

Woodborough Parish Council

Internal Audit 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 system of internal control and for the conclusions to be reported each year in the AGAR.

This report sets out the work undertaken in relation to the 2020-21 financial year. Due to the continuing impact of the Covid-19 pandemic, we have again undertaken our review for the year remotely: we wish to thank the Clerk and Responsible Financial Officer for assisting the process, providing all necessary 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 undertaking our review for the year, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts/AGAR. Our programme of cover has again been 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 'Internal Audit Report' in the Council's AGAR, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

We have concluded that, based on the programme of work undertaken this year, the Council has generally maintained adequate and effective internal control arrangements, although we have concerns over the correct recovery of VAT (also commented on in our 2019-20 report) and the high level of the General Reserve. We feel that these concerns are sufficient to generate negative assurances on these objectives in our Internal Audit report for the 2020-21 AGAR.

Our recommendations for necessary corrective actions are detailed in the following report and the attached Action Plan, which we would ask the Council to complete and return in due course.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Responsible Financial Officer (who is also the Vice Chair) maintains the Council's accounting records on a spreadsheet, which provides sufficient detail to ensure suitable analysis is available for production of the Accounts and AGAR. One current account at Lloyds TSB is operated for all regular receipts and payments, together with a deposit account, also with Lloyds TSB, with annual interest and occasional inter-account transfers the only transactions on this latter account. The closing balance is duly incorporated into the year-end accounts.

Bank balances are periodically reviewed at Council meetings. The reconciliation as at 31 March 2021 has been checked and agreed to the AGAR.

While it is unusual to find a Councillor maintaining the financial records, we have received assurances that this practice has been in place for many years, and there is sufficient internal control by the Council as a whole to ensure the integrity of the Accounts.

Conclusions

No issues arise in this area of review warranting formal comment or recommendation.

Review of Corporate Governance

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

- Examined the Council's minutes for the financial year to ensure that no issues affecting the Council's financial stability either in the short, medium or long term exist, also that no legal issues are in existence whereby the Council may either be considering or have taken decisions that might result in ultra vires expenditure being incurred;
- Noted that Standing Orders (SOs) and Financial Regulations (FRs) were re-adopted at the July 2020 Council meeting;
- Noted that the £5,000 level for formal tender action previously agreed is now reflected in both Standing Orders and Financial Regulations; and
- Reviewed the Council's compliance with the Transparency Code for Smaller Authorities, which became mandatory in 2015. We are pleased to note that the Council's new website shows a good level of current and historical data that meets the Statutory requirement in full.

Conclusions

No issues arise in this area of review warranting formal comment or recommendation.

Review of Payments

We have reviewed a representative sample of payments made during the year to ensure that the following criteria were met:

- Payments were supported by a trade invoice or acknowledgement of receipt;
- VAT has been calculated correctly and is recovered at appropriate intervals;
- The Council, at a Council meeting, approved each payment;
- Payments have been correctly analysed in preparation of the year-end Statement of Accounts; and
- Section 137 payments have been identified in the cashbook and are within the Council's spending limit.

We remain concerned to note that, despite recommendations made in the 2019-20 internal audit report, the Council is still seeking to recover VAT against invoices that are not clearly made out to the Council, but instead to a Councillor in their own name. The recovery of such amounts would be contrary to the VAT Regulations. In our testing we identified three such erroneous transactions.

Conclusions and recommendation

RI. VAT cannot legally be reclaimed unless the invoice is made out in the name of the Council, rather than an individual Councillor or the Clerk. In such cases, the gross invoice amount should be charged in the cashbook. Before another VAT reclaim is submitted the Responsible Financial Officer should review the cashbook and transfer all such erroneous entries from the VAT Account to normal expenditure. This will have no effect on the AGAR.

Assessment and Management of Risk

The Council reviewed its Risk Register at the July 2020 meeting, which satisfies the requirements of Financial Regulations.

Insurance cover continues in place throughout 2020-21 with Zurich Municipal, with Public Liability and Employers Liability set at £10 Million, and other covers appropriate to a Council of this size.

Conclusions

No issues arise in this area of review warranting formal comment or recommendation.

Budgetary Control and Reserves

The Council formally approved a 2021/22 Budget at its December 2020 meeting, setting the Precept at £8,000.

We note that the Council has not set any Earmarked Reserves, as those set in 2019-20 (footpath removal and WESS) are no longer required. This means that the General Reserve at 31 March 2021 is equal to the accumulated cash balances, ie. £12,783. This figure represents some 160% of the agreed Precept, against a Best Practice figure of 50%.

Conclusions and recommendation

R2. The Council should monitor and review its high level of balances, in order to more closely align to the normal level. We acknowledge, though, that this could take some time given the small size of the Council.

Review of Income

The Council only receives limited income during the year, primarily from the Precept, occasional VAT reclaims, a small amount of bank interest and ad hoc miscellaneous grants. We have reviewed the recording of such transactions in the cashbook and to underlying records with no issues arising this year.

Petty Cash Account

The Council does not operate a petty cash account; any incidental “out-of-pocket” expenses incurred by the Clerk or members are reimbursed by cheque and are also approved and recorded in the minutes as part of the normal controls exercised over routine payments.

Review of Staff Salaries

The Council’s Clerk is not paid in accordance with NJC pay scales, but is paid a monthly lump sum with annual increases agreed by the Council as part of the annual budget setting meeting.

We note that the management of payroll continues to be outsourced to an independent service provider.

Conclusions

No issues arise in this area of review warranting formal comment or recommendation.

Asset Registers

We are pleased to note that the Council maintains an Asset Register, with all identified assets recorded at either original net cost or, if the item is historic or donated, a nominal £1. This satisfies the requirements of Government Accounting.

We note that the Council is due to take over control of two defibrillators during 2021/22, which will need to be added to the Asset Register.

Conclusions

No issues arise in this area of review warranting formal comment or recommendation.

Investments and Loans

The Council neither has any specific investments in place nor does it have any loans repayable either to or by it.

Statement of Accounts and AGAR

We note that the Council has elected to exempt itself from the Limited Assurance external audit review this year preparing the appropriate Part 2 AGAR for submission to the external auditors, together with the Governance Statement and Accounts detail (Sections 1 & 2 of the year's AGAR), detail of which will need to be disclosed on the Council's website in accordance with the requirements of the Transparency Code.

We have examined the detailed Statement of Accounts and AGAR prepared by the Responsible Financial Officer and agreed the detail therein to the supporting documentation.

Conclusions

Based on our work this year, we have duly signed off the Internal Audit Report in the year's AGAR assigning appropriate assurances in each relevant area.

Rec. No.	Recommendation	Response
R1	<i>(Payments)</i> VAT cannot legally be reclaimed unless the invoice is made out in the name of the Council, rather than an individual Councillor or the Clerk. In such cases, the gross invoice amount should be charged in the cashbook. Before another VAT reclaim is submitted the Responsible Financial Officer should review the cashbook and transfer all such erroneous entries from the VAT Account to normal expenditure. This will have no effect on the AGAR.	
R2	<i>(Reserves)</i> The Council should monitor and review its high level of balances, in order to more closely align to the normal level. We acknowledge, though, that this could take some time given the small size of the Council.	