Benson Parish Council

Internal Audit Report: 2020-21 (Final Report)

Prepared by Chris Hackett

For and on behalf of
Auditing Solutions Ltd

Background and Scope

The Accounts and Audit Arrangements, introduced from 1st April 2001, require all Town and Parish Councils to implement an independent internal audit examination of their Accounts and accounting processes annually. The Council has complied with the requirements in terms of independence from the Council decision making process appointing Auditing Solutions Ltd to provide the function to the Council.

This report sets out those areas examined during the course of our review of the Council's financial administrative arrangements for 2020/21, which took place on 3rd March and 16th June 2021. It consolidates matters set out in our interim report. Due to the Covid-19 pandemic this review has been completed remotely and we wish to thank the Finance Officer for providing all the records in electronic format to facilitate our work.

Internal Audit Approach

In undertaking our review for the year, we have had regard to the materiality of transactions and their susceptibility to potential miss-recording or misrepresentation in the year-end Statement of Accounts / Annual Governance and Accountability Return (AGAR). Our programme of cover is designed to afford appropriate assurance that the Council has appropriate and robust financial systems in place that 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 Council's AGAR process, which requires independent assurance over eleven internal control objectives.

Overall Conclusion

We have concluded that, in the areas examined, the Council has generally satisfactory arrangements in place. We have made two recommendations designed to strengthen arrangements and provided a copy of the Internal Audit Report in the AGAR to the Finance Officer.

We request this report is presented to Members.

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 Council uses the Sage accounting system to record its transactions. We have:

- Agreed the 2019/20 closing balances as recorded in the accounts and AGAR to the opening trial balance for 2020/21 on the Sage system;
- Discussed arrangements for processing journal adjustments. We understand these are always done by the Finance Officer and a Sage report can be run to provide an audit trail;
- Discussed arrangements for backing up the data on Sage which we understand is done to a cloud supplemented by monthly local back-ups;
- Obtained a trial balance on the day of the interim and final reviews to ensure the Sage system was in balance;
- As a sample reviewed at the interim stage the current account (Co-op Bank) statements for the period October to 1st March 2021 agreeing the transactions on the bank statement to Sage and agreeing the balance at 1st March to Sage. At the final review stage we agreed the reconciliation at 31st March 2021 and tested transfers in March to the other accounts;
- Reviewed at the interim stage the Unity Trust Bank Statements for January 2021 agreeing the transactions to Sage and agreeing the balance to Sage at 31st January 2021. At the final review we agreed the transactions in the Unity statements for March to Sage and agreed the reconciliation at 31st March 2021;
- Agreed the year end balances on the other accounts from the third party statement to the combined bank reconciliation at 31st March 2021, noting the reconciliations are reported to Members and included in the agenda papers; and
- Reviewed the external auditor's report for 2019/20 noting they raised no matters.

Conclusions

No matters have arisen from our work in the area this year requiring recommendations. Reconciliations are being completed regularly and reported to Members and the accounts balance.

The Nationwide Building Society balance was supported by a scanned page from the Account Book, because of the nature of it, this did not show the name of the account holder. Due to the need to work remotely, we were not able to further verify this balance.

We have agreed the cash balances to the statement of accounts and AGAR.

Review of Corporate Governance

Our objective is to ensure that the Council has a robust series of corporate governance documentation in place; that Council and Committee meetings are conducted in accordance with the adopted Standing Orders and that, as far as we are able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation. We have:

- Completed our review of the minutes of the Full Council for the financial year as posted on the Council's website to identify whether or not any issues exist that may have an adverse effect on the Council's future financial stability, either in the short, medium or longer term;
- Noted the Council adopted its standing orders at its meeting on 28th May 2020;
- Noted the Council adopted its financial regulations at its meeting on 23rd January 2020;
- Noted that payments over £500 are posted on the Council website which we regard as good practice; and
- Confirmed the Council advertised the audit of its 2019/20 accounts by posting the notice of public rights on its website.

Conclusions

No issues have been identified from our work in this area this year.

Review of Expenditure

Our aim here is to ensure that:

- Council resources are released in accordance with the Council's approved procedures and 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; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We discussed controls over the authorisation of expenditure with the Finance Officer noting that a schedule of all payments and a file of matching invoices is submitted to the Council in the week before the Full Council meeting. We note this schedule is subsequently included in the minutes. The Finance Officer sets up items for payment on the banking system. We understand that two Members then sign into the electronic banking system after the Council meeting and authorise electronic payments from the bank. Where necessary two Members sign cheque payments. Barclaycard payments are approved retrospectively with the general payment run unless financial limits are exceeded when Member approval is sought prior to making the payment.

In order to test this area we have examined a random sample of payments totalling £173,035 for the year to March 31st 2021 selected from Sage. The Sage system cash account records items as ‘purchase payment’ rather than always identifying the payee, but we relied in sampling on agreeing the amount on the invoice to the Sage system. We were provided with scanned copies of invoices with no notable exceptions. One payment, being a grant to St Helen’s Church did not have a voucher, but we agreed the payment to the finalised published minutes on the Council’s website. No voucher was provided in relation to a payment to Executive Alarms for £667.88, but the payment was recorded in the published minutes indicating Member authorisation.

We note the Council has recently re-tendered its grounds maintenance contract. The Finance Officer confirmed three bidders provided prices.

We were provided with a copy of the report summarising the approach to tendering the contract to extend the Village Hall and confirmed a suitable number of firms were invited to bid and that the Council obtained professional advice in progressing the project.

We confirmed from review of Sage that the Council continues to submit quarterly VAT reclaims. For the third quarter’s claim for 2020/21 we agreed the reclaim to the VAT control account on SAGE. At the year-end we agreed the VAT debtor due to the spreadsheet workings maintained by the Finance Officer.

Conclusion

Based on our sample, payments are supported by invoices confirming the amounts incurred.

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 note the risk register was reported to Members in February 2021. The risk register analyses risks by service or activity area, quantifies them and identifies mitigating controls;
- We reviewed Council’s insurance policy provided by Zurich which runs to 30th September 2021, cover includes:
  - Buildings insurance
  - Public liability £12m
  - Hirer’s liability £2m
  - Employer’s liability £10m
  - Fidelity guarantee £500k; and
- We note the Council continues to have arrangements in place for monitoring play areas, with them being inspected twice a year by the Play Inspection Company who produce

a formal report which the Council acts on as necessary. We understand that the play areas are inspected daily by the groundsman and monthly by the Halls Manager.

Conclusions and recommendation

The Council has arrangements for managing risks.

The Council's balances regularly exceed its level of fidelity guarantee cover. At the time of our interim review cash balances were £589,000, (not counting funds held by South Oxfordshire Council for CIL). It is generally good practice to have insurance cover equal to the level of cash balances held by the Council.

R1. In line with good practice the Council should ensure its fidelity guarantee insurance cover is in line with its cash holdings.

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. We also 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:

- Detailed quarterly budget monitor reports are prepared and key financial information including performance against the year-end budget is reported to full Council;
- After due consideration by members of the Finance Committee, full Council set the 2021/22 budget and precept at the Council meeting in December 2020. It was resolved to set the budget for 2021/22 with a net expenditure/ precept of £215,571. In setting the budget members were provided with a report setting out for all service areas income and expenditure budgets with a narrative on key points. There was a separate section showing planned capital expenditure and CIL spending;
- An outturn report was prepared by the Finance Officer analysing 2020/21 income and expenditure against budget. An analysis of variances was further provided by the Finance Officer. We note the variations in spending year on year which are impacted by the spending on the Play Area and receipt of CIL;
- Spending in the year was £285,195 excluding CIL general expenditure was £180,113. Setting aside CIL, underlying spend was some £15,000 a month. Year end balances totalled £1,189,028 of which £718,579 related to CIL and is held by SoDC. There is a further restricted reserve of £50,00 relating to the Bloomfield Bequest and elements of the remaining balance have been earmarked for projects. The general unallocated balance at 31st March 2021 was £29,214. The general unallocated balance represents some 2 months spending.

Conclusions

There are no matters requiring formal comment or recommendation, although the level of general unallocated balance is below the usual average for a parish council which is normally in the range of 3 to 8 months spend.

Review of Income

In addition to the precept, the Council's principal sources of income arise from hall lettings and caretaker fees, together with Licence Applications, Allotment rentals, bank interest and sundry grants and donations. We note income has been affected by the pandemic. We have:

- Agreed receipt of the annual precept into the Council's Accounts by reference to the minute approving the 2020/21 precept, (the accounts in this instance comprised an excel download of the Sage system emailed to us). At the year-end we further agreed the precept to the list of parish council 2020/21 precept demands published independently by the Government;
- Reviewed income from hall lettings testing a sample of bookings in December 2020 from the booking diary, confirming the fee was invoiced at the correct rate and agreeing the invoice to the accounts;
- Verified a sample of other income received in the year to amounts invoiced;
- Checked the CIL arising in the year to a spreadsheet provided by the Finance Officer which was we understand was produced by South Oxfordshire District Council; and
- As noted earlier in this report, verified two sample months' receipts from bank statements to the Accounts and reviewed the VAT reclaims.

Conclusions and recommendation

The Council has systems for managing the collection of income.

The audit trail supporting the balance of CIL (£718,579 at 31st March 2021) held on behalf of the Council by South Oxfordshire District Council and supporting the CIL income arising in the year of £405,624 and payments to the Parish Council of £105,651 needs strengthening. The payment to the Parish Council during the year of £105,651 appeared on the bank statement and was not supported by a remittance advice. Details of the balance are, we understand included on a spreadsheet on the District Council website. We understand the District Council has recently taken the administration of this activity back in-house. Our experience at other Councils is that clear statements and remittance advices are provided to support payments and the on-going balance. We acknowledge this area is not directly in the remit of the Parish Council.

R2. The Parish Council should request they are notified by the District Council of CIL receipts received by the District Council on their behalf. The Parish Council should be provided with an annual statement balance and remittance advices when amounts are transferred to the Parish.

Petty Cash Account

We are required to review petty cash as it is one of the control areas in the AGAR we are required to give assurance on.

We understand purchases of small items, formerly done through petty cash, are now bought with the Barclaycard with payments being authorised with the general payment run. The Council still retains a small petty cash balance which at the time of our review stood at

£2.36, being unchanged from last year. Sage indicates there have been no transactions this year.

Review of 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 HM Revenue and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme in relation to salary bandings. We note the Council uses SAGE software to process its payroll with the total pay costs each month reported to Members and two Members signing the hard copy summary of individual payments. To meet our audit objectives, we have reviewed payroll costs in November 2020 as a sample month. We have:

- Agreed the gross pay in November in respect of the Council's Clerk to the Council minute setting their salary;
- Test checked the calculation of PAYE and NI for individual staff;
- Confirmed the deduction of employee and employer pension contributions;
- Confirmed the payment of sums due to HMRC and the Pension Administrator;
- Confirmed records are kept of staff hours where this is necessary; and
- Completed a month on trend analysis of payroll costs recorded on Sage to identify any material anomalies should they arise.

Conclusion

No issues have been identified in this area this year.

Fixed Asset Register

The Governance and Accountability Manual requires all Councils to maintain a record of all assets owned.

We note the Council's Asset Register analyses assets by category. The amount included in the AGAR is the cost of the asset except for land and buildings where, due to their long-term nature, a valuation amount was agreed and fixed in 2003.

We have checked and agreed the total at the year-end on the Council's Asset Register to the amount recorded in the AGAR and statement of accounts, £1,543,726. The main change in the year relates to the expenditure on the play area and we have confirmed with the Finance Officer how the cost was identified for updating the Asset Register.

Conclusion

There are no issues arising in this area to warrant formal comment or recommendation.

Investments and Loans

Our objectives here are to ensure that the Council is "investing" surplus funds, be they held temporarily or on a longer term basis in appropriate banking and investment institutions; that an appropriate investment policy is in place; that the Council is obtaining the best rate of return on any such investments made; that interest earned is brought to account correctly and appropriately in the accounting records and that any loan repayments due to or repayable by the Council are transacted in accordance with appropriate loan agreements. We:

- Note the Council holds funds in various banks. We have tested the year end reconciliations as noted in the section headed 'Maintenance of Accounting Records & Bank Reconciliations';
- Have reviewed the receipt of interest for the year as reported in the accounts; and
- Confirmed the Council has an investment strategy.

Conclusions

No matters arise in this area of our work requiring formal comment or recommendation. We note the Council has no loans.

Statement of Accounts and Annual Governance and Accountability Return (AGAR)

The AGAR section 2 provides the Council's statutory Statement of Accounts subject to external audit review. To provide a fuller picture of the financial position the Finance Officer prepares a Financial Statement.

We have reviewed the detail therein and sample tested from the underlying records and documentation provided. We discussed with the Finance Officer the need for a creditor to be included in the accounts for the balance due on the play area installation with a corresponding debtor for CIL funding.

We have verified the data provided for transposition into the AGAR at section 2.

Conclusions

There are no issues arising in this area to warrant formal comment or recommendation. We have duly signed off the Internal Audit Certificate in the year's AGAR providing a copy for the Finance Officer/Clerk's necessary further action. We also take this opportunity to remind the Officers 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.	Recommendations made during the Interim Audit	Response
Assessment and management of risk		
R1	In line with good practice the Council should ensure its fidelity guarantee insurance cover is in line with its cash holdings.	
Review of Income		
R2	The Parish Council should request they are notified by the District Council of CIL receipts received by the District Council on their behalf. The Parish Council should be provided with an annual statement balance and remittance advices when amounts are transferred to the Parish.	