

# North Weald Bassett Parish Council

*Internal Audit: Final update report 2020-21*

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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 2020-21 financial year, during our two reviews of the Council's records for the year, which have been undertaken remotely due to the ongoing Covid-19 situation and restrictions on 11<sup>th</sup> November 2020 and 2<sup>nd</sup> May 2021. We wish to thank the Clerk and Principal Finance Officer (PFO) in assisting the process, providing all necessary documentation in electronic format to facilitate completion of our review for the year.

## **Internal Audit Approach**

In conducting our review, 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 Certificate' 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, the Council continues to maintain generally adequate and effective internal control arrangements with only a few issues identified at our interim review requiring action which we are pleased to acknowledge has been actioned accordingly wherever possible given the Covid situation. Detail of these issues is set out in the body of the following report with resultant recommendations and responses further summarised in the appended Action Plan.

We have duly signed off the IA Certificate in the year's AGAR providing a copy for the Clerk / PFO's necessary further action. We also take this opportunity to remind the Clerk and PFO of the requirements of the guidance notes in the preface to the year's AGAR in relation to the documentation that should be displayed on the Council's website, together with the need to ensure compliance with the timing requirements for publication of the Notice of Public Rights to examine the Council's documentation for the financial year.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

The Council operates two accounts with Unity Bank, transaction detail being 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 2019-20 year-end balances as opening balances in the 2020-21 Omega ledger;
- Verified transactions on the Current account for four months' (April, September & December 2020, plus March 2021) by reference to the underlying bank statements and on the Deposit account for the full financial year, including verification of all inter-account transfers between the two accounts;
- Verified detail on bank reconciliations as at 30<sup>th</sup> April and September 2020, plus 31<sup>st</sup> March 2021; and
- Ensured the accurate disclosure of the combined account balances in the year's AGAR at Section 2, Box 8.

### Conclusions

*We are pleased to report that no issues have been identified from the testing undertaken in this area to date 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, as posted 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 SOs and Financial Regulations (FRs) were reviewed and re-adopted at the full Council meeting held on 1<sup>st</sup> April 2019. As recorded in our final report for 2019-20, 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: this has understandably been delayed and we will keep the Council advised as soon as we hear of any developments in this respect.

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 approved working practice by another officer or external agent and note that, primarily due to the Covid situation, no further progress has been made to date. We again urge that this be

addressed as soon as is practicable and will check on progress at future visits: consequently, we have reiterated the recommendation in order that it is not overlooked.

We also queried the extent to which members are able to comply with GDPR requirements with Council based e-mail accounts and note that, some progress has been made in this respect, with all councillors now having appropriate e-mail addresses.

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

***We are pleased to record that no significant concerns have been identified in this area, although as above, we suggest that the extant governance 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. Due to the additional workload arising from the COVID situation, this has not yet been completed.***
- R2. The Council should take appropriate steps to ensure that all councillors are provided with and use a Council based e-mail address. All Councillors now have an allocated email address. Councillors are also being issued with specific IT (either an I-pad or a Chromebook) on which to conduct Parish Council business. This IT is currently with the Parish Councils IT supplier to configure for each Councillor.***

## **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 discussed with the PFO the controls in place over the approval of payments, in the light of the Covid situation, and undertaken appropriate testing to ensure compliance with the Council's approved procedures. We understand that, due to the Covid situation, the PFO has provided members with a scanned copy of each invoice who then confirm agreement of the payment by e-mail. Whilst we fully appreciate that it has probably not been practicable or possible for members to continue with the previous practice of initialling individual invoices confirming their approval of the payments, we urge that, once they are again able to visit the Council's offices, the process of initialling invoices is reinstated, ideally, with those processed to date in 2020-21 similarly reviewed and signed-off.

In line with the above criteria, we have selected a sample of 46 individual payments processed in

the financial year including all those in excess of £1,000 plus every 20<sup>th</sup> payment. Our test sample totals £82,200 and equates to 54% by value of all non-pay related payments processed in the year with the above criteria duly met in each case.

We note that VAT reclaims have been prepared, submitted and repaid by HMRC for the final quarter of 2019-20, together with the first three quarters in 2020-21 repayment having been duly received from HMRC, and have agreed detail to the underlying accounting software control account. The final quarter's reclaim is accurately recorded as a debtor in the year-end Accounts and AGAR.

### ***Conclusions and recommendation***

***No significant concerns arise in this review area currently, although, as indicated above, we urge that the previous practice of signing-off invoices by members be reinstated as soon as is practicable.***

***R3. The process whereby members review and sign-off of original invoices confirming their approval for payment should be re-implemented as soon as practicable, ideally with invoices processed to date similarly signed-off. Noted and will be implemented as soon as practicable.***

## **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 are pleased to note the continued existence of a raft of risk assessments covering both corporate and financial issues, which have again been reviewed and adopted by the Council in May 2020.

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, Hirer's liability at £2 million and Loss of Revenue for hall hire cover now increased to £15,000. The combined account balances stand in excess of £400,000: consequently, we urge that Fidelity Guarantee cover is increased appropriately to a higher value than the present and / or potential level of future bank balances.

Finally in this area we note that play area safety inspections continue to be 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 recommendation***

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

***R4. Members should ensure that appropriate Fidelity Guarantee cover is in place equating at least to the potential maximum cash at bank holding at any stage of the financial year. This will be increased to £400,000 when insurance is renewed in June 2021.***

## 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 2021-22, formally adopting the latter at £220,376 at the January 2021 full Council meeting.

We have examined the year-end budget performance report seeking and obtaining appropriate explanations for the few significant variances existing by reference to the detailed Omega transaction reports for the year with none requiring further enquiry or action.

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 2021 the Council held total reserves of £305,506 (£309,235 as at 31<sup>st</sup> March 2020), comprising £68,672 (£72,566 at the prior year-end) in the General Reserve Fund and Earmarked reserves (EMRs) of £236,834 (£236,669 previously). The General Fund balance equates to approximately four months' revenue spending and sits comfortably within the generally recognised guideline of between three and twelve months' revenue expenditure.

### *Conclusions and recommendations*

***We are pleased to record that no residual matters have been identified in this area warranting formal comment or recommendation with appropriate action taken to address the two issues highlighted in our interim report, as follows.***

- R5. *A separate creditor code relating to allotment deposits should be set up with the present retained value transferred from the present earmarked reserve code. **This has been actioned.***
- R6. *The value of the approved 2020-21 precept should be entered into the accounting software to avoid distortion of the total percentage income received against budget. **Noted and actioned accordingly.***

## 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, although, due to the Covid situation, there has only been limited opportunity for the hall to be hired out during the year.

We note that, following our report last year, the Council approved and acquired the RBS Allotments software applying it in 2020-21 and has now also acquired the Hall Bookings and Cemetery software and will be applying those in 2021-22.

We have examined the various allotment rent receipts and outstanding reports with no issues

arising warranting formal comment or recommendation: As far as we have been able to ascertain, all allotment rents have been settled by the end of the financial year.

We have, following provision of detail of a sample of the eight interments occurring to the date of our interim review, examined the scanned copies of undertakers' applications (provided for our scrutiny), together with the necessary Burial / Cremation certificates for each: we have also ensured that the appropriate fees and charges have been applied, noting one or two instances where an odd £1 has been underpaid.

We have examined a sample of the Hall booking officer's booking sheets noting that appropriate invoices have been raised and settled accordingly with no concerns noted: the implementation of the RBS Bookings software will further strengthen controls and we will examine the effective implementation and application of the software at our 2021-22 interim review visit.

We have also examined the detail in the Omega nominal income ledger pertaining to income to ensure that, as far as we may reasonably be able to ascertain all income due to the Council has been received and banked within a reasonable time frame.

### ***Conclusions***

***We are pleased to record that no issues arise in this area this year.***

## **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, examined the September and October 2020 payroll documentation, noting that the former month was the first month when the 2020-21 national pay award was applied, together with arrears from 1<sup>st</sup> April 2020. We have

- Agreed the gross salaries paid to all staff to the national pay award detail for 2020-21 for both months including the value of arrears paid in September 2020;
- Again, noted that the FO's London Fringe Allowance for 2019-20 was paid at the prior year rate without correction: the 2020-21 allowance is, however, being paid at the correct rate;
- Ensured that tax and NI deductions have been made accurately applying the appropriate tax code and NI Table for the current financial year; and
- Ensured that the appropriate employee and employer contributions to the pension scheme have been determined and paid over to the Pension Fund Administrators.

### ***Conclusions and recommendation***

***We are pleased to record that no significant issues have been identified in this area this year,***

*although we noted that the PFO's London Fringe Allowance for 2019-20 was not amended having been paid throughout the year at the 2018-19 rate.*

- R7. *The Finance Officer's payable 2019-20 London Fringe Allowance should be adjusted and brought into line with the revised amount due from 1<sup>st</sup> April 2019. This has been updated as recommended.*

## **Fixed Asset Registers / Inventories**

'Proper practice', as set out in The Practitioner's Guide, 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 2020-21.

Consequently, we have ensured the accurate disclosure of the total asset value as at 31<sup>st</sup> March 2021 in the year's AGAR at Section 2, Box 9 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. We were pleased to acknowledge the preparation and adoption of an appropriate document for the Council in May 2019.

The Council has one outstanding loan with PWLB: we have agreed detail of the two half-yearly loan repayments made in 2020-21 to the supporting PWLB repayment demands as part of our above referenced expenditure testing, also now ensuring the accurate disclosure of the residual loan liability as at 31<sup>st</sup> March 2021 by reference to the PWLB website where detail of all outstanding loan balances is recorded.

### **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 2020-21 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 we have duly signed off the Internal Audit Certificate in the year's AGAR, assigning positive assurances in each relevant area.***

***We remind the Clerk and PFO of the requirements of the guidance notes in the preface to the year's AGAR in relation to the documentation that should be displayed on the Council's website, together with the need to ensure compliance with the timing requirements for publication of the Notice of Public Rights to examine the Council's documentation for the financial year.***

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.	<i>Due to the additional workload arising from the COVID situation, this has not been completed.</i>
R2	The Council should take appropriate steps to ensure that all councillors are provided with and use a Council based e-mail address.	<i>All Councillors now have an allocated email address. Councillors are also being issued with specific IT (either an I-pad or a Chromebook) on which to conduct Parish Council business. This IT is currently with the Parish Councils IT supplier to configure for each Councillor.</i>
<b>Review of Expenditure &amp; VAT</b>		
R3	The process whereby members review and sign-off of original invoices confirming their approval for payment should be re-implemented as soon as practicable, ideally with invoices processed to date similarly signed-off.	<i>Noted and will be implemented as soon as practicable.</i>
<b>Assessment and Management of Risk</b>		
R4	Members should ensure that appropriate Fidelity Guarantee cover is in place equating at least to the potential maximum cash at bank holding at any stage of the financial year.	<i>This will be increased to £400,000 when insurance is renewed in June 2021.</i>
<b>Budgetary Control &amp; Reserves</b>		
R5	A separate creditor code relating to allotment deposits should be set up with the present retained value transferred from the present earmarked reserve code.	<i>This has been actioned.</i>
R6	The value of the approved 2020-21 precept should be entered into the accounting software to avoid distortion of the total percentage income received against budget.	<i>Noted and actioned accordingly.</i>
<b>Review of Staff Salaries</b>		
R7	The Finance Officer’s payable 2019-20 London Fringe Allowance should be adjusted and brought into line with the revised amount due from 1 <sup>st</sup> April 2019.	<i>This has been updated as recommended.</i>