

Babraham 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 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 during the course of our review for 2020-21 and we wish to thank the Clerk for his assistance in providing all necessary documentation to facilitate the progress of our review for the year. The year's review has again been undertaken remotely due to the ongoing Covid situation.

Internal Audit Approach

In undertaking our review, we have again had regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts / AGAR. Our programme of cover is 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.

Overall Conclusion

We have concluded that, based on the programme of work undertaken, the Council has maintained adequate and effective internal control arrangements during the year. Consequently, we have completed and signed the 'Internal Audit Certificate' as part of the year's AGAR process having concluded that, in virtually all significant respects, the internal control objectives set out in that certificate were achieved throughout the financial year to a standard adequate to meet the needs of the Council.

However, in now reviewing the website, we note that no detail of the 2018-19 and 2019-20 financial transactions as reported in those years' AGARs appear to not have been posted, nor have the Notices of Public Rights: consequently, we have now had to assign negative assurances at Boxes K & L of the IA Certificate in the year's AGAR.

We take this opportunity to remind the Council, and new Clerk, of the website disclosure requirements of the 2015 Transparency Code for Smaller Authorities (we have provided the Clerk with a copy of the Code) and urge that they be observed in future years, assuming the receipt of significant CIL moneys in 2020-21 taking the Council over the £25,000 publication limit for that year is potentially a "one-off" occurrence. The Notice of Public Rights to examine the Council's records should also be posted on the website, together with the AGAR detail, as set out in the preface to the AGAR.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

Our objective in this area has been to ensure that accounting records are being maintained accurately and on a timely basis, and that no anomalous entries appear in the cashbook.

The accounting records have initially been maintained using an Excel spreadsheet, although following Council's approval, detail has now been input to the newly acquired Scribe accounting software. The Council operates both a current and a deposit bank account with Unity Bank.

To ensure the appropriateness and accuracy of the recording of transactions, we have:

- Confirmed the accurate carry-forward of prior year closing balances to 2020-21;
- Ensured that an appropriate coding structure is in place within the Scribe software;
- Checked and agreed the cashbook detail for the full year to supporting bank statements on both accounts;
- Verified the combined bank reconciliation detail as at 31st March 2021 within Scribe; and
- Ensured the accurate disclosure of the combined balances in the year-end Accounts.

Conclusion

We are pleased to record that no issues have been identified in this area 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 (SOs) 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 have reviewed minutes of Council meetings held during 2020-21, the principal aim being to consider whether any issues exist that may have an adverse effect on the Council's financial stability in the short, medium or longer term, also that, as far as we may reasonably be expected to ascertain, no indication exists that the Council may either be considering or have taken decisions that might result in ultra vires expenditure being incurred.

We are pleased to note that both the SOs and Financial Regulations (FRs) have been subject to further review both being re-adopted at the March 2021 meeting and based on the latest NALC model documents.

We have reviewed the Council's website noting the apparent failure to comply with the disclosure requirements of the Transparency Code for Smaller Authorities and the Accounts and Audit Regulations with seemingly no financial information published for 2018-19 or 2019-20 thereon.

As the Council's total receipts and payments were individually less than £25,000 in 2019-20 the Council certified itself exempt from the external audit process: due to the significant CIL moneys

received in 2020-21 (c. £93,000) the Council will now be subject to the external audit process for the year needing to complete the Part 3 AGAR.

We note that both the SOs and FRs refer to a formal limit of £25,000 for tender action. With the Council's usual annual spend of around £12,000 we consider that a more realistic level for formal tender action would be around £10,000 and suggest that when the SOs and FRs are next subject to review, consideration be given to a reduction in the tender value to nearer that value than the present £25,000.

We thank the Chairman for completing our "Corporate Governance Questionnaire", which affords us further assurance as to the soundness of the Council's overall governance arrangements.

Conclusions and recommendations

We are pleased to report that no significant issues arise in this review area although, as indicated above, we suggest that a lower value for formal tender action should be adopted and identified in the SOs and FRs.

We understood last year that NALC were due to undertake, in the summer of 2020, a further review of their model SOs and FRs to reflect the impact of the UK's exit from the EU. Obviously, the Covid-19 situation has delayed completion and promulgation of the revised documents by NALC: we shall advise the Council of any future revisions as and when we become aware of their publication.

- R1. When the Standing Orders and Financial Regulations are next reviewed, consideration should be given to setting the value at which formal tender action is required to a lower value than currently at around £10,000.*
- R2. The Council must ensure compliance with the disclosure requirements as set out in the Transparency Code and the Accounts and Audit Regulations publishing all relevant detail on its website.*

Review of Payments

We have reviewed the procedures in place for receiving invoices; checking their authenticity, accurate detail recording, processing by the Clerk and formal approval for payment by Members. Our objective is to ensure that:

- Payments have been made in accordance with the Council's approved procedures and budget for the financial year;
- Payments are supported by a trade invoice or acknowledgement of receipt;
- VAT has been calculated correctly and is recovered at appropriate intervals;
- The Council has formally approved each payment;
- Payments have been correctly analysed in the cashbook and year-end Statement of Accounts prepared for members; and
- Noted that no Section 137 payments have been made during 2019/20

We have examined a sample of 17 payments processed in the year totalling £5,180 and equating to 66% by value of non-pay related payments for compliance with the above criteria noting the process applied for their review and sign-off by members which we consider sound. The Scribe

software affords opportunity for scanned copies of invoices to be saved thereon, which we note the retiring Clerk has done for the last two months of the year since installation of the software. We note that the copies saved to the Scribe software are not the signed versions and suggest that, going forward, the signed copies should be posted to the software rather than unsigned copies. We have noted that a VAT reclaim was prepared during the year relating to the balance of recoverable VAT for 2019-20, that being repaid by HMRC in September 2020. We understand that the 2020-21 reclaim, automatically generated by the Scribe software, will be submitted to HMRC in due course for repayment and have agreed the detail to the underlying payment records.

Conclusions

We are pleased to report that we consider the controls over the authorisation and release of expenditure appropriate and to be operating effectively with our test criteria met accordingly.

Assessment and Management of Risk

Our objective is to confirm that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and operational / health and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks to minimise the opportunity for their coming to fruition. We are pleased to note that:

- An appropriate Risk Register is in place, which was reviewed and re-adopted at the April 2020 Council meeting with further reference to its review and re-adoption in March 2021; and
- The Council's insurance cover is provided by Hiscox: we have examined the current policy schedule and consider that it meets the present needs of the Council with both Public and Employer's Liability at £10 million and Fidelity Guarantee cover of £500,000.

Conclusions

We are pleased to report that no matters have arisen from this review area requiring formal comment or recommendation.

Budgetary Control and Reserves

We aim here 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 its ongoing spending plans.

We are pleased to note that the Council has, after due deliberation, approved the budget and precept for 2021-22 at its meeting in January 2021 adopting the latter at £16,144.45. We are also pleased to note that the 2020-21 budgetary performance to that date was considered when determining the 2021-22 precept requirement.

We note that members continue to receive regular financial updates at each Council meeting, including detail of current bank balances, any income received and payments either made or due for approval. We also noted last year that the Clerk had introduced quarterly budget performance

reports, which continue in place and which we consider an example of best practice, affording members a more detailed measure of activity against the planned budget. The Scribe software affords opportunity for similarly reporting budget performance against each nominal account code at any stage of the year and urge that this facility be applied from the start of 2021-22.

At the year end, total reserves stood at £166,000 (£71,860 at the prior year-end), the increase arising primarily from the S.106 funding received during 2020-21. We noted in last year's report that the Council earmarked £61,862 for various projects including the funds received from developers under S106 agreements' available for use on other community related projects. These have not as yet been identified in the Scribe software and we urge that Council approve the level of these specific reserves annually and that the Scribe data is updated accordingly to reflect their existence.

Conclusions

We are pleased to report that no issues have been identified in this area warranting formal comment or recommendation, although, as indicated above, we suggest that detail of the approved levels of specific earmarked reserves be input to the Scribe accounts so that they are not overlooked when considering future spending and budgetary plans.

Review of Income

The Council receives income by way of the annual precept, a small amount of bank interest once annually and recoverable VAT. We have checked and agreed in full the cashbook transactions to bank statements and other underlying supporting documentation for the financial year.

Conclusion

No matters arise in this review area.

Petty Cash

The Council no longer operates a petty cash account, with any out-of-pocket expenses incurred by the clerk reimbursed routinely throughout the year.

Review of Staff Salaries

In examining the Council's payroll function, our objective is to confirm that extant legislation is 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 any National Insurance Contributions (NIC) due.

Processing of the Council's payroll is contracted out to Yorkshire Tax Bureau (YTB), who are responsible for preparing and submitting the necessary returns to HMRC using the online RTI software and providing details to the Council regarding the payments to be made to the Clerk.

We have been provided with detail of the Clerk's salary based on the contracted spinal point on the national pay scale and basic weekly working hours. We note that the 2020-21 pay award has been applied backdated appropriately to 1st April 2020 and have also ensured that the appropriate tax deduction is applied (no NIC applies as earnings are below the threshold) and have verified the

net salary paid to the Clerk for February 2021 and that month's tax deducted and paid over to HMRC with no issues arising.

Conclusions

We are pleased to record that no matters have arisen from this area of our review requiring formal comment or recommendation.

Fixed Asset Registers

The Practitioner's Guide 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 Clerk has prepared a detailed asset register which is duly updated to reflect the cost of new acquisitions and / or any disposals in each financial year: the Scribe software also provides a detailed asset register, which has been duly populated and now forms the basis of the value to be disclosed in the year's AGAR.

Conclusions and recommendation

We are pleased to report that no concerns arise in this area: however, several of our clients have also developed a photographic record of assets such as street furniture and equipment, which we consider an example of best practice. Clients have found that such photographic evidence has smoothed the processing of insurance reclaims where theft or damage has occurred be it accidental or wilful. We note from the Chairman's responses to our Governance Questionnaire that an appropriate photographic register will be prepared during 2021-22.

Investments and Loans

The Council has no loans repayable either to or by it, nor are any funds held in long-term investments. However, with funds held in excess of £100,000 the Council is now obliged to comply with the Statutory Guidance on Local Government Investments as set out in Section 15(1)(a) of the Local Government Act 2003, as amended with effect from 1st April 2018 Act. This amendment requires that all councils with "investments" in excess of £100,000 develop an appropriate Investment Strategy: para 4 of the 2018 updated guidance stipulates the meaning of "investments" to include all financial assets. We note that a suitable document has been prepared and will be subject to approval at the Council meeting to be held on 8th April 2021.

Conclusions

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

Statement of Accounts and AGAR

We have reviewed the content of the 2020-21 AGAR Section 2 ensuring the consistency of the financial values reported to the underlying Scribe accounting software with no issues arising.

Conclusions

No issues arise in this area this year and, based on the work undertaken during our review for the year, we have completed and signed-off the Annual Internal Audit Certificate in the 2020-21 AGAR, assigning positive assurances in each relevant area.

| Rec. No. | Recommendation | Response |
|---------------------------------------|---|----------|
| Review of Corporate Governance | | |
| R1 | When the Standing Orders and Financial Regulations are next reviewed, consideration should be given to setting the value at which formal tender action is required to a lower value than currently at around £10,000. | |
| R2 | The Council must ensure compliance with the disclosure requirements as set out in the Transparency Code and the Accounts and Audit Regulations publishing all relevant detail on its website. | |