

# **North Weald Bassett Parish Council**

*Internal Audit: Final update report 2019-20*

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## **Background**

Statute requires all town and parish councils to arrange for an independent internal audit examination of their accounting records and systems 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 2019-20 financial year, during our initial visit to the Council, which took place on 29<sup>th</sup> November 2019. Due to the impact of the Covid-19 pandemic, we have undertaken our final review for the year remotely: we wish to thank the Clerk and Finance Officer (FO) in assisting the process, providing all necessary additional (to that examined at our interim visit) 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 conducting 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 is designed to afford 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 series of internal control objectives.

## **Overall Conclusions**

We are again pleased to conclude that, based on the work undertaken this year, the Council continues to maintain generally adequate and effective internal control arrangements with only a few issues identified requiring action to further strengthen existing controls.

We wish to thank the Clerk and Principal Finance Officer (PFO) for the clear manner in which records are maintained.

Based on the generally satisfactory conclusions drawn from completion of our planned programme of work, we have duly signed off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

The Council operates two accounts with Unity Bank, with transaction detail recorded in the RBS Rialtas Omega accounting software. 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. Consequently, we have: -

- Ensured that an appropriate chart of accounts remains in place
- Ensured the accurate roll forward of the final 2018-19 year-end balances as opening balances in the 2019-20 Omega ledger
- Verified transactions on both bank accounts for four months' (April and September 2019, plus January & March 2020) by reference to the underlying bank statements, including verification of all inter-account transfers between the two accounts for those same months
- Verified detail on bank reconciliations as at 30<sup>th</sup> April and September 2019, plus 31<sup>st</sup> March 2020, also by reference to supporting bank statements, and
- Ensured the accurate disclosure of the combined bank account balances in the year's AGAR at Section 2, Box 8.

We also noted at our interim visit that the Council had undertaken a major revision of its IT arrangements, now operating on Office 365 with Cloud based retention of documentation affording staff remote access to files, etc as and when required.

### Conclusions

***We are pleased to report that no issues have been identified from the testing undertaken in this area this year.***

## 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 (SOs) and that, as far as we may reasonably be expected to ascertain as we do not attend meetings, no actions of a potentially unlawful nature have been or are being considered for implementation.

We have examined the Council and standing committee's minutes for the financial year and to date in 2020-21 where meetings have occurred by reference to those published on the Council's website to ensure that no issues exist or may be being considered by the Council that may have an adverse effect, through litigation or other causes, on the Council's future financial stability.

We note that both Standing SOs and Financial Regulations (FRs) were reviewed and re-adopted at the full Council meeting held on 1<sup>st</sup> April 2019. The NALC model FRs were subsequently revised (marginally) and re-issued during 2019. We now 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.

Consequently, we suggest that, once the revised documents are promulgated, the Council should review and update their extant documents accordingly.

We have made previous reference to the advisability of putting fully detailed operational financial procedure documentation in place to ensure that, in the event of any long-term absence of key personnel, the Council's financial procedures can continue to function / be operated in accordance with the approved working practice by another officer or external agent and note that no further progress has been made in this respect due to other work commitments: we again urge that this be addressed as soon as is practicable.

Examination of the Council's website indicates that members have still to be provided with / comply with GDPR requirements and have Council based e-mail accounts.

### ***Conclusions and recommendations***

***We are pleased to record that no additional issues have been identified in this area at this final review, although as above, we suggest that the documents be reviewed and updated accordingly once NALC has issued the further revised documents following our exit from the EU. We shall continue to monitor the Council's approach to governance at future visits reporting our conclusions accordingly.***

- R1. In order to help ensure continuity of service provision in relation to financial procedures, such as payroll, invoice processing, etc, formal documented financial procedures, sometimes rather derogatorily referred to as "idiots' guides", should be prepared.*
- R2. The Council should take appropriate steps to ensure that each councillor is provided with and uses a Council based e-mail address.*

## **Review of Expenditure & VAT**

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 discounts due on goods and services supplied are identified and appropriate action taken to secure the discount
- The correct expense codes have been applied to invoices when processed, and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have examined the controls in place over the approval of payments and undertaken appropriate testing to ensure compliance with the Council's approved procedures in line with the above criteria selecting, for our interim review, a sample of 26 individual payments processed in the financial year to 30<sup>th</sup> September 2019 including all those in excess of £1,000 plus every 20<sup>th</sup> payment. We have subsequently, as part of this final review, selected a further sample of 12 payments to ensure continuing compliance with the above criteria. Our test sample

for the year totals £86,300 and equates to 55% by value of all non-pay related payments processed in the financial year with the above criteria duly met in each case.

We note that VAT reclaims have been prepared, submitted and repaid for the final quarter of 2018-19, together with those for the first three quarters in 2019-20 and have agreed detail to the underlying accounting software control account balance: the 2019-20 recoverable VAT is correctly identified as a debtor in the year-end Accounts and AGAR

### **Conclusions**

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

## **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 in order to minimise the opportunity for their coming to fruition.

We noted in last year's report the progress made in developing a raft of risk assessments covering both corporate and financial issues, noting that it was adopted by members at the May 2018 full Council meeting. Other than subsequent Health / Safety and Fire Risk assessments for Thornwood Hall and other Council owned premises, we have seen no indication during 2019-20 that the overall financial risk register was reviewed, updated and formally adopted by the Council. We do, however, note that the register was due to be considered at the March 2020 meeting, but due to the present exceptional circumstances, its formal review and re-adoption was deferred until the May 2020 meeting.

We have examined the Council's insurance policy with Zurich Municipal for the current year noting that Employer's and Public Liability cover remain in place at £10 million and £12 million respectively, together with Fidelity Guarantee (FG) cover at £250,000 and Hirer's liability at £2 million, all of which we consider appropriate for the Council's present requirements, although with a year-end combined bank balance in excess of £300,000, the Council may wish to consider increasing its FG cover accordingly. We also noted at our interim review that Thornwood Hall "Loss of Revenue" cover was in place at £9,270, despite actual income in 2019-20 equating to approximately £15,000.

Finally in this area we note that play area safety inspections are undertaken by the contracted groundsman weekly with written reports prepared: these are supplemented by formalised periodic independent specialist contractor's reports, detail of which is submitted to Council for consideration and agreement of any appropriate remedial action that may be necessary.

### **Conclusions and recommendations**

*We are pleased to record that no significant issues arise in this area, although we remind the clerk and members that the "Governance and Accountability Manual – The Practitioner's Guide" requires formal risk assessments, including those affecting the Council's financial status, to be undertaken at least once in each financial year.*

*As reported last year, we suggest that consideration should be given to increasing the Hall's "Loss of Revenue" cover to ensure that it reflects actual annual income that may be lost in*

*the event of damage resulting in the long-term closure of the venue. We shall continue to monitor the Council's approach to risk management at future visits reporting our conclusions accordingly.*

R3. *The Council must ensure that it reviews, updates (where necessary) and re-adopts its financial risk assessment at least once annually.*

R4. *Members should consider increasing the current level of both Fidelity Guarantee and the Hall's "Loss of Revenue" insurance cover to ensure that any potential loss of annual income is effectively insured. The "Business Interruption - Loss of Revenue" cover has been increased to £15,000.*

## **Budgetary Control & Reserves**

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and level of precept to be drawn down from the District Council: also, that an effective reporting and monitoring process is in place. Additionally, we aim to ensure that the Council retains appropriate funds in general and earmarked reserves to finance its ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

We note that, following due deliberation, the Council completed consideration of its budgetary and precept requirements for 2020-21, formally adopting the latter at £222,545 at the January 2020 full Council meeting.

We have examined the year-end budget performance report seeking and obtaining appropriate explanations for the few significant variances existing. We note that the recovery of £4,000 water rates at the allotments has been coded to a separate nominal income code: as it relates to a refund of overcharged rates, it should strictly have been coded as a contra to the expense code as the treatment applied has resulted in the effective overstatement of both income and expenditure in the year's Accounts.

We have considered the level of retained reserves and their continuing appropriateness to meet the Council's ongoing revenue spending requirements and future development aspirations. As at 31<sup>st</sup> March 2020 the Council held total reserves of £309,235 (£270,800 as at 31<sup>st</sup> March 2019), comprising £72,566 (£80,100 at the prior year-end) in the General Reserve Fund and Earmarked reserves (EMRs) of £236,669 (£190,700 previously). The General Fund balance equates to approximately 4 months' revenue spending and sits comfortably within the generally recognised guideline of between three and twelve months' revenue expenditure.

In examining the detail of the retained EMRs, we note that the balance of refundable allotment deposits held has been coded to an EMR code (399). Whilst the amount involved is de minimus, (£136), it should more properly be shown as a creditor in the Omega accounts using a nominal account code in the 500 range rather than an EMR code.

### ***Conclusions and recommendations***

*No significant matters of concern arise in this area, although going forward the FO should ensure that any future refunded overpayments or the like, are coded as contras to the original payment expense code. Additionally, the allotment deposit of £136 should be transferred by journal to a creditor code in the 500 series.*

- R5. Care should be taken in future to code any recovered expenses, arising from items such as overpayments or insurance claims, in the accounting software as a contra to the original expense code.*
- R6. The retained allotment deposits should be recoded to a creditor code rather than be reported as an earmarked reserve.*

## **Review of Income**

Our objective in this area is to ensure that the Council has robust arrangements in place to identify all income due and to ensure that it is both invoiced (where appropriate) and recovered within a reasonable time frame. The Council's major income sources, apart from the annual precept are burial and associated fees, allotment rents and Thornwood Hall hire income.

We note that, following our report last year, the Council has approved and acquired the RBS Bookings software, which was in the process of being installed and applied currently in tandem with the former manual booking diaries at the time of our interim visit. Unfortunately, the Finance Officer had to leave during the course of that visit to attend to a domestic issue and, consequently, we did not examine any detail on the new booking software at that stage, nor have we at this final review, which has been undertaken remotely due to the current Covid-19 restrictions on movement.

However, we examined the 2019 booking diary selecting a sample of bookings recorded in September 2019 checking to ensure that signed booking forms were held and that the appropriate fees had been levied and recovered. As previously, we are pleased to note that the booking diaries identify the relevant receipt reference and basis of the amount received for each.

We also suggested last year that, in line with best practice and to protect the Council in the event of any damage occurring to the hall during a hire, all regular long-term hirers should also be required to sign a new hire agreement / terms and conditions at least annually, with a signed copy retained on file.

We also noted, as part of our review of the budget report at 30<sup>th</sup> September, that the value of allotment fees received, which fall due annually on 1<sup>st</sup> April, were below the target budget and the level received in 2018-19. We have re-examined the allotments register and are pleased to note that no tenant rents remained unpaid at the financial year-end, with several tenants paying their 2020-21 rents in advance in March 2020, the value of which has been identified as a "receipt in advance" in the year-end Accounts and AGAR.

We have, at this final review stage, following provision of detail of a sample of a half dozen interments during the financial year, ensured that the appropriate fees have been charged and recovered with no issues arising.

We have examined detail on the nominal income codes for the year to ensure that, as far as we are reasonably able to ascertain, all anticipated income for the year has been received, with no coding errors apparent currently.

### ***Conclusions and recommendations***

***We acknowledge the Council's actions taken to date to address the issues identified in last year's report in relation to Thornwood Hall booking procedures and will undertake further work in this area at our 2020-21 interim visit in relation to operation of the RBS bookings***

*package. We remain concerned that we were only able to identify 3 booking forms among the documentation provided for our review out of the 10 hirers (individuals and groups) recorded in the manual booking diary in September 2019.*

*R7. Agreement / Hire Terms & Conditions forms for all hirers should be obtained with those for regular hirers completed and signed at least once annually.*

## **Petty Cash Account**

*The Council does not operate a petty cash account, any “out-of-pocket” expenses incurred by staff being reclaimed periodically during the year and processed as with trader invoices: we have examined a sample of these as part of our above expenditure review.*

## **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 as regards the deduction and payment over of income tax and NI contributions. We have, by reference to the October 2019 payroll documentation:

- Agreed the gross salaries paid to all staff to the latest documented changes in employment terms, noting that the Council approved implementation of the 2019-20 national pay award and revised spinal points effective from 1<sup>st</sup> April 2019: we again note that the Finance Officer’s London Weighting allowance has been paid at the prior year rate
- Ensured that tax and NI deductions have been made accurately applying the appropriate tax code and NI Table for the current financial year
- Ensured that the appropriate employee and employer contributions to the pension scheme have been determined and paid over to the Pension Fund Administrators, and
- Verified that all additional hours worked by employees and paid in October 2019 were appropriately supported by relevant time records.

## **Conclusions and recommendation**

*We are pleased to record that no significant issues have been identified in this area this year, although we again note that the FO’s London Weighting allowance required amendment to align it with the nationally agreed amount payable: the correct amount should be paid with future months’ salaries, together with arrears arising from the underpayment to date in 2019-20.*

*We wish to draw the Clerk and RFO’s attention to the changed rules as regards recording of Staff Cost expenditure in Box 4 of the AGAR which come into effect from the 2020-21 financial year: the JPAG Practitioner’s Guide 2020 refers at Page 17.*

*R8. The Finance Officer’s payable London Weighting Allowance should be adjusted and brought into line with the revised amount due from 1<sup>st</sup> April 2019.*



## **Fixed Asset Registers / Inventories**

‘Proper practice’, as set out in the Governance and Accountability Manual, requires that all councils maintain a record of the assets they own. We are pleased to note compliance with this requirement, with a detailed asset register maintained, which has been updated to incorporate detail and values of all assets acquired during 2019-20.

Consequently, we have ensured the accuracy of the disclosure of the new additions during the year in the value disclosed in the 2019-20 AGAR at Section 2, Box 9.

### ***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 long-term investments, surplus cash being held in an interest-bearing Unity Bank account.

Statutory guidance on Local Government investments (3<sup>rd</sup> Edition) issued under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1<sup>st</sup> April 2018 requires all councils with funds in excess of £100,000 to develop and adopt formally an Annual Investment Strategy. In order to assist the Council with this process, we provided the clerk with a sample of Strategies / Policies in existence at a selection of our clients and are pleased to note the preparation and adoption of an appropriate document for the Council at the full Council meeting in May 2019.

The Council has one outstanding loan with PWLB: we have agreed detail of the two repayments made in 2019-20 to the supporting PWLB loan repayment demands as part of our above referenced expenditure testing, also now, at this final visit, ensuring the accurate disclosure of the residual loan liability at 31<sup>st</sup> March 2020 in the AGAR Section 2, Box 10.

### ***Conclusions***

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

## **Statement of Accounts and AGAR**

The Omega accounting software generates a formal Statement of Accounts for presentation to and adoption by members, together with the required data for inclusion in Section 2 of the year’s AGAR. We have reviewed the detail in these documents ensuring that they are consistent with the underlying records.

We have previously examined the arrangements for identifying year-end debtors and creditors and considered them appropriate for the Council’s needs and, from examination of the 2019-20 detail, consider them to be consistent with the prior year’s arrangements.

***Conclusions***

***We are pleased to record that no issues exist in this area and have duly signed off the Internal Audit Report in the AGAR, assigning positive assurances in each relevant area.***

Rec. No.	Recommendation	Response
<b>Review of Corporate Governance</b>		
R1	In order to help ensure continuity of service provision in relation to financial procedures, such as payroll, invoice processing, etc, formal documented financial procedures, sometimes rather derogatorily referred to as “idiots’ guides”, should be prepared.	
R2	The Council should take appropriate steps to ensure that each councillor is provided with and uses a Council based e-mail address.	
<b>Assessment and Management of Risk</b>		
R3	The Council must ensure that it reviews, updates (where necessary) and re-adopts its financial risk assessment at least once annually.	
R4	Members should consider increasing the current level of the Hall’s “Loss of Revenue” cover to ensure that any potential loss of annual income is effectively insured.	<i>The “Business Interruption - Loss of Revenue” cover has been increased to £15,000.</i>
<b>Budgetary Control &amp; Reserves</b>		
R5	Care should be taken in future to code any recovered expenses, arising from items such as overpayments or insurance claims, in the accounting software as a contra to the original expense code.	
R6	The retained allotment deposits should be recoded to a creditor code rather than be reported as an earmarked reserve.	
<b>Review of Income</b>		
R7	Agreement / Hire Terms & Conditions forms for all hirers should be obtained with those for regular hirers completed and signed at least once annually.	
<b>Review of Staff Salaries</b>		
R8	The Finance Officer’s payable London Weighting Allowance should be adjusted and brought into line with the revised amount due from 1 <sup>st</sup> April 2019.	