

## **Portishead Town Council**

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

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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 as part of the Annual Governance and Accountability Return (AGAR) process.

This report sets out the work undertaken in relation to the 2019-20 financial year, during our initial visit to the Council, which took place on 25<sup>th</sup> November 2019. Due to the impact of the Covid-19 pandemic, we have undertaken our final review for the year remotely: we wish to thank the Clerk in assisting the process, providing all necessary additional (to that examined at our interim visit) 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 conducting 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 has been designed to afford appropriate assurance that the Council's financial systems and governance processes remain 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 Certificate' as required under the AGAR arrangements, which require independent assurance over several internal control objectives.

## Overall Conclusion

We are pleased to conclude that, in the areas examined this year, the Council continues to maintain adequate and effective internal control arrangements: however, we identified a few areas at our interim visit where we considered improved controls could be implemented and action was needed to address other issues: we are pleased to acknowledge the action taken to address these and will review the position further when we are next able to visit the Council. Detail of the current status, as advised by the new Clerk, is detailed following each recommendation in the body of the report and also in the appended Action Plan.

The Council has undergone several changes in personnel and elected members in recent months, which has undoubtedly and not surprisingly impacted adversely on the smooth running of its financial and governance affairs. We wish to again thank the new Clerk and his colleagues for their efforts in assisting the satisfactory conclusion of this year's internal audit review. We are also pleased to note the acquisition and implementation of the RBS Rialtas software during the latter stages of the year, which has been run in tandem with the externally contracted accountants' spreadsheet records.

Based on the generally satisfactory conclusions drawn from our completed programme of work for 2019-20, we have duly signed off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area.

**This report has been prepared for the sole use of Portishead Town 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, for any reason whatsoever, on this report, its contents or conclusions.**

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

The Council operates two bank accounts with Lloyds Bank (Current & CIL), supplemented by three further deposits with the Monmouth and Nationwide Building Societies.

The Council has historically and continued to use the services of a local external accountancy firm to prepare the accounting records in spreadsheet format each month, based on data supplied by officers. The accountants also prepare the Council's monthly payroll and detailed year-end Accounts, which then feed into the AGAR Section 2 Accounts.

We are pleased to note that, following our previous recommendation, members have determined to and actually acquired the RBS Omega accounting software and have, for the latter stages of the financial year run it in parallel with the work of the external accountants. The software will be applied fully in 2020-21 without recourse to the use of external accountants with resultant financial savings accruing to the Council.

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear therein. We have: -

- Ensured that an appropriate analysis of transactions has remained in place throughout the year to facilitate preparation of periodic budget reports and the year-end detailed Statement of Accounts and AGAR information
- Ensured that the closing balances, as reported in the 2018-19 Accounts and AGAR have been brought forward accurately as opening balances for 2019-20
- Verified three months' transactions on the Lloyds Current account (April & October 2019, plus March 2020) by reference to supporting bank statements
- Verified the year's transactions to 31<sup>st</sup> October 2019, together with March 2020, on the three Building Society accounts by reference to underlying records: we noted at our interim visit that interest earned on the Lloyds CIL account in the financial year to that date (£30.24) had not been added to the cashbooks at that time: we acknowledge that this was actioned by the accountants in preparing the year-end Accounts
- Verified the content of the resultant combined month-end bank reconciliations produced by the accountants for April & October 2019, plus March 2020 and are pleased to note that the previously identified two uncleared cheques drawn in December 2018 and three further cheques drawn in March and April 2019 have been written back accordingly in the March 2020 cashbook, and
- Ensured the accurate disclosure of the combined cash and bank account balances in the year's AGAR at Section 2, Box 8.

We noted at our interim visit that the bank reconciliations prepared in the year to date appeared to have not been examined and signed-off by a nominated councillor [Para 2.2 of the Council's adopted Financial Regulations (FRs) refers].

### *Conclusions and recommendations*

***We are pleased to record that no significant concerns have been identified in relation to the maintenance of the accounting records following satisfactory write back of the long-standing***

***uncleared cheques eventually in March 2020, together with the absence of any apparent independent review of reconciliations, as required by the Council's FRs.***

- R1. *Action should be taken to determine whether the five long-standing uncleared cheques are still required by the payees; if lost and still required, replacement cheques should be issued and, if not required, the accountants should be instructed to cancel the cheques appropriately in the cashbooks. Reviewed and all items have cleared or been paid by other means (BACS/FPI) so no reconciling items remained at the year-end.*
- R2. *Appropriate arrangements should be implemented to ensure that bank reconciliations are subjected to independent scrutiny and sign off in accordance with the extant Financial Regulations (para 2.2 refers). Agreed – the year end bank reconciliation and bank statements have been sent for approval of the Chairman of the Staffing & Finance Committee. It is proposed that they will be reviewed and approved quarterly going forward.*
- R3. *Consideration should be given to the need to retain the CIL account and to ensure that interest earned to date in the year is brought to account in a timely manner and, going forward, in each month's cashbook. It is agreed that a separate bank account is not required for CIL funds and a new EMR has been established to record receipt and expenditure of CIL amounts. The Lloyds CIL account is an interest-bearing instant deposit account and will now be used to hold temporary general surplus cash balances to minimise the Lloyds current account balance.*

## **Review of Corporate Governance**

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 Code of Practice and that, as far as we can reasonably be expected to ascertain as we do not attend meetings, no actions of a potentially unlawful nature have been or are being considered for implementation.

We note that the Standing Orders (SOs) have recently been subjected to further review and re-adoption (October 2019) whilst the Financial Regulations (FRs) were last reviewed and adopted in May 2018. 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.

We have continued our review of the Council's and Standing Committee's minutes, as posted on the Council website (excluding those relating to planning matters), examining those for the financial year and to date in 2020-21 to ensure that no issues exist or may be being considered by the Council that may have an adverse effect, through litigation or other causes, on the Council's future financial stability. At our interim visit, we also, very briefly, scanned the file of minutes and agendas held in the office to fill in any gaps in documentation posted on the website: we noted that a few meeting agendas were issued by the Chairman, with meetings held either within the parish or just outside the boundary with no formal minutes seemingly recorded. Whilst we appreciate that staff have been extremely busy following the departure of the Clerk, members should not be preparing agendas and issuing them (this is the role of the Clerk / Proper Officer – SOs Section 15 refers): similarly, the detail of all meetings should be minuted formally.

### ***Conclusions and recommendations***

***The Council needs to ensure that it complies with best practice as eschewed in its adopted SOs holding open meetings in appropriate venues with agendas and minutes also prepared and issued in accordance with the adopted SOs.***

***We shall continue to monitor the Council's approach to governance issues at future visits, also continuing our review of minutes.***

***R4. Council meeting agendas and minutes should be prepared and issued in accordance with the Council's adopted Standing Orders. Agreed – all council meetings are conducted with Agendas and Minutes. Working parties and informal business meetings where decisions are not taken and are held to update Councillors and discuss projects and priorities do not necessarily have formal agendas or minutes.***

***R5. The Council should undertake a further review of its Financial Regulations in the near future ensuring full compliance with the latest 2019 edition of the NALC model document. Agreed – this is work in progress and anticipated to be completed by September 2020 for when the next Annual Council Meeting is planned.***

## **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
- Appropriate documentation supports payments, 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 correct expense analysis has been applied in the spreadsheet cashbooks to invoices when processed, and
- VAT has been appropriately identified and recorded appropriately for periodic recovery.

We examined the procedures in place for processing purchase invoices at our interim visit, noting the continued use of internet banking, although the Council reverted to use of cheques in the latter stages of 2018-19: we are also pleased to note that, following our previous suggestion, the bank transaction confirmation reports attached to either individual or a group of payments are now being initialled by both the Clerk and Assistant as evidence of the duality of the checking and release process, although this understandably lapsed on the departure of the former Clerk. We are pleased to now record that, having examined a further sample of invoices (as below) at this final review, the former control has been reintroduced following the appointment of the new Clerk.

To ensure compliance with the above anticipated controls, we examined a sample of individual payments processed during the financial year to 31<sup>st</sup> October 2019 at our interim visit, including all those individual payments in excess of £1,500 plus every 25<sup>th</sup> payment processed and two NNDR accounts for the Council's halls, those payments being processed for ten months during the year. We have now selected a further sample of payments processed over the remainder of the financial year for examination and thank officers for providing copies in electronic format

for our examination. Our updated test sample totals £160,650 and equates to 53% by value of non-pay related payments processed during the year.

In examining the spreadsheet cashbooks for the year to the date of our interim review, we noted that the pension fund payment in May 2019 was incorrectly analysed as a “Caretaking staff cost”: we understand that a similar error occurred in October’s cashbook, both of which have now been corrected appropriately by the accountants.

VAT reclaims have historically been prepared and submitted quarterly by the contract accountants: examination of the year to date cashbooks at the time of our interim visit indicated that only the final quarter’s reclaim for 2018-19 had been submitted to and been repaid by HMRC. We now note that the accountants had prepared and submitted the quarterly reclaims, which were duly repaid by HMRC in January and February 2020. We shall ensure recovery of the final quarter’s reclaim at our next interim visit.

### ***Conclusions and recommendations***

***We are pleased to record that no significant residual issues arose in this area as part of our year-end review.***

- R6. *The Council’s contracted accountants should be reminded of the need to ensure that VAT reclaims are prepared and submitted in a timely manner. **The outstanding recoverable VAT was banked in January and February 2020. All returns to 31 March 2020 have been submitted on time, with the final quarter’s reclaim repaid on 21<sup>st</sup> April 2020.***
- R7. *The incorrectly analysed pension fund payment in May 2019 should be corrected in the cashbook. **Done.***

## **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 / 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 have examined the Council’s insurance policy with Zurich for 2019-20, noting that Employer’s and Public Liability cover remain in place at £10 million and £15 million respectively. We also note that Fidelity Guarantee cover is in place at £1 million and that appropriate “Loss of Revenue” cover is also in place for the Council’s three hireable venues: we also note that the Council has determined to end the Zurich cover, now switching to BHIB
- We noted in our final report for 2018-19 that the Council reviewed and re-adopted the previously prepared risk assessment document at the full Council meeting in January 2018. Examination of the current year’s minutes confirms that a further review took place with the resultant document adopted by the Council at the meeting held on 15<sup>th</sup> May 2019; and
- We note that an annual review of play areas is undertaken by RoSPA, supplemented with weekly checks by a local company who have appropriate qualifications and provide reports which are filed and acted on accordingly.

## *Conclusions*

*We are pleased to record that no issues arise in this area warranting formal comment or recommendation. We shall continue to monitor the Council's approach to risk management at future visits.*

## **Budgetary Control & 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 the level of annual precept to be drawn down; also, that an effective reporting and monitoring process is in place. Additionally, we 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 members continue to be provided with periodic budgetary performance reports and have reviewed the year-end outturn with no unexplained or unanticipated variances apparent that require further enquiry.

We are also pleased to note that, following due deliberation, members have determined their budgetary and precept requirements for 2020-21 setting the latter at £787,860 at the January 2020 full Council meeting.

We have also considered the ongoing appropriateness of the level of retained reserves noting that they have decreased from £371,560 at the start of the financial year to £235,638 at the year-end. Of that total, the year-end earmarked reserves (EMRs) stand at a reduced value of £153,815 (£254,120 at the prior year-end). The residual General Reserve balance of £81,823 now equates to approximately 2 months' revenue spending and is well below the generally accepted level of between 3 and 12 months' revenue spending and could leave the Council at a degree of risk should any unanticipated significant expenditure arise. Whilst additional funds exist in EMRs and could be reverted back to the General Fund should an urgent need arise, this is not best practice.

## ***Conclusions and Recommendation***

***Whilst no major concerns arise in this area, we are, as in previous years, again concerned to note the potentially low and insufficient value of funds held in the General Fund at the financial year-end***

*R8. As indicated in prior year reports, members should, when considering future years' precept requirements, ensure that the General Reserve balance is retained at a more reasonable level to cover any potentially significant or unforeseen expenditure that might arise.*

## **Review of Income**

We aim in this area of our review to ensure that income due to the Council is identified, recovered and banked within a reasonable time period and note that the Council has relatively limited sources of income, primarily arising from the Precept, Support Grant, hire fees at the three halls, coinage from the public WCs, plus bank interest and allotment rent payable by the Allotment Association for the sites they run on behalf of the Council.

We have examined a sample of one week's (commencing 23<sup>rd</sup> September 2019) hall bookings for the Folk and Redcliffe Bay Halls, ensuring that appropriately priced fee invoices have been raised and that they are settled within a reasonable time period. Whilst no issues of concern arose during our review of this area, we were unable to trace a few of the relevant invoices, a list of which was left with staff who subsequently provided the invoice detail.

We reviewed the file of unpaid accounts at our interim visit noting that a few remained unpaid at that time, although none remained so for an inordinate length of time. Due to our not visiting the Council for this final review due to the ongoing Covid-19 situation, we have not had an opportunity to check on the year-end position, but will do so at our 2020-21 interim review, also examining other income streams.

We have, however, based on the accountants' detailed Statement of Accounts provided for our examination, updated our analysis of income across the various areas noting a general reduction in fee income across the board. We note that the Council has recently agreed increases in hall hire fees and will review the position at our interim visit, although the income will undoubtedly be significantly reduced in 2020-21 due to the enforced closure of the halls due to the Covid-19 situation.

### ***Conclusions***

***No issues arise in this area to date warranting formal comment or recommendation: we shall focus attention in this area at or 2020-21 interim review visit, also examining the extent of unpaid debt and will report our conclusions accordingly.***

## **Petty Cash Account**

We are required, as part of the Internal Audit Certification process in the AGAR, to consider the controls in place over the operation of any petty cash account in use. Consequently, we examined the usage of the Council's account examining payments made from 1<sup>st</sup> August to the date of our interim visit ensuring that each was supported by an appropriate invoice or till receipt, that VAT had been identified for recovery (where applicable) and that reimbursements "topping-up" the account were recorded appropriately.

We again noted that the cash held in the account is physically checked at the close of each month and reconciled to the formal petty cash record maintained with the then locum Clerk duly signing-off that record. We also checked and agreed the physical cash held to the underlying records and agreed it, together with the, at that time, un-reimbursed expenses.

### ***Conclusions***

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

To meet these objectives, we have examined the payroll procedures in place and the calculation of payments due to staff currently in post at the time of our interim visit, together with statutory deductions as detailed below, by reference to the October 2019 payroll documentation, which is, as previously, also produced by the Council's accounting contractor based on detail provided by the Deputy Clerk. Specifically, we: -

- Examined the gross salary payments made to all staff in post in October 2019, agreeing detail to the establishment schedule and verifying the accurate application of the nationally agreed pay award applicable from 1<sup>st</sup> April 2019, together with assimilation of staff onto the revised spinal column points, as approved by the Council
- Checked to ensure that appropriate PAYE tax codes and NI tables were being applied by reference to the HMRC deduction tables
- Checked that the correct percentages of superannuation deductions, based on the nationally agreed LGPS salary bandings, have also been applied for staff contributing to the scheme
- Verified that all enhanced payments to staff included in their October 2019 salaries were supported by appropriately completed, signed and certified time sheets, and
- Ensured the accuracy of payments made to HMRC and the Pension Fund Administrators again in relation to the October 2019 salary deductions / contributions.

### **Conclusions**

*We are pleased to record that no issues have been identified in this area of our review process this year warranting formal comment or recommendation.*

*However, we wish to draw the Clerk's attention to the changed rules as regards recording of Staff Cost expenditure in Box 4 of the AGAR which come into effect from the 2020-21 financial year: the JPAG Practitioner's Guide 2020 refers at Page 17.*

## **Fixed Asset Registers**

The "Governance and Accountability Manual" requires councils to maintain a record of all assets owned. We are again pleased to note compliance with this requirement with detail now entered into the new RBS software asset register.

We have reviewed the content of the new asset register for 2019-20 noting the appropriate inclusion of newly acquired assets during the financial year, with the total value to be disclosed in the year's AGAR at Section 2, Box 9 duly agreed.

### **Conclusions**

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

## **Investments and Loans**

The Council has previously placed surplus funds in short-term "bonds/Term deposits" with various banking institutions. We have examined detail of transactions in the financial year to the date of our interim visit, also ensuring the appropriate receipt and recording of any gross

interest earned, subject to the previous comments in relation to the Lloyds CIL account. We note that the previous term deposit, which matured in February 2020, has not been renewed during the course of the financial year.

We also note that the Council has considered and adopted a formal Investment Policy as required from 1<sup>st</sup> April 2018 by statute for all councils with funds in excess of £100,000: the content of which we have reviewed and consider appropriate for the Council's present requirements.

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

### ***Conclusions***

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

## **Statement of Accounts and AGAR**

The Council's external accountants have, as previously, prepared a detailed Statement of Accounts, together with Supporting Notes, which serve to provide members and the local electorate with greater information on the Council's financial standing and activities than is evident from that contained at Section 2 of the AGAR, which now forms the Council's statutory Accounts.

We have checked and agreed detail of the Income and Expenditure Account and Balance Sheet to the spreadsheet cashbooks via the accountant's working papers, also ensuring that detail on the Council's AGAR agrees to the detailed Statement of Accounts.

### ***Conclusions***

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

***Based on the work undertaken this financial year, we have duly signed-off the Internal Audit Certificate in the year's AGAR assigning positive assurances in each relevant area.***

Rec. No	Recommendation	Response
<b>Review of Accounting Arrangements and Bank Reconciliations</b>		
R1	Action should be taken to determine whether the five long-standing uncleared cheques are still required by the payees; if lost and still required, replacement cheques should be issued and, if not required, the accountants should be instructed to cancel the cheques appropriately in the cashbooks.	<i>Reviewed and all items have cleared or been paid by other means (BACS/FPI) so no longer reconciling items at the year-end.</i>
R2	Appropriate arrangements should be implemented to ensure that bank reconciliations are subjected to independent scrutiny and sign off in accordance with the extant Financial Regulations (para 2.2 refers).	<i>Agreed – the year end bank reconciliation and bank statements have been sent for approval of the Chairman of the Staffing &amp; Finance Committee. It is proposed that they will be reviewed and approved on a quarterly basis going forward.</i>
R3	Consideration should be given to the need to retain the CIL account and to ensure that interest earned to date in the year is brought to account in a timely manner and, going forward, in each month's cashbook.	<i>It is agreed that a separate bank account is not required for CIL funds and a new EMR has been established to record receipt and expenditure of CIL amounts. The Lloyds CIL account is an interest-bearing instant deposit account and will now be used to hold temporary general surplus cash balances to minimise the Lloyds current account balance.</i>
<b>Review of Corporate Governance</b>		
R4	Council meeting agendas and minutes should be prepared and issued in accordance with the Council's adopted Standing Orders.	<i>Agreed – all council meetings are conducted with Agendas and Minutes. Working parties and informal business meetings where decisions are not taken and are held to update Councillors and discuss projects and priorities do not necessarily have formal agendas or minutes.</i>
R5	The Council should undertake a further review of its Financial Regulations in the near future ensuring full compliance with the latest 2019 edition of the NALC model document.	<i>Agreed – this is work in progress and anticipated to be completed by September 2020 for when the next Annual Council Meeting is planned.</i>

Rec. No	Recommendation	Response
<b>Review of Expenditure &amp; VAT</b>		
R6	The Council's contracted accountants should be reminded of the need to ensure that VAT reclaims are prepared and submitted in a timely manner.	<i>The c£13,000 of outstanding VAT recovery was banked in February 2020. All returns to 31 March 2020 were submitted on time, with the refund for the last quarter of £9,336.99 being received on 21 April 2020.</i>
R7	The incorrectly analysed pension fund payment in May 2019 should be corrected in the cashbook.	<i>Done</i>
<b>Budgetary Control and Reserves</b>		
R8	As indicated in prior year reports, members should, when considering future years' precept requirements, ensure that the General Reserve balance is retained at a more reasonable level to cover any potentially significant or unforeseen expenditure that might arise.	