

Shrewton Parish Council

Internal Audit Report 2020-21

Chris Hall
Consultant Auditor

For and on behalf of
Auditing Solutions Ltd

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 in assisting the process, providing all necessary additional 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 the review for 2020-21, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end AGAR. Our programme of cover has, as with all our clients, been designed to afford appropriate assurance that the Council's financial systems are 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' as part of the year's AGAR process, which requires independent assurance over ten internal control objectives.

Overall Conclusion

We have concluded that, on the basis of the satisfactory conclusion of our annual programme of work, the Council has continued to maintain adequate and effective internal control arrangements. We have also identified a few areas where we consider controls could be further improved: detail of these is set out in the body of the report with a single recommendation (which was also made last year) further summarised on the appended Action Plan.

We wish to thank the Clerk for the very clear way transactions are recorded and for her assistance in providing all necessary documentation for our review so promptly after the financial year-end.

Consequently, we have completed and signed the year's 'Internal Audit Report', having concluded that, in all significant respects, the control objectives set out in the Report have been achieved throughout the financial year to a standard adequate to meet the needs of the Council.

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 Clerk maintains the Council's accounting records using Excel based spreadsheets, which we consider appropriate for the level of annual activity. We have tested transactions recorded in the cashbook during the year to the supporting Lloyds bank statements. Finally, in this area, we have checked and agreed the year-end bank reconciliation, also ensuring the accurate disclosure of the year-end balance in Section 2, Box 8 of the year's AGAR.

Conclusions

There are no issues arising in this area of our 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 meetings are conducted in accordance with the adopted Standing Orders and that no actions of a potentially unlawful nature have been or are being considered for implementation.

We note that the Council formally revised its Standing Orders (SOs) and Financial Regulations (FRs) based upon NALC model documents and adopted these at its May 2020 meeting. These important documents should be kept under regular review - we understand that NALC issued a further revision to SOs in late 2020, which needs to be considered by the Council.

We also understand that, following the UK's exit from the EU, NALC were, prior to the current Covid-19 pandemic, preparing a further revision to both SOs and FRs which was due to be promulgated in the summer of 2020: this timescale has obviously now slipped and we will keep the Council advised as soon as we hear of any developments in this respect.

We have examined the Council Minutes for the year to determine whether any issues exist that may have either a legal or financial impact on the Council and its future financial stability, also ensuring that, as far as we may be reasonably expected to ascertain, no actions / decisions of an unlawful nature have occurred or may be being considered.

We are pleased to note the Council's continued compliance with the disclosure requirements of the Transparency Code which became mandatory for smaller councils from 1st April 2015. We understand that a new website will shortly be implemented, which will further enhance the visibility of important documents made available under the Code.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation.

Review of Payments

Our aim here is to ensure that: -

- 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;
- The expenditure is formally approved by the Council and this is recorded in the minutes;
- The expenditure has been allocated to correct cost headings; and
- VAT has been calculated correctly. Reclaims are submitted to HMRC on an annual basis, given the relatively small sum involved. This currently takes place in the following financial year. Consideration should be given to recovering as much as reasonably possible in the correct financial year, to support budgetary control and Precept setting;

We have tested a sample of payments made during the year to ensure that the above criteria have been met.

We are pleased to note that, following our recommendation in our 2019-20 report, the Clerk now has delegated authority under FR5.59c) to move up to £5,000 between bank accounts, subject to reporting to the next Council meeting, which should help the Council to optimise its interest receipts.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation.

Assessment and Management of Risk

We note that the Council reviewed its Corporate Risks at its July 2020 meeting, which meets the requirements of Financial Regulations. We are also pleased to note that, at its October 2020 meeting, the Council adopted a Business Continuity Policy should the services of the Clerk be unavailable for any reason.

The Council is insured with Axa. We have reviewed the content of the 2020-21 insurance schedule and consider that it is appropriate for the Council's current needs with Employer's and Public Liability cover both in place at £10 Million, Officials Indemnity at £500,000 and Business Interruption cover set at £10,000, with additional cover for Street Furniture and the War Memorial.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation.

Budgetary Control and Reserves

In this area of our coverage, we aim to ensure that the Council has sound procedures in place for the determination of its annual budget; monitoring and managing available resources throughout the financial year.

The Council's Minutes demonstrate that Councillors have undertaken a robust Budget setting and Precept determination process for 2021/22 at the meeting in December 2020, agreeing the Precept for 2021/22 at £10,000 supported by £8,087 from Reserves.

We are, however, concerned that, following previous audit observations that the level of the General Reserve was too high, it is now extremely low. After allowing for approved Earmarked Reserves of £45,311 (which, confusingly, includes a figure of £4,000 noted as a General Reserve), there remains only £689 as a balancing General Reserve, which is less than 1 month's normal expenditure, against a best practice level of 6 month's normal expenditure.

We note that members continue to receive full information of the Council's financial position at each meeting with detail of bank balances and payments since the last meeting provided and consider this an acceptable level of control for a Council the size of Shrewton.

Conclusions and Recommendations

R1. Members should continue to review the level of balances and earmarked reserves to ensure that they are necessary and appropriate. Any excess balances should be transferred to the General Reserve and taken account of in the setting of the budget and Precept for the next financial year.

Review of Income

The Council receives limited levels of income other than the Precept by way of occasional grants, small amounts of bank interest and VAT refunds.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation.

Petty Cash Account

The Council does not operate a petty cash account. Any out-of-pocket expenses incurred by the clerk in connection with her work for the council are reclaimed and paid by separate cheque processed in the same manner as all trader payments. Resultantly, there are no issues arising from this area of our review warranting formal comment or recommendation.

Review of Staff 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 HMRC legislation relating to the deduction and payment over of income tax and NI contributions, noting that the Clerk, who is the sole employee of the council, has opted out of the council's pension scheme.

The Clerk continues to prepare the payroll using the HMRC Basic PAYE Tools software: we have test-checked salary records ensuring that the appropriate tax allowances have been applied and paid over to HMRC.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation.

Asset Register

We note that the Council approved its Asset Register at the May 2020 meeting, and that all assets are now recorded at either original Cost or a nominal £1, in accordance with the Government Accounting Manual. The recorded value has been correctly recorded in Box 9 of the 2020-21 AGAR.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation.

Investments and Loans

The Council has no funds in investments, nor does it have any loans either payable by, or to it, at present. However, we again wish to draw the Clerk and Council's attention to a current change in the requirement for production of a formal Investment Strategy: whilst this only becomes mandatory for Councils with retained funds in excess of £100,000, current NALC guidance indicates that, again in line with best practice, all Councils holding funds in excess of £10,000 should also develop an appropriate Strategy.

Statement of Accounts and AGAR

We have reviewed the content of the financial data reported at Section 2 of the year's AGAR agreeing it to the underlying financial records.

Conclusions

No additional issues arise in this area. Based on the satisfactory conclusion of our review for the year, we have duly signed off the Internal Audit Report assigning positive assurances in each relevant area.

Rec. No.	Recommendation	Response
R1	(Budgetary Control and Reserves) Members should continue to review the level of balances and earmarked reserves to ensure that they are necessary and appropriate. Any excess balances should be transferred to the General Reserve and taken account of in the setting of the budget and Precept for the next financial year.	
