

West Lavington Parish Council

Internal Audit Report 2020-21

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Background and Scope

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 continuing impact of the Covid-19 pandemic, we have again undertaken our review for the year remotely, although the provision of the hard-copy finance file by the Clerk has greatly assisted the process. That, and electronic data provided, has facilitated 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 again 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' in the Council's AGAR, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

While we conclude that the Council's control objectives have been satisfied to an adequate standard, we are disappointed to note that many of our recommendations made in 2019-20 have been inadequately or incorrectly applied, and we therefore make them again for Council's serious consideration. They are designed to improve record keeping, strengthen internal control and governance, and make the end of year AGAR preparation easier and more robust.

We would ask that Council consider and formally respond to these recommendations in due course.

We have duly completed and signed-off the 'Internal Audit Report' in the year's AGAR assigning appropriate and reasonable assurances in each relevant area.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliation

The Clerk maintains the Council's accounting records using a spreadsheet, which is appropriate for the volume of annual transactions. Three bank accounts are in use with Lloyds (a Current and two Deposit accounts). The only transactions on the two Deposit accounts in the financial year were the addition of monthly interest and, as in prior years, we suggest that members consider merging these Deposit accounts to reduce administration and (possibly) increase interest earnings.

We have checked and agreed a sample of cashbook entries for the financial year to bank statements, with no issues arising. However, with regard to the accounting records, we note many of the same issues that we raised last year, ie. incorrect totals being generated due to a failure to use generated totals, and a lack of analysis of expenditure across detailed columns. This has resulted in a number of necessary changes to the 2020/21 AGAR Accounting Statement (Section 2), again mainly relating to payroll costs, which have been referred to the Clerk for amendment.

We again note that, while reference to bank reconciliations is clearly made in the Council's Minutes, there is no evidence on file of examination and sign-off by an independent Councillor in accordance with Financial Regulation 2.2. This is an important governance control.

Conclusions and recommendations

We again recommend that full and proper use be made of spreadsheet formulas and columnar analysis, to support compilation of both the end-of-year AGAR and monthly budgetary control reports to Council. We therefore repeat and enhance our recommendations from 2019-20, which remain outstanding:

- R1. In line with best practice and the Council's own Financial Regulations, the formally prepared quarterly bank reconciliations should not only be reviewed by a nominated non-cheque signing member, they should also be signed-off and dated, the documents being retained and provided for audit inspection.*
- R2. The cashbook and bank reconciliation totals should be calculated using the software formula, rather than be added up separately and then entered, thereby reducing the risk of error. In addition, proper columnar analysis should be used to generate supportable totals for both the AGAR and monthly budget reporting.*
- R3. The AGAR Section 2 financial detail should be amended in line with that provided to the Clerk to reflect the true value of Staff costs to be reported at Section 2, Box 4 of the AGAR with appropriate revised values recorded in other boxes.*

Review of Corporate Governance

Our objective here is to ensure that the Council has a robust series of corporate governance documentation in place, that Council meetings are conducted in accordance with the adopted Standing Orders (SOs) and that no actions of a potentially unlawful nature have been or are being considered for implementation.

We note that the Council undertakes an annual review of both Standing Orders and Financial Regulations (FRs) at its AGM each May, in line with the latest NALC Model forms.

We have reviewed the content of the latest (June 2021) documents, as presented on the Council's website, and note that, while FR11.1h states a tendering value of £10,000, the corresponding SO18a(v) shows the default of £25,000. These should be standardised at £10,000, as the Council has set previously and which we consider more appropriate for a Council the size of West Lavington.

We have examined the Council's Minutes for the year 2020-21 to determine whether any issues exist that may have either a legal or financial impact on the Council and its future financial stability, whilst also ensuring that the Council has neither considered nor is considering any actions that may result in ultra vires expenditure.

From examining the Council's website, we note little compliance with the Transparency Code 2015. Given its budget, West Lavington falls into a gap between the Smaller Authorities Code (up to £25,000) and the Main Code (above £200,000). However, we recommend as Best Practice that all Councils with a budget of less than £200,000 pa. should comply in full with the Smaller Authorities Code. We particularly note the absence of financial information to support the Exercise of Public Rights.

With regard to the Exercise of Public Rights for the 2019-20 Accounts, we concur with the External Auditor that this was incorrectly calculated. Failure to allow for the August Bank Holiday meant that only 29 working days were allowed for, rather than the statutory 30 working days (Monday to Friday).

Conclusions and recommendations

Again, we restate our 2019-20 recommendations in this area:

- R4. The Council must ensure compliance with the Accounts and Audit Regulations publicising all relevant and required documentation on its website.*
- R5. Consideration should be given to setting the limit for tender action at the lower value of £10,000 as was previously the position.*

Review of Payments & VAT

We have reviewed all payments made during the year to ensure that the following criteria were met:

- Payments were supported by a trade invoice or acknowledgement of receipt
- VAT has been calculated correctly and is recovered at appropriate intervals
- Appropriate procedures are in place for the review approval and payment of invoices received
- 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, despite the strictures imposed by the Covid-19 pandemic, transactions are clearly approved by two Councillors and payments properly recorded in the Council's Minutes.

We note that the Council makes a number of grants to appropriate bodies under Section 137 of the Local Government Act 1972, as it is not eligible to apply the General Power of Competence. The use of Section 137 is strictly related to an annual figure (£8.32 for 2020-21) multiplied by the Parish population (thought to be 1,512 in 2019). This results in a ceiling of £12,580 for 2020-21. While the cashbook and Minutes demonstrate that grants made total considerably less than this level, there is no evidence in the cashbook or Minutes that this type of expenditure is being monitored and controlled – indeed, the appropriate cashbook column is not in use.

Conclusions and recommendation

R6. A proper analysis of Section 137 grants should be established and maintained, with regular reporting to the Council, to ensure that the statutory ceiling is not breached.

Assessment and Management of Risk

We note that the Council reviewed and updated its risk register in December 2020 in line with the requirements of the Governance and Accountability Manual.

We note that the Council is now insured with Ageas via Norris & Fisher brokers. However the documentation provided does not show individual levels of important covers such as Public Liability, Employers Liability, official Indemnity and Property All Risks. While these covers undoubtedly exist, Council should assure itself that cover is adequate and appropriate.

While we note approval in the Minutes, and corresponding expenditure, on playground repairs, we have not been presented with any evidence of periodic safety reviews in accordance with the Council's Play Equipment Maintenance Policy. We acknowledge, however, that the playground will have been closed for a significant part of the year due to pandemic restrictions.

Conclusions and recommendations

- R7. *The Council must ensure that its insurance cover is adequate and appropriate for its responsibilities.*
- R8. *The Council should ensure that playground safety inspections are regularly undertaken and recorded in accordance with its own Policy.*

Budgetary Control and Reserves

We note that the Council considered its budgetary requirements for 2021-22 and adopted an unchanged Precept of £31,889 at the January 2021 meeting. We note that the Council continues to monitor its budget at each Council meeting.

We have been given evidence that specific Earmarked Reserves totalling £20,970 were in place as at 31 March 2020, but we have not been informed whether these have been updated as at 31 March 2021. Given that the total reserves (bank balances) at 31 March 2021 equal £30,289, this means that the Council has a General (unallocated) Reserve of £9,319 at that date, which represents around 30% of the annual Precept, against a generally accepted best practice level of 50%.

Conclusions and recommendation

- R9. *The value of specific Earmarked Reserves to be carried forward from one year to the next should be identified and formally recorded in the Minutes, and Reserves (both Earmarked and General) should be regularly reviewed for appropriateness and maintained at a prudent level.*

Review of Income

The Council receives relatively limited annual income generally in the form of the annual Precept, reclaimed and refunded VAT, limited bank interest and other miscellaneous donations. We have, as indicated in the first section of this report checked and agreed cashbook transactions to bank statements and other available supporting documentation.

Conclusions

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

Petty Cash Account

No petty cash account is operated by the Council. Consequently, with any out-of-pocket expenses incurred reclaimed and paid accordingly through the normal payment process.

Review of Staff Salaries

We have checked and confirmed that monthly salary payments to the Clerk are in line with her employment contract, with the most recent (1 April 2020) pay award having been implemented. We note that appropriate PAYE deductions are made and paid over to HMRC on a quarterly basis.

The payroll service is maintained by an external contractor (Charlton Baker).

Conclusions

We are pleased to record that no additional issues arise in this area other than the correct calculation of annual payroll costs (see recommendation R3 above).

Fixed Asset Registers

The Governance and Accountability Manual (G&AM) requires all councils to maintain a record of all assets owned, valued at original net purchase cost or, where that value is unknown, a reasonable valuation that can be a nominal £1. These values only then change due to acquisitions and disposals in each year.

We are happy to record that the Council's Asset Register, and the valuation as at 31 March 2021 recorded on the AGAR, is in line with this requirement.

Conclusions

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

Investments and Loans

The Council has no specific investments or loans in place.

Statement of Accounts and AGAR

The AGAR, Section 2, now serves as the Council's statutory Accounts, which, together with the Governance Statement at Section 1 is subject to external audit review and certification.

We have checked and agreed the detail on the AGAR to the analysis of receipts and payments as set out in the cashbook subject to the amendments required in relation to the recording of staff costs at Section 2, Box 4 of the year's AGAR and consequently values in other Boxes.

Conclusions

Based on the satisfactory conclusions reached from our review programme, we have duly signed off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area, but remind the Clerk and members of the need to publish all relevant information on the Council's website.

Rec. No.	Recommendation	Response
Maintenance of Accounting Records and Bank Reconciliation		
R1	In line with best practice and the Council's own Financial Regulations, the formally prepared quarterly bank reconciliations should not only be reviewed by a nominated non-cheque signing member, they should also be signed-off and dated, the documents being retained and provided for audit inspection.	
R2	The cashbook and bank reconciliation totals should be calculated using the software formula, rather than be added up separately and then entered, thereby reducing the risk of error. In addition, proper columnar analysis should be used to generate supportable totals for both the AGAR and monthly budget reporting.	
R3	The AGAR Section 2 financial detail should be recorded in line with that provided to the Clerk to reflect the true value of Staff costs to be reported at Section 2, Box 4 of the AGAR with appropriate revised values recorded in other boxes.	
Review of Corporate Governance		
R4	The Council must ensure compliance with the Accounts and Audit Regulations publicising all relevant and required documentation on its website.	
R5	Consideration should be given to setting the limit for tender action at the lower value of £10,000 as was previously the position.	
Payments		
R6	A proper analysis of Section 137 grants should be established and maintained, with regular reporting to the Council, to ensure that the statutory ceiling is not breached.	

Management of Risk

R7 The Council must ensure that its insurance cover is adequate and appropriate for its responsibilities.

R8 The Council should ensure that playground safety inspections are regularly undertaken and recorded in accordance with its own Policy.

Budgetary Control & Reserves

R9 The value of specific Earmarked Reserves to be carried forward from one year to the next should be identified and formally recorded in the Minutes, and Reserves (both Earmarked and General) should be regularly reviewed for appropriateness and maintained at a prudent level.
