

## **Pucklechurch Parish Council**

*Internal Audit Report 2019-20*

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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 Annual Governance and Accountability Return (AGAR).

This report sets out the work undertaken in relation to the 2019-20 financial year. Due to the impact of the Covid-19 pandemic, we have of necessity undertaken our final review for the year remotely: we wish to thank the Clerk in 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 also, 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 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 Certificate as part of the Council's AGAR process, which requires independent assurance over several control objectives.

## **Overall Conclusion**

We have concluded that, based on the generally satisfactory conclusions drawn from our programme of work for the year, the Council has again maintained adequate and effective internal control arrangements. Whilst there are no significant issues arising, we have identified a few areas where we consider action is required to further strengthen controls and to also address other issues to simplify the Clerk's task in maintaining the accounting records.

Notwithstanding those matters, we have completed and signed the 'Internal Audit Certificate assigning positive assurances in each area, having concluded that the control objectives set out therein have been achieved within the financial year to a standard adequate to meet the needs of the Council.

# 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 Council previously used Sage software to record its financial transactions with two bank accounts in use with NatWest plc with separate nominal control accounts in the Sage software. The newly appointed Clerk has ceased using Sage and created her own cashbook to record the financial year's transactions.

We have undertaken the following work in this review area:

- Ensured that appropriate analysis of receipts and payments exists in the spreadsheet cashbook
- Ensured the accurate carry forward of the 2018-19 closing balances to the 2019-20 spreadsheet cashbook detail
- Ensured that the cashbook remains in balance at the financial year-end
- Checked and agreed the full year's transactions in the Council's NatWest Current and Deposit Accounts agreeing detail to the supporting bank statements
- Verified the accurate recording of detail on the combined bank reconciliation as at 31<sup>st</sup> March 2020 ensuring that no long-standing cheques or other anomalous reconciling entries exist, and
- Ensured the accurate disclosure of the combined cash and bank balances in the year's AGAR.

### *Conclusions and recommendations*

*In examining the cashbook prepared by the new Clerk for the financial year we note that, whilst it contains all relevant information, the format is somewhat convoluted and not particularly easy to follow and interpret. Specifically, we have noted that payment detail is not necessarily being entered chronologically with cheques recorded out of sequence, together with the dates of transactions not always appearing in the correct month (e.g. the May 2019 cashbook includes cheque no. 2726 dated 5<sup>th</sup> June and 2 Direct debits, 1 dated 1<sup>st</sup> June and the other 1<sup>st</sup> July 2019).*

*We also note the inclusion of 2 direct debits in the March 2020 cashbook dated 18<sup>th</sup> & 31<sup>st</sup> March 2020 (£58.12 & £85.23) which were not cleared at the bank until the new financial year. These have been excluded from the detail of the year-end bank reconciliation and have been included correctly as creditors at the financial year-end.*

*Cheques should be recorded in the cashbook in the appropriate month and chronological order of the date of signing / issue. All payments by Standing Order, direct debit should be recorded in the cashbook in the month of clearance through the bank and also on the date they clear the bank, irrespective of the invoice date or date of service delivery.*

*We also note that a monthly payment of £24 continues to be made to Sage despite cessation of using the software: arrangements should be made to cancel the direct debit as soon as practicable given the present Covid situation.*

***To assist the clerk and provide a more straightforward and transparent way of recording transactions, we have provided a spreadsheet cashbook format in use by several of our clients which generates monthly bank reconciliations throughout the year, together with accumulating receipt and payment values month by month which can be used to generate a budget report for presentation to members at any stage of the year.***

- R1. *Cashbook entries should be made in chronological order by date and cheque number and within the month when the cheques are drawn.*
- R2. *Direct debits and Standing orders should be entered in cashbooks on the dates they are processed through the bank account.*
- R2. *If the Sage accounting software is not to be re-implemented action should be taken to cancel the existing direct debit.*

## **Review of Corporate Governance**

Our objective is to ensure that the Council has robust corporate governance documentation and procedures in place; that Council meetings are conducted in accordance with the adopted Standing Orders (SOs) and that, as far as we are reasonably able to 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 and to date in 2020-21, as available, to identify whether any issues exist that may have an adverse effect, through litigation or other causes, on the Council's future financial stability, and
- Noted that both SOs and Financial Regulations (FRs) were reviewed and re-adopted unchanged at the Council meeting in May 2019, with both reflecting detail in the NALC model documents in relation to tendering and compliance with the Public Contract Regulations 2015.

### ***Conclusions***

***In examining the minutes, we are again pleased to acknowledge that detail of payments is submitted to the Council and formally incorporated in the minutes, including detail of payees' names, cheque numbers and the amount being paid to each. No issues arise requiring formal comment or recommendation in this area this year and we are pleased to also note that the value of the 2020-21 precept has been minuted formally as approved by the full Council at the December 2019 meeting.***

***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.***

## **Review of Expenditure**

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 payments are being reported to Council
- VAT has been calculated correctly for periodic recovery, and
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount.

We reviewed the procedures in place for the approval and processing of trader and other payments as part of our 2018-19 review and considered them appropriate with two members examining and signing off individual invoices, etc. We are also pleased to note that the new Clerk has produced an appropriate protocol detailing the procedure to be followed in processing cheque, direct debit and standing order payments (online payment facilities are not being used currently).

Due to the present Covid situation we have selected a proportionate sample of 34 individual payments and are pleased to record that appropriate documentation is in place for each payment, also that all in our test sample bore appropriate evidence of members' review and approval for payment. Our test sample totalled £29,350 and equated to 54% by value of non-pay related payments in the year.

We note that a single VAT reclaim has been prepared and submitted to HMRC for the year and have agreed detail to the underlying cashbook detail.

### ***Conclusions***

***We are pleased to report that no issues arise in this area this year warranting formal comment or recommendation.***

## **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 identified in order to minimise the opportunity for their coming to fruition.

We are pleased to note that a formal Risk Register remains in place and that it has been reviewed and formally adopted during the financial year, as required by the Governance and Accountability Manual.

The Council's insurance cover has again been provided through the Local Council's scheme: we have examined the year's schedule and consider that appropriate cover is in place with Employer's and Public Liability both set at £10 million and Fidelity Guarantee cover in place at £250,000.

### ***Conclusions***

***No issues arise in this area***

## Precept Determination and Budgetary Control

We aim in this review area 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 parent 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 again note that the Council has considered its budgetary and precept requirements for 2020-21 agreeing the precept at the December 2019 meeting and minuting the value accordingly as £73,500.

We are also pleased to note that the Clerk provides members with detail of the Council's budgetary performance during the year and have examined the year-end outturn with no areas of concern identified warranting further enquiry.

We have reviewed the level of reserves retained by the Council, which have increased to £97,196 as at 31<sup>st</sup> March 2020 (£90,670 as at 31<sup>st</sup> March 2019) including earmarked reserves totalling £79,000 and leaving a residual General Fund reserve balance at £17,196. This equates to approximately 3 months' revenue spending at the 2019-20 level and is at the bottom end of the generally recognised guideline of between 3 and 12 months' such spending.

### Conclusions

*Whilst no specific concerns exist in this area warranting formal comment or recommendation, we suggest that, when determining future years' precept requirements care is taken to ensure that an appropriate level of General Fund balance is retained to cover ongoing revenue spending requirements and to provide some leeway in the event that any unforeseen revenue expense arises.*

## 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 albeit limited sources, to ensure that income is invoiced, where appropriate, in a timely manner and that effective procedures are in place to pursue recovery of any outstanding monies due to the Council.

To gain assurance that appropriate controls are in place, we have examined income arising from allotment rents, noting that a formal register of tenants is in place and that all rents for 2019-20 have been received and banked appropriately with 3 paid prior to the current financial year's commencement.

Due to the present situation, we have not examined the formal register of burials, but have examined detail of 5 interments during the course of the financial year as provided by the Clerk ensuring that the appropriate fees have been charged and recovered in accordance with the approved scale of fees and charges, which we note were reviewed and increased from August 2019. We have noted previously that the cemetery is effectively closed with room only for the interment of cremated ashes and additional burials in existing plots.

Finally, we have updated our analysis of income for the year contrasting it with prior year data to further support the level of income received during the year and are pleased to record that no significant variances exist warranting further detailed enquiry or investigation.

## **Conclusions**

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

## **Petty Cash Account**

We note that a single petty cash account now remains in operation following the former Clerk's resignation and repayment of the balance (£61.39) held after outstanding expenses incurred by her on behalf of the Council are accounted for from the £150 cash float she was originally provided to cover her "out-of-pocket" expenses. Retention and physical existence of the residual Neighbourhood Plan (NP) cash float of £37.46 has been confirmed. We note that use of the NP petty cash account will cease during 2020-21 with any residual balance rebanked.

Due to the low level of expenditure during the year from these two accounts and above position, we have not sought to examine any of the petty cash vouchers this year and will, if it remains appropriate, do so as part of next year's review.

## **Conclusions**

***There are no issues arising in this area warranting formal comment or recommendation and, as indicated above, we shall examine this area at our next review visit.***

## **Review of Staff Salaries**

We note that the Council continues to outsource production of its monthly payroll. We have examined the former Clerk's employment contract previously and have now examined that of the new Clerk.

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the requirements of HMRC legislation and the deduction and payment over of income tax and NI contributions. To meet this objective, we have examined a sample of the former and new Clerk's payslips for the year noting that the Council has approved implementation of the revised national salary structure effective from 1<sup>st</sup> April 2019. Specifically, we have: -

- Ensured that the former and new Clerk's monthly gross pay has been calculated in accordance with the approved spinal point on the 2019-20 pay scale and for the contracted hours
- Ensured that Income Tax codes and National Insurance Tables are being applied correctly
- Noted that both the former and new Clerk are contributing to a pension scheme through NEST, and
- Ensured that payments to HMRC and NEST are made appropriately and that the necessary returns are filed by the appointed payroll contractor in accordance with HMRC's requirements.

## **Conclusions and recommendation**

***We are pleased to record that the procedures in place for the determination and physical payment of the Clerk's salary continue to operate soundly; however, we note that the new Clerk's first salary payment in November 2019 included payment for 48 "extra hours" at the plain time rate.***

***Examination of the supporting payslip shows that, whilst tax has been correctly calculated based on the monthly salary plus the additional hours, the employee NI contribution (and presumably also that of the Council) has been calculated only on the basic salary, seemingly resulting in an underpayment to HMRC.***

*R4. The apparent under-calculation of the Clerk (and Council's) NI contributions in November 2019 should be referred to the payroll supplier for confirmation and, if appropriate, adjustment in the next salary payment in 2020-21.*

## **Fixed Asset Register**

The Governance and Accountability Manual requires all Councils to maintain a comprehensive register of all assets owned and leased by the Council. We aim to ensure that such a register is in place, that it is comprehensive and contains all the basic information that should, ideally, be embodied in the record.

We are pleased to note the continued existence of an appropriate register, noting that the asset value in the 2018-19 AGAR has been adjusted to reflect the value (£890) of a tree seat at the Recreation Ground acquired in 2018, less the value of Village Orderly equipment (£500) which was no longer in existence.

We do, however, note that the 2019-20 AGAR records a total asset value of £96,315 compared with the adjusted (for the above addition and deletions) asset register value of £91,665.69.

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

***The apparent disparity between the asset register value as at 31<sup>st</sup> March 2020 and the value disclosed in the year's AGAR should be further investigated and action taken to ensure that the values are consistent.***

*R5. The Clerk should ensure that the asset register and disclosed AGAR asset values are consistent.*

## **Investments and Loans**

***The Council has no "investments" in place currently, all funds being held in the two NatWest bank accounts. Similarly, there are no loans in place either repayable by, or to the Council.***

## **Statement of Accounts and AGAR**

The revised accounting and audit arrangements now require councils to submit their annual Accounts in the form of a summarised financial statement in the AGAR. We are pleased to acknowledge the work of the new Clerk to prepare appropriate working papers providing a trail from the cashbook to a detailed Income and Expenditure Account and closing Balance Sheet, which feeds into the AGAR financial detail.

We note that the new Clerk had identified a few anomalies with the detail in the 2018-19 Accounts, which we had not managed to check thoroughly last year, as the Sage accounts had not been finally closed down when we undertook that year's review.



Notwithstanding those apparently relatively minor issues in value terms, we have examined the content of the 2019-20 AGAR detail agreeing it to the underlying detailed Accounts prepared by the Clerk. We have also noted the action taken to identify debtors (VAT only) and creditors as at 31<sup>st</sup> March 2020 with no issues arising.

### ***Conclusions***

***No issues have been identified in this area this year and we have, consequently, duly “signed off” the Internal Audit Certificate assigning positive assurances in each relevant area.***

Rec. No.	Recommendation	Response
<b>Review of Accounting Arrangements and Bank Reconciliations</b>		
R1	Cashbook entries should be made in chronological order by date and cheque number and within the month when the cheques are drawn.	
R2	Direct debits and Standing orders should be entered in cashbooks on the dates they are processed through the bank account.	
R3	If the Sage accounting software is not to be re-implemented action should be taken to cancel the existing direct debit.	
<b>Review of Staff Salaries</b>		
R4	The apparent under-calculation of the Clerk (and Council's) NI contributions in November 2019 should be referred to the payroll supplier for confirmation and, if appropriate, adjustment in the next salary payment in 2020-21.	
<b>Fixed Asset Register</b>		
R5	The Clerk should ensure that the asset register and disclosed AGAR asset values are consistent.	