaken our review for the year remotely: we wish to thank the Clerk for 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. 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 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 AGAR. Our programme of cover has, as with all our clients, 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 Report' in the Council's AGAR, which requires independent assurance over a number of internal control objectives.

Detail of the work undertaken on the Council's accounting and other records is set out in the following detailed report, together with those issues arising with recommendations further summarised in the appended Action Plan.

Overall Conclusions

While we note that the Council is still deficient in some aspects of internal control and good governance, some of which we indicated in our report last year, we note an improvement in procedures that enables us to sign off the AGAR for 2019/20. However, we encourage the Council to play a far greater role in scrutinising its financial and governance affairs, in order to support the Clerk.

Detailed Report

Maintenance of Accounting Records & 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 those records. We note that three bank accounts continue in operation with Lloyds Bank.

We are pleased to note that, following the findings of the 2018/19 audit, the Clerk is now maintaining a cashbook on an Excel spreadsheet with a good level of analysis over budget headings, to a level appropriate for a Council of this size. A VAT analysis is also included.

We note that bank reconciliations are reported to each Council meeting. However, during the audit we noted that an unpresented cheque as at 31 March 2020 had not been correctly recorded in the cashbook, which did not therefore agree to the bank reconciliation. This has now been corrected.

Conclusions and recommendation

RI. The Council should undertake greater scrutiny of bank reconciliations.

Review of Corporate Governance

Our objective here is to ensure that the Council has a robust regulatory framework in place that Council and Committee meetings are conducted in accordance with the adopted Standing Orders (SO's) and Financial Regulations (FR's) 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 adopted, in April 2019, revised SO's and FR's based on the NALC model documents with the value for formal tender action set at £10,000 in each document. However, there was a further revision to the NALC Model Form of FR's in mid-2019 which has not yet been considered by the Council.

We have examined the Council's Minutes for the financial year to identify whether or not any issues exist that may have an adverse effect, through litigation or other causes, on the Council's future financial stability and are pleased to record that no such issues arise in this respect.

The requirements of the Transparency Code became mandatory for Smaller Councils (with a turnover of under £25,000 pa.) from 1 April 2015. This requires key documents to be openly available on a free to access website.

While we found evidence of compliance with the Code, it was not immediately apparent. The relevant reports are filed in date order under 'Parish Council Documents' on the current website, and their relevance is not immediately apparent. We have been informed that a new website is due to be launched in the foreseeable future, which needs to address this issue.

Conclusions and recommendations

R2. The Council must ensure full and clear compliance with the disclosure requirements of the 2015 Transparency Code each financial year.

Review of Payments and VAT

We have undertaken substantive testing of a range of 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.

We are pleased to note that a rubber stamp showing approval of the payment by Councillors is now in use.

We note that a VAT reclaim was prepared, submitted to and paid by HMRC covering the period to 31st March 2019. A balance of £359.78 remains on the cashbook to be reclaimed for 2019/20.

Conclusions

No matters have been identified in this area this year.

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 / safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks in order to minimise the opportunity for their coming to fruition.

We have been informed that the Risk Register was reviewed by Council at its August 2019 meeting. However, we can see no evidence that this was formally Minuted.

The Council's insurance is provided by Zurich with Employer's and Public Liability cover both in place at £10 million, together with Fidelity Guarantee cover at £25,000, all of which we consider appropriate for the Council's present requirements.

Conclusions and recommendations

R3. The Council should retrospectively amend its August 2019 Minutes to show that it reviewed its risks, and should ensure that these are appropriately reviewed and Minuted at least annually.

Precept Determination and Budgetary Control

We note that the Council properly considered its 2020/21 budget and precept deliberations at its January 2020 meeting, and set its Precept at £9,772.32.

We have again reviewed the level of retained reserves as at 31 March 2020, noting that they total £18,945 including an Earmarked Reserve for playground fencing totalling £3,000, and a further £12,223.69 is held in the Community Fund Account, leaving a General Reserve balance of £3,721. This equates to approximately 4.5 months revenue spending at the 2019/20 level, which is slightly below the Best Practice level of 6 months expenditure.

Conclusions and recommendations

R4. The Council should closely monitor the level and appropriateness of its balances and reserves.

Review of Income

The Council receives limited income primarily by way of the annual precept, small amounts of bank interest and recovered VAT, together with donations received into the Community Fund for specific projects. We have agreed a sample of receipts to bank statements and other available supporting documentation.

Conclusions

No matters have been identified in this area this year.

Petty Cash / Clerk's Out-of-pocket Expenses

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 salary payments are in line with the Council approved pay rates and that extant legislation is being appropriately observed as regards adherence to the requirements of HMRC legislation in relation to the deduction and payment over of income tax and NI contributions.

We have test-checked salary payments to the Clerk, noting that payments are made against a timesheet approved by Councillors, and that the low level of payment is unlikely to attract regular HMRC deductions.

Conclusions

No matters have been identified in this area this year.

Fixed Asset Register

We are pleased to note the existence and maintenance of an appropriate register. However, we noted that the total asset value had originally been recorded on the AGAR at a depreciated cost. This treatment is incorrect – Council are required to show their assets at the original purchase cost net of VAT. This has consequently been corrected by the Clerk.

R5. The Council should particularly review its asset base as part of the end of year procedures.

Investments and Loans

The Council holds no funds in investments, nor does it have any loans in place either repayable by or to it.

Statement of Accounts and AGAR

The AGAR now forms the Council's Statutory Accounts subject to independent external audit examination and certification. We have now agreed the detail in the year's AGAR at Section 2.

Conclusions

No additional issues arise in this review area and, based on the work undertaken this year, we have duly signed off the Internal Audit Report in the AGAR, assigning positive assurances in each relevant area.

Rec. No	Recommendation	Response
R1	<i>(Accounting Records and Bank Reconciliations)</i> The Council should undertake greater scrutiny of bank reconciliations.	
R2	<i>(Corporate Governance)</i> The Council must ensure full and clear compliance with the disclosure requirements of the 2015 Transparency Code each financial year.	
R3	<i>(Management of Risk)</i> The Council should retrospectively amend its August 2019 Minutes to show that it reviewed its risks, and should ensure that these are appropriately reviewed and Minuted at least annually.	
R4	<i>(Budgetary Control)</i> The Council should closely monitor the level and appropriateness of its balances and reserves.	
R5	<i>(Fixed Asset Register)</i> The Council should particularly review its asset base as part of the end of year procedures.	