

Taverham Parish Council

Internal Audit Report: 2020-21 (Final Update)

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For Auditing Solutions Ltd

Background and Scope

All town and parish councils are required by statute to make arrangements for an independent internal audit examination of their accounting records and system of internal control, and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR). Auditing Solutions Ltd has been appointed to undertake this function on behalf of Taverham Parish Council for the 2020-21 financial year.

This report sets out the results of our final audit in relation to 2020-21, which was completed in June 2021. As with this year's interim audit, it has been necessary for us to undertake our work remotely, due to the Covid-19 pandemic. Once again, we wish to thank the Responsible Financial Officer (RFO) for providing the documentation required to enable us to complete the audit.

Internal Audit Approach

In carrying out our audit, we have had regard to the materiality of transactions and their susceptibility to potential mis-recording or mis-representation in the year-end Statement of Accounts, operating a mix of 100% substantive or selected sampling techniques, where considered applicable.

Our audit programme is designed to afford appropriate assurance that the Council's financial systems remain robust and operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Annual Internal Audit Report' in the Council's AGAR, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

On the basis of the programme of work we have undertaken, we have concluded that the Council continued to maintain adequate and effective internal control arrangements throughout the 2020-21 financial year. We have completed and signed the 'Annual Internal Audit Report' in the 2020-21 AGAR, having concluded that the internal control objectives as set out in that report were being achieved throughout the financial year to a standard adequate to meet the needs of the Council.

In the sections below, we explain the objectives of each area of our audit, summarising the work undertaken and the key matters arising. During the course of our final audit, we have reviewed the progress made to address the matters raised in our interim report. We were pleased to note that our recommendations were considered and agreed at the Council meeting on 6th April 2021. We have confirmed that, in all cases, appropriate action has either been taken or is planned in the near future. The latest position with regard to each matter is set out in the detailed sections of this report. We can confirm that there are no additional matters arising from our final audit work. We ask that Members consider the content of this report.

This report has been prepared for the sole use of Taverham Parish Council. To the fullest extent permitted by law, no responsibility or liability is accepted by Auditing Solutions Ltd to any third party who purports to use or rely on, for any reason whatsoever, this report, its content or conclusions.

Detailed Report

Accounting and Banking arrangements

Our objective is to confirm that the accounting records are being maintained accurately and kept up to date, that no anomalous entries appear in cashbooks or financial ledgers, and that appropriate banking arrangements are in place.

The RFO uses the Edge accounting software to maintain the Council's financial records. The Council banks with Lloyds Bank Plc. There are two accounts in use, at present; a Treasurer's (current) account and an instant access deposit account. The Treasurer's account is used for routine payments, with income paid into the deposit account, with regular transfer of funds between the two accounts. Separate "cashbooks" are maintained for each account in the financial records.

In the course of our audits, we have:

- Checked and agreed the opening Trial Balance for 2020-21 in the Edge software to the closing Financial Statements and to Section 2 of the 2019-20 AGAR;
- Confirmed that an appropriate nominal ledger structure has remained in place;
- Checked and agreed three sample months' receipts and payments transactions (April & October 2020, plus March 2021) for both bank accounts, to the supporting relevant bank statements, together with the inter-account transfers;
- Checked and agreed the bank reconciliations produced by the Edge software as at 31st December 2020, 31st January 2021 and 31st March 2021 to the bank statements, to confirm that there are no long-standing uncleared items or other anomalous entries. At our interim audit we noted that a cheque for £24.06, issued in October 2019 for the refund of a hire, remained uncashed as at 31st January 2021. We subsequently confirmed that this cheque was written back into the accounts prior to the year-end;
- Confirmed that the overall cash balance has been reported correctly in the draft AGAR (Section 2, Line 8), and
- Confirmed with the RFO that the financial records are held on off-site servers by the software suppliers (EdgeIT) and are continually backed-up.

In our interim report we highlighted the need to ensure that, going forward, the arrangements for Member review of the bank reconciliations avoid duplication, but ensure that the requirements of Financial Regulation 2.2 are complied with fully. We have confirmed that this has now been addressed.

Conclusion

There are no further matters arising that require a formal comment or recommendation.

Corporate Governance arrangements

Our objective is to confirm that the Council has robust corporate governance arrangements in place and that, as far as we may reasonably be expected to ascertain (as we do not attend Council or Committee meetings), all meetings are conducted in accordance with the adopted Standing Orders and Financial Regulations and that no actions of a potentially unlawful

nature have been or are being considered for implementation. During the course of our interim audit, we have undertaken the following work:

- We have reviewed the minutes for 2020-21, examining those for the meetings of the Full Council and its standing committees to the end of March 2021. We are pleased to report that we have not identified any matters that we consider may have an adverse effect, through litigation or other causes, on the Council's future financial stability;
- We have confirmed that, following our recommendation from last year, the Financial Regulations have been reviewed and updated, taking into consideration the last guidance issued by NALC and were approved by the Council at its meeting on 12th October 2020. As part of the review and in line with national good practice, the limit above which formal tendering is to be required has been increased from £2,500 to a more appropriate figure of £25,000, with a requirement for 3 quotations to be obtained (where possible) for expenditure below that amount, and
- We have confirmed that, during the summer of 2020, the Council provided the proper opportunity for the exercise of public rights in relation to the 2019-20 accounts, as required by the Accounts and Audit Regulations.

In our interim report, we recommended that the Standing Orders should be reviewed and updated to take into account the latest national guidance issued by NALC. In particular, they should make reference to the Council's responsibilities regarding Data Protection legislation. The Standing Orders should also be consistent with the Financial Regulations on the subject of tendering limits. The RFO has confirmed that the Standing Orders are currently being reviewed and updated by herself and the Clerk and will be included on the agenda for the next Performance Review Sub-Committee meeting, the date for which has still to be arranged.

We also recommended that the Council should review and update its Data Protection Policy to ensure that it complies with the requirements of the Data Protection Act 2018 (as amended) and the UK General Data Protection Regulation (GDPR). The RFO has confirmed that the Data Protection Policy will be reviewed by the Clerk and also considered at the next Performance Review Sub-Committee meeting.

Conclusion

There are no further matters arising that require a formal comment or recommendation.

Review of Expenditure & VAT

Our objective is to ensure that:

- Council resources are released in accordance with 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;
- Any 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 undertaken a sample review of expenditure incurred in the year. We have examined a total of 37 invoices including all those individually in excess of £1,750, together with a further selection of every 20th cashbook transaction (irrespective of value). The total value of our sample was approximately £75,600, which equates to 59% by value of non-pay expenditure incurred during the year to date. There were no issues arising.

We confirmed that the RFO continues to make timely electronic VAT submissions as required by extant legislation for registered bodies. We have reviewed the submissions for the year, with no issues arising.

In last year's audit report, we suggested that the controls over expenditure could be further enhanced if the individual invoices were stamped and initialled by the RFO to confirm receipt of the goods or services and to record the account code, and for the invoices to then be initialled by the two Councillors who approve payment. We have confirmed with the RFO that the Council gave due consideration to this recommendation, but was satisfied that the existing scrutiny arrangements were adequate.

Conclusion

There are no matters arising that require a formal comment or recommendation.

Assessment and Management of Risk

Our aim is to confirm that the Council has appropriate arrangements in place to identify 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.

In last year's report, we drew attention to the fact that, largely due to disruption caused by the Covid-19 pandemic, the Council's Risk Assessment was not formally reviewed and re-adopted during the course of the 2019-20 financial year, as required by regulation. Therefore, it was necessary for us to report this matter in the Annual Internal Audit Report in the AGAR and for the Council to give a negative assertion in Section 1, Box 5 of the AGAR. In undertaking our interim audit this year, we were pleased to confirm that there was no such problem for 2020-21, with the Risk Assessment having been considered and approved by the Council at an extraordinary meeting held on 14th December 2020. We note that the review process highlighted a number of areas where the risk arrangements could be further enhanced, such as the Cloud back-up of IT data, which are currently being explored.

The Council's insurance cover continues to be provided by Zurich, under a long-term contract up to June 2023. We have reviewed the current year's policy schedule, noting that Public Liability and Employer's Liability stand at £15 million and £10 million respectively, with Fidelity Guarantee cover of £250,000. These limits are in line with councils of a similar size and appear appropriate for the Council's current needs.

The Council has a number of other arrangements in place to mitigate specific areas of risk. In particular, we would refer to the review of the play areas and play equipment, which include regular inspections by Council staff, together with bi-annual inspections by the Play Inspection Company to check compliance with national health and safety standards. We

note that, in line with good practice, the Play Inspection Company's reports are taken to the Recreation Committee for consideration and for approval of any remedial action required, with the most recent reports having been considered on 8th March 2021.

Conclusion

There are no matters arising that require a formal comment or recommendation.

Budget Setting, Budgetary Control and Reserves

Our objective here is to confirm that the Council has robust processes in place for identifying and approving its future budgetary requirements and the level of Precept to be drawn down from the District Council, and also that effective reporting and monitoring processes are in place. We also aim to confirm 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.

From our review of the minutes, we confirmed that throughout the year, the RFO continued to provide the Council with monthly updates of the financial position, via the Approval List for payments due to be completed, salaries that have been paid for the previous month and payments for ratification, together with details of income received and a Financial Cashbook. From January 2021, this information has also included the monthly bank reconciliations.

The RFO confirmed that, in addition, a "Budget Picture" for each operational committee is provided for Members' information throughout the course of the year. We are pleased to note that, in response to a recommendation made in our interim report, the Budget Picture is now to be included as a standing item on each committee agenda.

The budget and Precept for 2021-22 were agreed at the Council Estimates Meeting on 25th January 2021. As noted above, prior to this meeting, each committee gave detailed consideration to its own budgetary requirements, which were built into the overall budget. The Precept was set at £248,455, compared to £248,463 in 2020-21. Due to a reduction in the Council Tax base for the coming year, resulting from the impact of Covid-19, this represented a slight increase of 0.5% for a Band D property.

At 31st March 2021, the Council's overall reserves stood at £278,827, compared to £188,298 at the previous year-end. The main reasons for this increase were the receipt of funds from the Community Infrastructure Levy (CIL) of £43,858, which remained unutilised at the year-end, together with underspending across a range of budget headings, mainly due to the impact of Covid-19.

Of the total reserves, £176,786 (£109,672) are now set aside as earmarked reserves, for capital or revenue projects. The remainder, £102,041 (£78,626), is held as a General Reserve, for contingency purposes. Whilst there is no formal guidance as to the level of general reserves that should be maintained, as this will vary depending on the circumstances of individual councils and the risks they face, a "yardstick" of between 25% and 50% of precept is often quoted. The Council's General Reserve equates to approximately 41% of the 2021-22 Precept demand, which does not appear unreasonable.

Conclusion

There are no matters arising that require a formal comment or recommendation.

Review of Income

In addition to the Precept and any grants received, the main sources of income for the Council are allotment rents, Hinks Meadow Hall bookings and the hire of sports pitches. During 2020-21, the income from the last two areas has been significantly reduced, due to the Covid-19 pandemic.

In considering the Council's income streams, our objective is to confirm that robust systems are in place to identify 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 meet our objective, we have undertaken the following audit work:

- We have confirmed that Members continue to review the Council's scales of fees and charges annually, in line with the requirements of the Financial Regulations. Those for 2020-21 were determined in December 2019, as part of the annual budget-setting process;
- As indicated in the first section of this report, we have verified the detail of three sample months cashbook receipts to bank statements;
- We have examined the bookings at Hinks Meadow Hall for two sample weeks (weeks commencing 7th and 14th September 2020), confirming that the correct fees have been invoiced and they have been paid within a reasonable timescale;
- We have reviewed the summary allotments register and confirmed that all payments due for the year commencing 1st April 2020 were received on a timely basis;
- We have confirmed with the RFO that there are no long-term debtors at the year-end. The only debtor of any size relates to the refund due for VAT on expenditure.

Conclusion

There are no matters arising that require a formal comment or recommendation.

Petty Cash

We are required, as part of the internal audit review and the reporting requirements in the AGAR, to assess the effectiveness of controls in place over any petty cash account in use, ensuring that all payments are appropriately supported, that transactions are made in respect of appropriate items in connection with the Council's functions and that any recoverable VAT is identified appropriately.

A very limited petty cash account is in place, with a maximum holding of £150, which is "topped up" as and when required. At our interim audit, we confirmed with the RFO that the petty cash account has not been used during 2020-21. At the final audit, we confirmed that this was still the case and that the petty cash balance of £150 had been correctly included in the cash and bank figure in Section 2, Line 8 of the AGSR.

Conclusion

There are no matters arising that require a formal comment or recommendation.

Salaries and wages

In examining the Council's payroll function, our objective is to confirm that extant employment legislation is being adhered to, that the requirements of HM Revenue and Customs (HMRC) legislation are satisfied regarding the deduction and payment over of income tax and NI contributions, and that the requirements of the local government pension scheme are met.

The Council uses a third-party payroll bureau, Safeguard World, to prepare the monthly payroll. To test that the controls over payroll are operating effectively, we reviewed the documentation provided by the payroll bureau in relation to the December salary payments. The following work was undertaken:

- We checked the gross salaries, to confirm that these are in accordance with the approved rates. As in previous years, the Council has set its own salary rates, rather than adopt the nationally agreed NJC pay-scales. We confirmed that the salaries paid in December 2020 were as agreed for 2020-21 at the Council meeting in March 2020.
- PAYE Tax Codes and National Insurance Tables were checked to confirm that the correct personal allowances are being applied for the year, following the annual budgetary increases in personal thresholds with effect from April 2020.
- Employees are eligible to join the local government pension scheme (Norfolk Pension Fund). For those employees that have chosen to do so, we confirmed that the deductions from salaries, together with the required employer's contributions, were in accordance with the prescribed percentage rates.
- Variable hours and expenses were verified to individuals' timesheets and claim forms, where applicable.
- We checked and agreed the net pay computations on payslips to the payroll summaries and to the resultant bank statement and cashbook transactions, and
- We confirmed that the correct payments were made to HMRC (for PAYE and NIC) and to the Norfolk Pension Fund.

Conclusion

There are no matters arising that require a formal comment or recommendation.

Asset Register

Councils are required to maintain an asset register and to report the overall value of fixed assets held in the AGAR each year (Section 2, Line 9). Whilst the "Practitioners' Guide" does not specify a particular basis of accounting for fixed assets, it stresses that the approach taken from year to year should be consistent and that the value of individual assets held should not normally change from one year to another - with the only changes being the inclusion of new assets purchased or removal of assets disposed of. In most cases, assets are recorded at their purchase cost, or at a suitable proxy where that value is not known. However, assets gifted at nil cost or other assets held which have no intrinsic value (often referred to as community assets) are normally included at a nominal £1.

Last year, we were informed that the Council was considering a full update of the asset register. However, at our interim audit, we confirmed that the purchase of a new asset

recording system (the Edge Asset Management system) had been delayed, but is now included within the budget for 2021-22. From our discussions with the RFO, we understand that this will include a complete overhaul of the asset register and a review of the asset values currently included.

For the purposes of this year's audit, we have reviewed the information recorded on the existing Asset Register and confirmed that the total value of "fixed assets" shown on the Register as at 31st March 2021 (£1,008,127) agrees to the total asset value included in Section 2, Line 9 of the AGAR.

Conclusion

There are no matters that require a formal comment or recommendation. We will review the implementation of the new asset management system during next year's audit.

Investments and Loans

Our objectives are to confirm 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. We also confirm, where appropriate, that any loan repayments due to, or payable by, the Council are transacted in accordance with appropriate loan agreements.

Last year, we drew attention to the requirement for the Council to put a formal investment policy in place, to meet the requirements of the 'Statutory Guidance on Local Government Investments'. An Investment Policy was adopted at the Council meeting on 7th December 2020, however, as noted in our interim report, this is not based on the most up to date guidance. We, therefore, recommended that it should be updated to ensure that it refers to the requirements of the latest 'Statutory Guidance on Local Government Investments', which has applied from 1st April 2018. The RFO has confirmed that this will be done by the Clerk and herself and taken to the next Performance Review Sub-Committee meeting.

In this year's interim report, we also recommended that, in conjunction with the development of the investment strategy, consideration should be given to the potential diversification of the investment of funds. The RFO has confirmed that she is currently dealing with this matter. We will review progress at next year's interim audit.

We have confirmed that the Council has no outstanding loan agreements in place.

Conclusion

There are no further matters arising that require a formal comment or recommendation.

Statement of Accounts and AGAR

We have reviewed the accounting records produced from the Edge system and the other supporting documentation used to produce the draft of the Council's statutory 'Accounting Statements for 2020-21' (Section 2 of the AGAR).

Conclusions

There are no matters arising that require a formal comment or recommendation. We look forward to receiving a copy of the finalised AGAR (Sections 1 and 2), once the document has been approved by the Council.

On the basis of the work undertaken during the course of our audit for the year, we have completed and signed the Annual Internal Audit Report on Page 3 of the AGAR, assigning positive assurances in all areas of internal control.