

Chitterne Parish Council

Internal Audit Report 2019-20

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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 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 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 2019-20, 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 maintained adequate and effective internal control arrangements. We have also identified a few areas where we consider controls could be further improved: detail of these is set out in the body of the report with resultant recommendations further summarised on the appended Action Plan.

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, in all significant respects, 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 Excel based spreadsheets, 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 are pleased to note that the Council formally revised its Standing Orders (SOs) and Financial Regulations (FRs) based upon NALC model documents and adopted this at the May 2019 meeting of the Full Council.

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 are pleased to note the Council's continued compliance with the disclosure requirements of the Transparency Code which became mandatory for smaller councils from 1st April 2015. However, we would like to suggest enhancements in publicly available information with regard to Open Government tenets.

With regard to tendering procedures referred to in both Standing Orders (18a(v)) and Financial Regulations 11.1(h), it is recommended that, with regard to the level of expenditure of the Council, these be matched at £5,000.

We also understand that, following the UK's exit from the EU, NALC were, prior to the current Covid-19 crisis, preparing a further revision to both SOs and FRs which was due to be promulgated in the summer of 2020: this timescale will obviously now slip and we will keep the Council advised as soon as we hear of any developments in this respect.

Conclusions and recommendation

R1. The Council should consider publishing further information in the spirit of Open Government, such as Standing Orders, Financial Regulations, Code of Conduct, Complaints Procedure, and the Risk Register. Consideration should also be given to enhancing the list of payments over £100 with the name of the payee.

R2. Adjust Standing Order 18a(v) to £5,000, to agree with the related Financial Regulation.

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. Reclaims are submitted to HMRC normally on an annual basis (there was an additional reclaim during 2019/20 regarding playground equipment), given the relatively small sum involved. This currently takes place in the following financial year. Consideration should be given to recovering as much as reasonably possible in the correct financial year, to support budgetary control and Precept setting;

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

R3. Consider submitting the annual VAT reclaim each January, to recover as much as possible in the appropriate financial year.

Assessment and Management of Risk

We are pleased to note that, at its meeting on 11th November 2019, the Council adopted a Corporate Risk Register that meets the requirements of Financial Regulations, as recommended in the 2018/19 Internal Audit report. However, to ensure this Register continues to inform Council awareness of the changing risk environment, it is recommended that reviews are undertaken more frequently (such as half-yearly) rather than the minimum annual review required by Financial Regulation 14.1.

Risk Register item 1.6 refers to a Financial Procedures Instruction Booklet, which is regarded as best practice for business continuity in the sudden absence of the Clerk. The Clerk has noted this as a task for 2020/21.

The Council is insured with Axa. We have reviewed the content of the 2019-20 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.

We note that the Council is responsible for maintaining a recreation ground with play equipment installed on it, which was enhanced during 2019/20. We are pleased to note that a named Councillor has been nominated to undertake periodic safety checks, in addition to the annual RoSPA inspection, which was a concern in the 2018/19 Internal Audit report.

Conclusions and recommendations

R4. The Council should continue to enhance the Risk Register, by reviewing it on a half-yearly basis. With regard to business continuity, Financial Procedures should be documented.

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 and other documentation available on the Council's website indicate that members have undertaken a robust Budget setting and Precept determination process (at the meeting on 11th November 2019), agreeing the Precept for 2020/21 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 since the last meeting provided and consider this an acceptable level of control for a Council the size of Chitterne.

Further to concerns expressed in the 2018/19 Internal Audit report at the low level of General Reserves, we are pleased to note that the Council has recognised this concern and that General Reserves at 31st March 2020 now represent around 4 months of normal expenditure. The Council should continue to closely monitor this issue, with an objective of increasing the General Reserve to a level of around 6 months normal expenditure (around £4,000 based on 2019/20 transactions).

R5. Members should ensure that when undertaking the Budget setting and Precept determination process that the provision of an appropriate level of General Reserve is kept in mind at all times.

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.

With regard to fees for Allotment tenants and grazing rights, we note that these were last reviewed in December 2018. We have been informed that there is no policy relating to periodic review.

Conclusions and recommendation

R6. Council should formulate and adopt a policy of periodic review (not necessarily increase) of such charges at a given frequency. We take the opportunity to remind the Clerk and Members that Allotment tenants must be provided with twelve months' notice of any increase in fees.

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 are pleased to note that, at its meeting on 11th November 2019, the Council adopted an Asset Register that meets the requirements of Financial Regulation 12.6, as recommended in the 2018/19 Internal Audit report. It was noted that 2 assets (Sports Field litter bin and seat) have been recorded with no value.

Conclusions and recommendations

R7. *The value of the two referenced assets should be identified or, as a minimum, a nominal value of £1 should be assigned to each.*

Investments and Loans

The Council has no funds in investments, nor does it have any loans either payable by, or to it, at present. However, we take this opportunity to draw the Clerk and Council's attention to a current change in the requirement for production of a formal Investment Strategy: whilst this only becomes mandatory for Councils with retained funds in excess of £100,000, current NALC guidance indicates that, again in line with best practice, all Councils holding funds in excess of £10,000 should also develop an appropriate Strategy.

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
Review of Assessment and Management of Risk		
R1	(Corporate Governance) The Council should consider publishing further information in the spirit of Open Government, such as Standing Orders, Financial Regulations, Code of Conduct, Complaints Procedure, and the Risk Register. Consideration should also be given to enhancing the list of payments over £100 with the name of the payee.	
R2	(Corporate Governance) Adjust Standing Order 18a(v) to £5,000, to agree with the related Financial Regulation.	
R3	(Payments) Consider submitting the annual VAT reclaim each January, to recover as much as possible in the appropriate financial year.	
R4	(Risk Management) The Council should continue to enhance the Risk Register, by reviewing it on a half-yearly basis. With regard to business continuity, Financial Procedures should be documented.	
R5	(Budgetary Control and Reserves) Members should ensure that when undertaking the Budget setting and Precept determination process that the provision of an appropriate level of General Reserve is kept in mind at all times.	
R6	(Review of Income) Council should formulate and adopt a policy of periodic review (not necessarily increase) of such charges at a given frequency.	
R7	(Asset Register) The value of the two referenced assets should be identified or, as a minimum, a nominal value of £1 should be assigned to each.	