

# **Patchway Town Council**

*Internal Audit Report: Final update 2020-21*

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## **Background**

Statute requires all town and parish councils to arrange for an independent internal audit (IA) 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 in relation to the 2020-21 financial year, during our two visits to the Council, which took place on 4<sup>th</sup> November 2020 and 5<sup>th</sup> May 2021.

## **Internal Audit Approach**

In conducting our review for 2020-21 and in accordance with the requirements of the IA Certificate in the AGAR and the latest 2020-21 edition of The Practitioner's Guide, we have again paid due regard to the materiality of transactions and their susceptibility to potential misrepresentation in the Accounts / AGAR, together with examining the overall governance framework.

We discussed the financial procedures in place for recording and authorising various transactions with the Deputy Clerk / RFO during our interim review in order to determine an appropriate review and testing strategy, also having 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 also 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 'IA Certificate' in the Council's AGAR, which requires independent assurance over several internal control objectives.

## **Overall Conclusion**

We are pleased to again acknowledge the significant improvement in accounting arrangements, the quality of retained documentation and approach to governance matters even in these continuing exceptional times due to the Covid pandemic.

We wish to thank the Deputy Clerk / RFO for his assistance during the course of our two visits and are pleased to acknowledge the actions taken to address the recommendations recorded in our interim report, with no additional matters arising from our final review of the second half-year's documentation.

We note that production of a detailed Statement of Accounts will again be undertaken by the external accounting contractor (DCK Accounting), but had not been finalised at the time of our final review visit. Consequently, we will issue an addendum to this report once they have been finalised and we have had a chance to review their content and the financial information to be disclosed in the year's AGAR at Section 2.

Notwithstanding that, we have issued the IA Certificate for 2020-21 with no issues or concerns identified during our review for the year warranting negative responses.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

The Deputy Clerk / RFO maintains the Council's accounting records using Rialtas Omega software with Current and Deposit accounts in place with NatWest, transaction detail being recorded in a single cashbook in the financial ledgers with a daily automatic sweep to keep the Current account balance at £1,000. Separate accounts have also been established earlier this year with the CCLA Deposit Fund and Cambridge and Counties Building Society.

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. To meet that objective, we have: -

- Verified the accurate carry forward of closing trial balance detail in the 2019-20 closing Trial Balance / AGAR for the Council to the current year's Omega records;
- Verified that the financial ledgers remain "in balance" at the financial year-end;
- Examined detail in the Council's combined Current & Deposit a/c cashbook for April & September 2020, plus January and March 2021 agreeing detail to the relevant bank statements, including the daily inter-account transfers;
- Similarly checked and agreed detail of the other account transactions for the full financial year,
- Noted the successful migration to Office 365 and cloud-based back-up of the Council's systems; and Ensured the accurate disclosure of the combined cash and bank account balances in the 2020-21 AGAR at Section 2, Box 8.

### Conclusions

*We are pleased to record that no issues have been identified in this review area and are pleased to note that bank reconciliations are now subject to regular member review and sign-off. As indicated in the preface, we will verify the financial detail recorded at Section 2 of the year's AGAR once, the Accounts have bene prepared and provided for our scrutiny by the contract accountants.*

## Review of Corporate Governance & Regulatory Framework

Our objective here is to ensure that the Council has a robust regulatory framework in place, that Council and Committee 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 noted last year that the Council's SOs and Financial Regulations (FRs) were reviewed and re-adopted by the Council at the May 2019 full Council meeting and reviewed their content noting that both were in line with the latest NALC model documents including appropriate references to the Council's contracting arrangements and the requirements of the 2015 Public Contract Regulations. We now note that the FRs have been further updated with the revised document formally adopted by the Council at the July 2020 Council meeting.

We have continued our review of minutes for the financial year reading all those for the full Council and Standing Committees as posted on the website to the present date to ensure that the Council has

neither considered nor is considering taking any actions that may result in ultra vires expenditure being incurred and are pleased to report that no issues arise currently.

We note that the external auditors have signed off the 2019-20 AGAR with two issues raised in the “other matters” section of their certificate. In discussion with the RFO, we understand that, despite PKF’s comments that they had not received the information detailed in their report, it had all been provided previously in electronic format.

We are pleased to note that the external audit report and signed copies of the AGAR for 2019-20 have been published on the Council’s website and take this opportunity to remind the Clerk and RFO of the website disclosure requirements set out in the preface to the 2020-21 AGAR and ask that they ensure compliance with those disclosure requirements.

We are also pleased to note that, following our recommendation last year, the RFO has developed a raft of financial procedural documentation detailing the procedures to be followed in processing transactions on the various financial systems and have reviewed their content considering them appropriate for the Council’s present requirements.

### ***Conclusions***

***We are pleased to record that no areas of concern have been identified in this review area.***

## **Review of Expenditure**

Our aim here is to ensure that: -

- Council resources are released in accordance with the approved procedures and budgets;
- Payments are appropriately supported, 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 discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- An official order has been raised on each occasion when one would be expected;
- The correct expense 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 discussed the procedures in place for the processing, certification and release of funds with virtually all payments now paid online and payments set up by the RFO. Members are then provided with scanned copies of the purchase invoices and, following review, they go online themselves to release the funds to the respective payees. Members subsequently visit the Council offices and sign-off the original hard copy invoices which are retained on file. We consider the controls in place to be appropriate and in line with sound financial control procedures.

We have selected an extended sample of payments processed throughout the year reviewing the files of hard copy documents to ensure compliance with the above criteria: our test sample includes 101 individual payments plus 2 NNDR payments to South Gloucester Council totalling £1,027,150 and equating to 90% by value of non-pay related payments in the year to the above date with all the above criteria appropriately met. The high percentage arises due to the development of the Community Centre with substantial payments already made to various contractors during the year.

We note that the 2019-20 year-end VAT reclaim was prepared, submitted and repaid by HMRC and have also examined the 2020-21 quarterly reclaims, noting that the first three have been repaid accordingly during the year with the final reclaim to March 2021 submitted to HMRC and showing as a debtor in the 2020-21 Accounts.

### **Conclusions**

***We are pleased to record that no issues arise from the work undertaken in this area with all payments in our test sample appropriately supported and bearing evidence of member review and sign-off.***

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

We noted last year that a comprehensive “Risk Management Policy and Strategy” document was adopted by the Council in March 2019 and are pleased to note that the Council has subsequently reviewed and re-adopted that document, together with a comprehensive risk register in May 2020: the latter has been subjected to further scrutiny and been re-adopted unchanged in January 2021. We have examined the content of both documents and consider that they afford the Council an appropriate and effective means of assessing and addressing any specific areas of potentially medium to high risk.

We have also examined the Council’s 2020-21 insurance policy with Zurich Municipal with cover in place for Council premises, property and equipment, together with Public and Employer’s Liability cover in place at £15 million and £10 million respectively and Fidelity Guarantee (FG) cover set at £1 million. We consider that cover is generally appropriate to the Council’s present requirements, although with combined bank balances in excess of £1.5 million, we suggested in our interim report that consideration be given to increasing the level of FG cover and note that Council has agreed to increase cover temporarily to an appropriate level taking account of further CIL moneys due to be received in 2021-22.

### **Conclusions and recommendation**

***We are pleased to record that no significant issues arise in this area, although, as above, we suggested that the insurer be approached with a view to increasing Fidelity Guarantee cover until further major expenditure is expended on the Community Centre development.***

***We shall continue to monitor the Council’s approach to risk management at future visits.***

***R1. The Council’s insurer should be contacted to determine whether an increase in Fidelity Guarantee cover in the short term would require a significant increase in premium and, if deemed reasonable the cover be increased accordingly. The Council has considered this and agreed to a temporary increase in the level of cover to £2.5 million.***

## **Budgetary Control and Reserves**

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and level of precept to be drawn down from South

Gloucester Council: also, that an effective reporting and monitoring process is in place. We also aim to ensure that 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.

We are pleased to note that, following detailed consideration of its budgetary requirements, the Council formally approved the budget and precept for 2021-22 at the December 2020 full Council meeting setting the precept at the unchanged value of £730,655 minuting the approval accordingly.

We are also pleased to note that members receive routine budget reports throughout the year based on the accounting software and have examined the final Omega budget outturn report, also examining the detailed transaction reports for the year where any significant variances are apparent with no unexplained / unanticipated variances existing warranting further investigation or explanation.

We have, as part of this final review, considered the ongoing appropriateness of the level of retained reserves noting that (per the latest available Omega year-end report detail) total reserves stand at almost £1,572,000 (£350,800 as at 31<sup>st</sup> March 2020) comprising Earmarked funds of £1,415,000 (£61,000 previously) leaving a General Reserve Fund balance of £157,000 as at 31<sup>st</sup> March 2021, which balance we consider appropriate for the Council's ongoing revenue spending requirements.

### **Conclusions**

*No issues arise in this area warranting formal comment or recommendation this year: we shall continue to monitor the level of retained reserves at future visits commenting appropriately at that time.*

## **Review of Income**

Our objective in this area is to ensure that the Council identifies all income to which it is entitled and has appropriate arrangements in place to ensure its prompt recovery. The Council receives income from a variety of areas in addition to the annual precept, primarily by way of hall and sports field hire, together with various grants, donations, recoverable rents and VAT and other miscellaneous events, etc. Due to the Covid situation during a large part of 2020-21, the halls have been closed with a resultant significant reduction in income: similarly, the sports pitches have also been closed for part of the year with a similar reduction in income.

We also note that, due to the Covid situation and the resultant financial difficulties being experienced by the Sports & Social Club, the Council has agreed to waive the rent due from the Club for a large part of the year and going into the early part of 2021-22.

Notwithstanding the above, we have examined the controls in place over the recovery of fees for hire of rooms at the Council's premises and sports pitches for the winter season to the date of our interim review by reference to the computerised booking diaries and invoices raised to recover the fees due to the Council. We are pleased to record that no issues have arisen in that respect with the appropriate fees charged and recovered within a reasonable time period.

We are also pleased to note that the Council has reviewed the variable fees and charges to be levied on hirers, the outcome of which has been formally minuted.

We have also examined the detailed income transaction reports for the financial year ensuring, as far as we are reasonably able, that all income due to the Council has been received and accounted for appropriately.

### **Conclusions**

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

## **Petty Cash Account**

*The Council does not operate a petty cash account, any out-of-pocket expenses incurred by officers being reimbursed through the normal trader payment process.*

## **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 as regards the deduction and payment over of income tax and NI contributions and the implementation of the nationally agreed pay award effective from 1<sup>st</sup> April 2020. We also note that, as a result of a staff grading review undertaken by an external company, the Deputy Clerk's salary has been uplifted by two spinal points, whilst two grounds staff salaries have been "frozen" for the time being.

The Council uses an external agent to prepare the monthly payroll with copy payslips and all other relevant documentation to facilitate payments to individuals, HMRC and the Pension Fund Administrators produced and retained. To meet the above objective, we have:

- Agreed the gross salaries paid to all staff in September and October 2020 by reference to the Council's approved spinal points on the nationally agreed salary scales and, where variable hours are worked, to the signed and certified time sheets (NB: two months were selected as the pay award applying from 1<sup>st</sup> April 2020 was paid in October 2020, together with arrears for the first six months of the financial year);
- Checked, by reference to the relevant HMRC tax and NI tables, that deductions have been made appropriately in accordance with the individuals' tax codes and NI Table;
- Checked to ensure that the appropriate pension deductions / contributions have been calculated in both months; and
- Ensured the accurate payment of staff net salaries for September 2020, based on the supporting payslips.

### **Conclusions and recommendation**

*In reviewing individual employees' pension deductions for October, we noted that the back pay had not been included in the calculations of the employees' deductions / contributions to the pension fund: we assume that a similar oversight / software glitch will apply to the Council's contributions and suggested that the RFO check the position with the software supplier, which has duly been done with appropriate adjustments made in a subsequent month's salary calculations.*

R2. *The RFO should discuss the identified anomaly in calculating staff and the Council's pension contributions to the pension fund in respect of the arrears of pay paid with the October 2020*

*salaries to those affected officers. This has been corrected accordingly in a subsequent month's salary calculations.*

## **Fixed Asset Registers**

The Practitioner's Guide requires all councils to develop and maintain a register of its stock of assets with detail updated annually to reflect the purchase cost, net of VAT, of any new acquisitions less any disposals at the previously recorded value.

We are pleased to note that an appropriate register is in place, detail of which feeds into the annual Statement of Accounts and AGAR. We are also pleased to note that the register includes photographs of the individual assets, which may assist the Council in pursuing any insurance reclaim of police enquiry in the event of any wilful or accidental damage to Council property.

### **Conclusions**

*We are pleased to report that no matters have been identified in this area this year with a comprehensive asset register now in place with the total value duly reported in the year's AGAR at Section 2, Box 9.*

## **Investments and Loans**

We aim here to ensure that the Council is maximising its interest earning potential through the "investment / deposit" of surplus funds in appropriate banking institutions. As recorded earlier in this report, we note the placement of a proportion of surplus funds with the CCLA Deposit Fund and Cambridge & Counties Building Society to ensure a better rate of interest is received, although the Covid pandemic has obviously affected the interest rates available currently. We are also pleased to note that a formal Investment Strategy / Policy is in place and is subject to periodic review and re-adoption by the Council.

We have checked and agreed the half-yearly PWLB loan repayment instalments as part of our previously referenced payment review, by reference to the relevant PWLB demand notices and will also ensure the accurate disclosure of the residual loan liability in the year's AGAR at Section 2 box 20 on receipt of the Contractor's detailed Accounts and working papers.

### **Conclusions**

*No matters have been identified in this area this year warranting formal comment or recommendation.*

## **Statement of Accounts and AGAR**

The AGAR now forms the statutory Accounts of the Council, subject to external audit scrutiny and certification. The Council uses the services of DCK Accounting to undertake the year-end closedown of the Omega accounts and to prepare a detailed Statement of Accounts for presentation to and adoption by the Council in addition to the detail to be reported in the year's AGAR at Section 2.

DCKs requested that we check the accuracy of the journal entries they processed at the financial year-end in relation to the allocation of income and costs associated with the Joint Burial Committee which we have duly confirmed as accurately recorded.



As a courtesy to the Council, we will review the content of the detailed Statement of Accounts and AGAR financial information ensuring produced by DCK Accounting once received and if appropriate, issue an addendum to this report at that time.

### ***Conclusions***

***We are pleased to record that no issues arise in this area currently. Based on the satisfactory conclusions drawn from our review programme for the year, we have duly signed off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area.***

***We remind the Clerk and RFO of the need to ensure full disclosure in the Council's website of the detail as set out in the preface to the year's AGAR, together with ensuring adherence to the timing requirements of adopting the AGAR and posting the Notice of Public Rights for 2020-21.***

Rec. No	Recommendation	Response
<b>Assessment and Management of Risk</b>		
R1	The Council's insurer should be contacted to determine whether an increase in Fidelity Guarantee cover in the short term would require a significant increase in premium and, if deemed reasonable the cover be increased accordingly.	<i>This has been discussed by the Council with an appropriate temporary increase approved.</i>
<b>Review of Staff Salaries</b>		
R2	The RFO should discuss the identified anomaly in calculating staff and the Council's pension contributions to the pension fund in respect of the arrears of pay paid with the October 2020 salaries to those affected officers.	<i>This has been corrected accordingly in a subsequent month's salary calculations.</i>