

## **Taverham Parish Council**

*Internal Audit Report: 2019-20 (Final update)*

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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 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 8<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 Responsible Finance Officer (RFO) 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 of the Council's processes and records for 2019-20 we have examined a selection of the Council's fundamental central financial controls to provide assurance to members and the electorate that the systems continue to operate in accordance with best practice and approved Council procedures: we have also had regard to the materiality of those transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts and AGAR.

## **Overall Conclusion**

We are pleased to conclude that the Council operates generally effective controls that help ensure that transactions are free from material misstatement. The RFO and her colleagues are to be commended on the quality of work produced and the high standards of documentation provided for the purposes of our work: notwithstanding that, we have identified a few areas where we consider controls could and should be further enhanced to afford full and effective demonstrable control over the Council's finances: detail of those issues is set out in the body of the detailed report following with resultant recommendations further summarise in the appended Action Plan.

Based on the generally satisfactory conclusions drawn from our review of the year's accounting and other records, we have duly signed off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area, except in relation to risk assessments, as due to the Covid-19 pandemic, the planned review did not take place at the end of the financial year. The members will, similarly, need to give a negative assertion in the AGAR at Section 1, Box 5.

# Detailed Report

## Review of Accounting Arrangements & 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 RFO uses the Edge accounting software to maintain the Council's financial records with 2 bank accounts in use with Lloyds (Current and Instant Access Deposit), the former for routine payments and the other to receive the Council's income. Separate "cashbooks" are maintained in the Edge accounts. A petty cash account is also in use. Consequently, we have: -

- Ensured that an appropriate nominal ledger structure is in place
- Checked and agreed the opening Trial Balance in the accounting software for 2019-20 to the closing Financial Statements and certified external audit AGAR for 2018-19
- Checked and agreed four sample months' receipts and payments transactions (April & October 2019, plus January and March 2020) for both accounts to the supporting relevant bank statements, including the periodic inter-account transfers
- Checked and agreed the software based bank reconciliations as of 31<sup>st</sup> October 2019, January and March 2020 ensuring that no long-standing uncleared items or other anomalous entries exist, and
- Ensured the accurate disclosure of the combined cash and bank balances in the year's AGAR at Section 2 Box 8.

### *Conclusions and recommendation*

***The Edge "cashbooks" effectively provide a formal month-by-month bank reconciliation and we note that reconciliation detail is also recorded on the bank statements at each month-end. Whilst we note and acknowledge the existence of member checks on the Council's financial affairs, as minuted periodically, best practice, as set out in the latest version of the NALC Model Financial Regulations (para 2.2 refers), suggests that the controls in this area should be as follows: -***

*"On a regular basis, at least once in each quarter, and at each financial year end, a member other than the Chairman [or a cheque signatory] shall be appointed to verify bank reconciliations (for all accounts) produced by the RFO. The member shall sign the reconciliations and the original bank statements (or similar document) as evidence of verification. This activity shall on conclusion be reported, including any exceptions, to and noted by the council [Finance Committee]."*

***We urge that the Council adopts this practice to afford an increased degree of security over the Council's finances and similarly affords further protection for officers in the event that the bank accounts were "hacked" and funds misused.***

*R1. In line with best practice, bank reconciliations should be subjected to independent scrutiny and formal sign-off by a nominated councillor.*

## Review of Corporate Governance

Our objective in this area 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 Financial Regulations (FRs) and that, as far as we are reasonably able to ascertain as we do not attend meetings, no actions of a potentially unlawful nature have been or are being considered for implementation.

We note that the Council's extant governance documentation, such as SOs, FRs & the Members' Code of Conduct are subject to periodic review all being last examined and considered fit for purpose in early 2019. Examination of their content indicates that neither are fully in line with the latest NALC model documents, as detailed below:

- The SOs imply / refer to a limit of £25,000 for formal tender action (Para 18.c), whilst the FRs (Para 11.1.b) refer to a limit of £2,500. Whilst the SOs refer correctly to the 2015 Public Contracts Regulations (same Para), the FRs refer to the 2006 Regulations and require appropriate update. The low level of £2,500 may well dissuade contractors from being prepared to prepare and submit formal tenders for work.
- We consider that the £2,500 limit referred to in the FRs is too low for a council the size of Taverham and suggest that a more appropriate value would be at or nearer to the higher value of £25,000 given the annual turnover.

We have examined the minutes of Full Council and its standing Committees' meetings (with the exception of Planning) for the full financial year with no issues arising other than noting that detail of those in the latter stages of 2019 and in 2020 have not been posted on the website.

### *Conclusions and recommendations*

*As indicated above, we consider that both the SOs and FRs require review and update to bring them into line with best practice as set out in the NALC model documents and have provided electronic copies to the Clerk to assist the process.*

*However, we 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.*

*We shall continue to monitor the Council's approach to governance matters at future visits.*

*R2. The Council should undertake a further review of its governance documentation, ideally bringing it into line with the extant NALC model documents in due course.*

*R3. Consideration should be given to setting a more realistic value for instigating formal tender action than the present level of £2,500 indicated in the Council's adopted Financial Regulations*

## **Review of Expenditure & VAT**

Our objective here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets

- An official order has been raised for supply of goods and services on each occasion where one would be anticipated
- 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.

To ensure ongoing compliance with the above criteria, we have extended testing in this area examining a sample of 39 payments in the financial year including all those individually in excess of £1,500 together with a further selection of every 20<sup>th</sup> cashbook transaction (irrespective of value). Our test sample totals approximately £75,000 and equates to 42% by value of all non-pay expenditure incurred during the year.

We have reviewed the Council's control procedures in relation to the scrutiny and approval of traders' and other invoices for payment and consider them to be operating generally effectively, although we note that members when signing cheques are not signing off the actual invoices / payment documentation.

We do not wish to imply any inappropriate action as having been taken by the Clerk or RFO and purely seek to afford greater protection to officers against possible allegations of inappropriate activity. However, a fraud occurred recently at a South coast town council where members were not reviewing or signing-off the invoices: the Clerk was then resubmitting the same invoices two or more times and, after cheques had been signed by members, changing the payee' name to her own.

Consequently, in line with best practice, we suggest that consideration be given to acquiring a suitably designed rubber certification stamp, which should be placed on each and every invoice / payment voucher. The stamp should ideally include the following detail: -

- Initials of Clerk or RFO confirming receipt of goods / services and arithmetic accuracy of the invoice, including VAT
- Cheque number and payment date
- Edge nominal account code and, if deemed necessary, transaction reference
- Initials or signatures of the 2 cheque signing councillors

We note that the RFO continues to make timely, electronic return VAT submissions as required by extant legislation for registered bodies and have examined the year's submissions with no issues arising.

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

***Whilst we have no concerns over the procedures in place for processing purchase payments, we consider that councillors should evidence the effective discharge of their fiduciary responsibilities initialling every payment document when signing cheques.***

*R4. In line with best practice and to afford a further degree of security to staff, a suitably designed rubber stamp should be acquired and affixed to every payment document with the*

*two cheque signing members duly initialling that documentation as confirmatory evidence of their review.*

## **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 / safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage any risks identified in order to minimise the opportunity for their coming to fruition.

We have previously noted that there are copious physical risk assessments in place, led by the independent Play Inspection Company (who provide detailed reports for consideration), supported by members' periodic "walk throughs" and the daily reviews by the Council's Warden employees and this continues to be the case in 2019-20. However, we understand that, largely due to the Covid-19 situation, the Financial and Management risk register was not subjected to formal review and re-adoption during the course of the 2019-20 financial year contrary to the requirements of the Governance and Accountability Manual (G&AM).

We note that the Council's insurance cover continues to be provided by Zurich and have examined the current year's policy schedule noting that Public and Employer's Liability stand at £15 million and £10 million respectively, together with Fidelity Guarantee cover at £250,000 and Loss of Revenue cover at £24,000 all of which are considered appropriate for the Council currently, which we consider appropriate for the Council's current and ongoing requirements.

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

***Whilst we acknowledge and appreciate the reasons for the Council not formally reviewing and re-adopting the Financial / Management Risk Register during the course of the financial year, the absence of such action will require us to give a negative assurance in the AGAR IA Certificate for the year at Box C: members will similarly have to give a negative assertion in Section 1, Box 5 of the year's AGAR.***

***We shall continue to monitor the Council's approach to the management of risk at future visits.***

***R5. The Council must ensure compliance with the requirements of the Governance and Accountability Manual, formally reviewing and adopting the Financial and Management Risk Register at least once annually. A negative response will need to be given at Section 1, Box 5 of the 2019-20 AGAR due to the absence of such a review in the year.***

## **Precept Determination and Budgetary Control**

We aim, in this area of our work, to ensure that the Council has appropriate procedures in place to determine its future financial requirements leading to the adoption of an approved budget and formal determination of the amount to be precepted on the District Council, that effective arrangements are in place to monitor budgetary performance throughout the financial year and that the Council has identified and retains appropriate reserve funds to meet future spending plans.

We are pleased to note that following extensive consideration by committees, the Council formally approved its budget and precept for 2020-21 setting the latter at £248,463 at the full Council meeting held on 27<sup>th</sup> January 2020.

We note from our examination of the minutes that the RFO regularly produces periodic budget outturn reports from the accounting software and have reviewed the year-end outturn report generated by the Edge software, with no significant or unexplained variances existing warranting further investigation or comment.

We have examined the level of retained reserves which total £188,298 (£150,094 at 31<sup>st</sup> March 2019), including specified earmarked funds totalling £109,672 and leaving a residual General Reserve Fund balance of £78,626: this latter balance equates to approximately four months' revenue spending at the 2019-20 level and sits comfortably within the generally recognised range of between three and twelve months' such expenditure.

### **Conclusions**

*We are pleased to report that no issues arise in this area warranting formal comment or recommendation. We shall continue to monitor the level of retained reserves at future visits.*

## **Review of Income**

In considering the Council's income streams, we aim to ensure that robust systems are in place to ensure the identification of all income due to the Council from its various sources, to ensure that it is invoiced in a timely manner and that effective procedures are in place to pursue recovery of any outstanding monies due to the Council.

We are pleased to note that members have reviewed the Council's scales of fees and charges during the course of the year, agreeing revised fees, as minuted, at the relevant meetings.

As indicated in the first section of this report, we have verified detail of four sample months cashbook receipts to bank statements.

We have, as part of this final review, examined detail of the first two weeks of December 2019 hall bookings at Hinks Meadow, ensuring that the appropriate fees have been invoiced and repaid within a reasonable time scale, with only one booking, actually invoiced in January 2020 unpaid at the financial year-end.

We understand that, whilst a register of allotment tenants is prepared annually, due to GDPR considerations, it is shredded. Whilst we acknowledge the need for such action to ensure compliance with GDPR, an appropriate "sanitised" register should be prepared and maintained for audit purposes: we have discussed the position with the RFO suggesting that the register should contain the following detail: -

- Plot number
- Rent due
- Date of receipt, and
- Amount received, if different from the anticipated amount.

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

***We are similarly pleased to record that no concerns have been identified in this review area, although as indicated above, an appropriate register of allotment rents should be maintained for audit examination.***

*R6. A formal “sanitised” (i.e. excluding detail of tenants’ names, etc) register of allotments should be prepared and maintained for audit inspection, ideally identifying the detail recorded in the body of the report.*

## **Petty Cash and Credit Card Usage**

We are required, as part of the Internal Audit Certification process in the AGAR to assess and give a view on the effectiveness of control over any petty cash account in use by the Council.

The Council operates a very limited petty cash scheme in the Administration office, “topped up” as and when required with a maximum holding of £150. We have examined a sample months’ transactions (September 2019) to ensure that each payment was properly supported by an appropriate supplier invoice and that any recoverable VAT was separately identified: no issues arise from this testing.

### ***Conclusions***

***There are no matters arising in this area to warrant formal recommendation.***

## **Review of Staff Salaries**

In examining the Council’s payroll function, we aim to confirm that extant legislation was 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, together with meeting the requirements of the local government pension scheme as further revised from 1<sup>st</sup> April 2019 in relation to the employee contribution percentage bandings.

We examined the payroll procedures in place at our interim visit, together with the physical payments made to staff in 2019-20 by reference to the September 2019 documentation, the underlying detail for which continues to be produced by third party contractors (Safeguard World). The following work was undertaken: -

- Gross pay rates have been checked to ensure that they are in accord with the approved rates (noting the Council currently applies “in house” levels of salary rather than the more widely applied NJC pay awards)
- PAYE Tax Codes and National Insurance Tables have been checked to ensure that appropriate allowances are being applied for the year following the annual budgetary increases in personal thresholds with effect from April 2019
- Local Government Pension Scheme deduction rates have been checked to ensure they are in accord with the revisions to the bases of employee contributions, most latterly with effect from 1<sup>st</sup> April 2019 (albeit relatively minor changes to the salary banding widths)



- Variable hours and expenses have been verified to individuals' timesheets and claim forms where applicable
- We have checked and agreed the net pay computations on pay slips to the payroll summaries and resultant bank statement and cashbook transactions, and
- We have verified the third party settlements to HMRC and County Council for the deductions for the month to cashbook settlements.

### **Conclusions**

*There are no matters arising in this area warranting formal recommendation although we suggest that consideration be given to assimilating all staff salaries onto an appropriate NJC spinal point, which would simplify the task of determining annual pay awards and their application.*

*We wish to draw the Clerk'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.*

### **Asset Registers**

The G&AM requires all Councils to develop and maintain a register of assets identifying detail of all land, buildings, vehicles, furniture and equipment owned by the Council.

We are pleased to note that the Council has a detailed register in place, although we understand that officers consider that it requires a full review and update to reflect more accurately the Council's present asset holding.

Notwithstanding that, we note that the AGAR Section 2, Box 9 value reflects the total value recorded in the extant Asset Register.

Several of our clients have also developed a photographic register of their asset stock, more relevantly relating to those assets such as street furniture, play equipment, etc which could be subjected to vandalism or accidental damage; a number of councils have found such a document of assistance in expediting any insurance claim following damage, accidental or wilful, to Council property and equipment and we commend the development of such a register to the Council as a further example of best practice.

### **Conclusions and recommendations**

*As above, we note the intent to undertake a thorough and full review of the existing asset register to ensure that it reflects the current stock of Council assets.*

*R7. The intended review of the asset register should be undertaken as soon as practicable and, ideally, prior to the 2020-21 financial year-end.*

*R8. Consideration should be given to the development of a photographic register of the Council's assets to aid the smooth progression of any insurance claim that might arise from damage sustained.*

### **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 and that interest earned is brought to account correctly and appropriately in the accounting records.

The Investment of surplus funds by local authorities is governed by the Local Government Act 2003, section 15(1)(a), as recently amended with effect from 1<sup>st</sup> April 2018 and Guidance issued by the Secretary of State under that Act. The guidance applies to all councils should total balances exceed or be expected to exceed £100,000 at any time during the financial year.

Whilst we cannot act as financial advisors, we note that interest on the Lloyds bank account during 2019-20 totalled just over £100, which is a very poor return on an average holding of around £200,000 in the Deposit account during the year. Additionally, whilst Lloyds is unlikely to “fail”, should such an eventuality arise, the Council would only be able to recover up to £85,000 of the total funds held at Lloyds. Consequently, we suggest that consideration should be given to a degree of diversification of the placement of funds in banks, whilst endeavouring to obtain a better rate of interest, although, given the present Covid position, that is probably unlikely at present.

We also aim to ensure that any loan repayments due to or payable by the Council are processed in accordance with the respective and relevant loan agreements.

### *Conclusions and recommendations*

*We note that no formal Investment Strategy / Policy is currently in place at Taverham and have provided the Clerk with a few examples to assist in the development of an appropriate document for adoption by the Council. Consideration should also be given to diversification of the holding of funds across further banking institutions to afford great protection should a bank fail and also, possibly, to improve on the interest return being achieved.*

*R9. The Council should develop an appropriate Investment Policy / Strategy as required by the Local Government Act 2003, section 15(1)(a), as amended in 2018.*

*R10. In conjunction with the development of that document, consideration should be given to the diversification of funds in further banking institutions, whilst also endeavouring to achieve a better rate of interest return.*

## **Statement of Account and AGAR**

The 1996 Accounts and Audit Regulations (as amended periodically) require all Councils to prepare annually a detailed Statement of Accounts, together with supporting statements identifying other aspects of the Council’s financial affairs. The AGAR now forms the Council’s statutory Accounts subject to external audit review and certification.

We noted last year the existence of a comprehensive file of working papers prepared by the RFO for this purpose: obviously, it has not been possible to review such a file this year and we thank the RFO for providing all necessary information for our review. As a service to the Council, we have checked and agreed the content of the 2019-20 AGAR by reference to the underlying year-end Trial Balance detail with no issues arising.



## *Conclusions*

*We are pleased to record that no additional matters arise in this area to warrant formal comment or recommendation, and we have, as noted in the opening preamble to this report, duly signed off the Internal Audit Report at Page 3 within the AGAR assigning positive assurances in each relevant area of the year's IA Certificate, apart from that relating to risk assessments (recommendation R5 refers).*