

Chitterne Parish Council

Internal Audit Report 2020-21

Chris Hall
Consultant Auditor

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 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 again undertaken our review for the year remotely: we wish to thank the Clerk in assisting the process, providing all necessary additional 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 2020-21, 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' as part of the year's AGAR process, which requires independent assurance over ten internal control objectives.

Overall Conclusion

We have concluded that, on the basis of the satisfactory conclusion of our annual programme of work, the Council has, on balance, maintained adequate and effective internal control arrangements. We have one significant concern that we would like the Council to consider – however, we note that an existing control currently provides a measure of assurance. We have made this recommendation in the body of this report and in the attached Action Plan, which we would ask the Council to complete and return in due course.

We wish to thank the Clerk for the very clear way transactions are recorded and for her assistance in providing all necessary documentation for our review so promptly after the financial year-end.

Consequently, we have completed and signed the year's 'Internal Audit Report', having concluded that, on balance, the control objectives set out in the Report have been 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 here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. The Clerk has maintained the Council's accounting records using an Excel spreadsheet, which we consider appropriate for the level of annual activity. We have tested transactions recorded in the cashbook during the year to the supporting Nationwide bank statements. Finally, in this area, we have checked and agreed the year-end bank reconciliation, also ensuring the accurate disclosure of the year-end balance in Section 2, Box 8 of the year's AGAR.

Conclusions

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

Review of Corporate Governance

Our objective 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 and that no actions of a potentially unlawful nature have been or are being considered for implementation.

We note that the Council formally revised its Standing Orders (SOs) and Financial Regulations (FRs) based upon NALC Model Forms at the May and July 2020 Council meetings respectively.

We have examined the Council Minutes for the year to determine whether any issues exist that may have either a legal or financial impact on the Council and its future financial stability, also ensuring that, as far as we may be reasonably expected to ascertain, no actions / decisions of an unlawful nature have occurred or may be being considered. We have one significant concern arising from this review, concerning Minute 20/10 of the meeting on 18 May 2020, when the Council resolved to delete FR2.2. This is an important control, providing assurance of independent check of the Council's accounts. While this control is also met by the approval of bank balances and payments due at each meeting, such reviews should be regarded as in addition to, rather than instead of, FR2.2. Therefore, Council should actively consider withdrawing the quoted Minute of the May 2020 meeting. The maintenance of sound internal control will be even more important during 2021-22 when the Council is entering into a major financial project concerning the purchase of a Community Pub.

We note the Council's continued compliance with the disclosure requirements of the Transparency Code 2015. In addition to the records published, the Council should also consider publishing its Risk Register.

Conclusions and recommendation

R1. The Council should review, and ideally withdraw, its previous decision to delete FR2.2, which is an important internal control.

Review of Payments

Our aim here is to ensure that: -

- 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;
- The expenditure is formally approved by the Council and this is recorded in the minutes;
- The expenditure has been allocated to correct cost headings; and
- VAT has been calculated correctly, with an annual reclaim taking place each year of the previous years balance.

We have tested a sample of payments made during the year to ensure that the above criteria have been met.

Conclusions

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

Assessment and Management of Risk

We note that, at its meeting in August 2020, the Council reviewed its Risk Register, which meets the requirements of Financial Regulations.

We are pleased to note that, in accordance with Risk Register item 1.2, the Council approved a Business Continuity Policy at its November 2020 meeting.

The Council is insured with Axa. We have reviewed the content of the 2020-21 insurance schedule and consider that it is appropriate for the Council's current needs with Employer's and Public Liability cover both in place at £10 million, Officials Indemnity at £500,000 and Business Interruption cover set at £10,000. There is also enhanced cover for play park assets.

Conclusions

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

Budgetary Control and Reserves

In this area of our coverage, we aim to ensure that the Council has sound procedures in place for the determination of its annual budget; monitoring and managing available resources throughout the financial year.

The Council's Minutes show that a Budget setting and Precept determination process was undertaken at the November 2020 meeting, agreeing the Precept for 2021-22 at £9,800.

We note that members continue to receive full information of the Council's financial position at each meeting with detail of bank balances and payments due provided. However, we would again emphasise our comments above concerning the importance of maintaining the FR2.2 requirement in addition to this control.

As part of the Budget setting exercise, the Council established an Earmarked Reserve of £1,000 for tree maintenance. Based on the 2020-21 outturn this leaves a General Reserve of £6,671 which is around 8 months normal expenditure, which is an acceptable level although it should remain under review.

Conclusions

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

Review of Income

The Council receives limited levels of income other than the Precept by way of allotment rents, occasional grants and donations, together with small amounts of bank interest and VAT refunds.

We are pleased to note that Allotment charges are now subject to annual review each November.

Conclusions

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

Petty Cash Account

The Council does not operate a petty cash account. Any out-of-pocket expenses incurred by the clerk in connection with her work for the council are reclaimed and paid by separate cheque processed in the same manner as all trader payments. Resultantly, there are no issues arising from this area of our review warranting formal comment or recommendation.

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 relating to the deduction and payment over of income tax and NI contributions, noting that the Clerk, who is the sole employee of the council, has opted out of the council's pension scheme.

The Clerk continues to prepare the payroll using the HMRC bespoke Basic PAYE Tools software: we have test-checked salary records ensuring that the appropriate tax allowances have been applied and paid over to HMRC.

Conclusions

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

Asset Register

We note that, at its meeting in May 2020, the Council approved its Asset Register that meets the requirements of Financial Regulations, and that a Condition Review was undertaken in January 2021. All recorded assets are valued either at original cost or a nominal £1, as required by the Government Accounting Manual.

Conclusions

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

Investments and Loans

The Council has no funds in investments, nor does it have any loans either payable by, or to it, at present. We are aware of the Council's major investment plans for 2021-22, which are likely to require the approval of an Investment Policy to meet legal requirements. We will reconsider this issue as part of our 2021-22 audit review.

Statement of Accounts and AGAR

We have reviewed the content of the financial data reported at Section 2 of the year's AGAR agreeing it to the underlying financial records.

Conclusions

No additional issues arise in this area. Based on the satisfactory conclusion of our review for the year, we have duly signed off the Internal Audit Report assigning positive assurances in each relevant area.

Rec. No.	Recommendation	Response
R1	(Corporate Governance) The Council should review, and ideally withdraw, its previous decision to delete FR2.2, which is an important internal control.	
