

**Drayton Parish Council**

*Internal Audit Report 2019-20 (Final Update)*

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## **Background and Scope**

There is a statutory requirement for all town and parish councils to make arrangements for an independent internal audit examination of their accounting records and system of internal control each year and for the conclusions to be reported in the Annual Governance and Accountability Return (AGAR). Auditing Solutions Ltd was appointed to provide this service to Drayton Parish Council for the 2019-20 financial year.

This report sets out the results of our final audit work in relation to 2019-20, which was undertaken in June 2020. It updates the report that we issued following our interim audit visit on 19<sup>th</sup> November 2019.

## **Internal Audit Approach**

In undertaking our audit work, 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.

Due to the impact of the Covid-19 pandemic, our final audit for the year was undertaken remotely. We wish to thank the Clerk and Locum Clerk for providing the additional documentation required, in electronic format. This has enabled us to complete our audit work for the year and sign off of the Annual Internal Audit Report in the year's AGAR.

## **Overall Conclusion**

On the basis of the programme of work we have undertaken for the year, we have concluded that the Council continues to maintain an adequate and effective system of internal control. The records held in support of the accounting transactions continue to be of a high standard and provide an effective audit trail, with clear cross-referencing of all relevant documentation. We have completed and signed the 'Annual Internal Audit Report' in the 2019-20 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 have explained the objectives of each area of our audit, outlining the work undertaken and our findings. We are pleased to report that there are no matters arising from our audit work that require a formal comment or recommendation for further action. We ask that Members consider the content of this report.

**This report has been prepared for the sole use of Drayton 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

## Review of Accounting Arrangements & Bank Reconciliations

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 Council continues to use the Scribe accounting software to maintain its financial records, which we consider is adequate for its needs. Banking services are provided by Unity Trust Bank (Current and Instant Access Savings account).

In order to confirm the appropriateness and accuracy of the recording of transactions, we have:

- Checked that the closing account balances, as reported in the Statement of Accounts and Annual Return for 2018-19, have been correctly rolled forward as opening balances for 2019-20 in the accounting software;
- Confirmed that the coding structure in place for the 2019-20 financial year provides sufficient detail to enable effective budget monitoring to be undertaken;
- Verified that the accounting ledger remained “in balance” as at 31<sup>st</sup> March 2020;
- Checked and agreed the payments recorded on the Scribe system for four sample months (April, July and October 2019, plus March 2020) to the supporting bank statements;
- Similarly, checked and agreed the receipts recorded on Scribe to the relevant bank statements. Due to the relatively low number of transactions, at our interim audit this was done for the whole period of April to October 2019. At the final audit we reviewed March 2020;
- Checked and agreed all inter-account transfers for the period April to October 2019 and for March 2020;
- Verified the detail on the software generated bank account reconciliations as at 31<sup>st</sup> October 2019 and 31<sup>st</sup> March 2020, confirming their accuracy;
- Confirmed the accurate disclosure of the overall year-end bank balance in the 2018-19 AGAR (Section 2, lines 7 & 8), and
- Confirmed that the Scribe records continue to be backed up regularly by the Clerk and then stored on the “Cloud”.

The Council holds just over £86k in a Parish Deposit Scheme run by Broadland District Council. We are pleased to note that, in line with our recommendation from last year, a formal statement has been provided by the District Council confirming the amount held in the Scheme as at 31<sup>st</sup> March 2020.

### **Conclusion**

***On the basis of our audit work, we consider that the controls in place in this area were adequate and were operating effectively. There are no matters arising that require a formal comment or recommendation***

## Review of Corporate Governance

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 meetings), all meetings are conducted in an appropriate manner and no actions of a potentially unlawful nature have been, or are being, considered for implementation

During the course of our audit, we have confirmed the following:

- Our review of the minutes of the Council and Committee meetings for the year did not identify any issues that we consider may have an adverse effect, through litigation or other causes, on the Council's future financial stability;
- Revised Standing Orders and Financial Regulations were agreed by the Governance and Staffing Committee on 12<sup>th</sup> March 2020 and formally adopted by the Council at its meeting on 7<sup>th</sup> May 2020; and
- Following the 2019 local elections, the Council re-adopted the General Power of Competence at its meeting in May 2019, with all relevant criteria continuing to be met.
- Appropriate consideration continues to be given to Data Protection requirements and other governance issues, through the Governance and Staffing Committee.

### *Conclusion*

***On the basis of our review, we consider that the Council has adopted a sound approach to its responsibilities in relation to corporate governance. There are no matters arising that require a formal comment or recommendation***

## Review of Expenditure & VAT

Our aim here is to ensure that:

- Council resources are released in accordance with the Council's 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 expenditure codes have been applied to invoices when processed; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have completed our review of the procedures in place in this area, examining all those payments individually in excess of £1,500, together with a further selection of every 25<sup>th</sup> payment as recorded in the Scribe cashbook, irrespective of value. Our sample involved 51 invoices, totalling just over £184,000 and representing 71% of all non-pay related expenditure for the year.

We also confirmed that VAT reclaims continue to be made on a regular (quarterly) basis. We reviewed and agreed the detail of the re-claims submitted during the course of the year to the Scribe records. There were no matters arising.

### *Conclusion*

*On the basis of our review, we are satisfied that the arrangements in place for the coding and authorisation of payments are sound, with adequate supporting documentation present for all payments in our test sample, and that appropriate action has been taken with regard to the re-claim of VAT.*

## **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 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.

We noted the following:

- Members have continued to give due consideration to the Council's risk management arrangements. Both the Internal Controls Document and Financial Risk Assessment were considered by the Governance and Staffing Committee in March 2020 when it was agreed no changes were required.
- In June 2018, the Council entered into a new five-year agreement with Zurich Municipal for the provision of insurance cover. During 2019-20, the cover included Employer's Liability of £10m, Public Liability of £15m, Hirers' Liability of £2m, Fidelity Guarantee of £250k and Business Interruption of £40k. These levels appear to be reasonable for a council of Drayton's size.
- Annual inspections of the three play areas continue to be carried out by the Play Inspection Company, the most recent being in June 2019. The results of these inspections were reported to the Open Spaces & Property Committee in August 2019 and we note that there were no significant issues arising. From our discussions with the Locum Clerk, we understand that the 2020 inspections are to go ahead later this month, in preparation for the re-opening of the play facilities following the anticipated relaxation of the Covid-19 lockdown.

### **Conclusion**

*There are no matters arising from our review of the Council's risk management arrangements that require a formal comment or recommendation.*

## **Budgetary Control & Reserves**

Our objective is to confirm that the Council has sound procedures in place for the determination of future budgetary requirements and the level of precept to be drawn down from the District Council and also that effective budget reporting and monitoring arrangements are in place. We also consider whether 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.

With regard to the in-year performance monitoring arrangements, we confirmed that the Clerk has continued to provide the Council with regular detailed information on its bank balances and of all payments approved or due for approval. Periodic reports on the performance against the budget in the year to date have also been presented to the Governance and Staffing Committee.

We have confirmed that the Council gave careful consideration to its budgetary and Precept requirements for 2020-21, with detailed consideration by the Governance and Staffing Committee in December 2019 prior to formal approval of the overall budget and precept by the Council at its meeting on 9<sup>th</sup> January 2020. A budgetary update to the end of November 2019 and a report by the Clerk on the 2020-21 budget proposals were provided to Members to help inform the decision-making process. The 2020-21 Precept was set at £163,200 an increase of 2% on the prior year.

We are pleased to note that the Council's reserve requirements were considered as part of the budget setting process. The Precept demand anticipates a shortfall of £25,086, which is to be met from the budget surplus in 2019/20.

As at 31<sup>st</sup> March 2020, the overall reserves of the Council stood at £274,036, an increase of £34,346. Of the total reserves, £151,015 has been earmarked for specific projects, leaving an unallocated General Fund of £123,021. There is no 'hard and fast' rule as to the general reserves that should be held, as this will depend on the circumstances of individual authorities and the risks they face. However, a 'yard-stick' of around 50% of revenue spend or Precept is often cited. The Council's General Fund is currently above this level, but, as noted above, it is planned to utilise part of the accumulated balance to support the revenue budget for 2020-21.

### ***Conclusion***

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

## **Review of Income**

Our objective here is to ensure that robust systems are in place to ensure that all income due to the Council is identified and invoiced (where applicable) in a timely manner and that effective procedures are in place to ensure that appropriate recovery is effected within a reasonable time span.

Other than the Precept and CIL monies, the sources of incomes are quite limited, with occasional Pavilion lettings, cricket and football pitch hire fees, bank interest and VAT recoveries. As noted earlier in this report, we have checked and agreed all receipts from bank statements to cashbooks for the year to date (April to October 2019 and March 2020) with no matters of note.

### ***Conclusion***

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

## **Petty Cash Account and Corporate Charge Cards**

Whilst the amounts expended in this area are extremely limited, we are charged, as part of the Annual Governance and Accountability Return certification work, with examining the Council's petty cash accounting controls and signing off accordingly in the Return.

As noted in prior years reports, the Council does not operate a petty cash account but it does hold a Lloyds corporate credit card through Unity Bank. This has two authorised users with an overall credit limit of £1,000 and settlement in full by monthly direct debit. At our interim audit, we tested a sample of payments for September 2019 to invoices/till receipts, to ensure they were appropriately supported and relevant for the Council's activities. All were in order.

## ***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 legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenue and Customs (HMRC) in relation to the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme, as most recently revised with effect from 1<sup>st</sup> April 2019 in relation to staff salary contribution bandings.

To meet this objective, we have examined the payroll procedures in place and the physical payments made to staff in the current year by reference to the September 2019 payments, noting that the Council continues to undertake the production of its payroll "In house" using the free, bespoke 'Basic PAYE Tools' software from HMRC. Our review has included:

- Ensuring that the Council had approved employee pay rates for the financial year, noting that the NJC pay award for 2019-20 was approved and duly implemented as required;
- Checking to ensure that appropriate PAYE tax codes and National Insurance tables are being applied for the year, following the annual budgetary increases in personal allowances with effect from April 2019;
- Checking that the correct scales of superannuation deductions, based on the revised LGPS salary bandings (albeit with minimal increases for 2019-20) are being applied where applicable;
- Ensuring that appropriately approved timesheets are submitted by all employees in support of any flexible hours worked and / or claimed as overtime where applicable; and
- Verifying detail of the net salary payments by reference to payroll summary reports and the subsequent BACS listings.

## ***Conclusion***

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

## **Asset Register / Inventory**

Councils are required to record the value of their assets in the AGAR at purchase cost or at a suitable proxy where that value is not known, and for community assets to be valued at a nominal £1. The value of individual assets should not change from one year to another, with the only changes being the inclusion of new assets purchased or removal of assets disposed of.

We are pleased to note that the Clerk continues to maintain an up to date asset register, with individual values recorded in accordance with the above requirements. We have confirmed that the asset register has been updated for additions in the year and have agreed the updated total asset value of £712,599 to the figure reported in the draft AGAR (Section 2, line 9). This is a significant increase on the previous year-end total value of £613,946, due principally to the acquisition of the new play equipment at the Florence Carter Memorial Park.

### ***Conclusion***

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

## **Investments and Loans**

Our objectives here are to ensure 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, that interest earned is brought to account correctly and appropriately in the accounting records and that any loan repayments due to or payable by the Council are transacted in accordance with the relevant loan agreements.

The Council does not currently hold any formal long-term investments that require separate disclosure, with its funds held in the Unity Trust Bank Current and Instant Access Savings accounts and the Broadland District Council Parish Deposit Scheme. We understand from our discussions with the Clerk that in view of the number of projects that are currently being considered, any decision on longer-term investments will not be made until the future use of the available funds is determined.

The Council has no loans in place either repayable by, or to, it.

### ***Conclusion***

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

## **Statement of Accounts and AGAR**

We have examined the detailed accounting records produced from the Scribe system and the draft of the statutory Accounting Statements that the Council is required to complete as Section 2 of the AGAR. We have agreed the detail to the supporting accounting records and other related documentation, with no significant issues identified.

The statutory accounts have once again been prepared on a Receipts and Payments (cash) basis. This is the correct approach, even though both the total receipts and payments were above £200k in the year - due to the play area project at the Florence Carter Memorial Park. Members should note that if either receipts or payments exceed £200k for three consecutive years, it will be necessary to change to an Income and Expenditure (Accruals) accounting basis.

### ***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 review 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.***