

Portishead Town Council

Internal Audit Report 2020-21 (Interim)

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Background

Statute requires all town and parish councils to arrange for an independent annual internal audit examination of their accounting records and systems of internal control and for the conclusions to be reported 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 interim review of the Council's records for the year, which was again undertaken remotely due to the ongoing Covid-19 situation and restrictions in late January / early February 2021. We wish to thank the RFO and other staff for assisting the process, providing all necessary documentation in electronic format to facilitate commencement of our review for the year.

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 assurance that the Council's financial systems 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 Report' in the Council's AGAR, which requires independent assurance over a series of internal control objectives.

We hope to be able to conduct the final review on site in the spring / summer and will liaise with the RFO to determine the approach to be taken nearer that time, which will obviously be dependent on the prevalent Covid situation and be timed to follow closedown of the year's Omega Accounts.

Overall Conclusions

We are pleased to advise that, based on the work undertaken to date, officers continue to maintain adequate and effective internal control arrangements with a few issues identified requiring attention. Details of those issues are set out in the following detailed report with any resultant recommendations further summarised in the appended Action Plan: we ask that the report be presented to members and a formal response be provided in advance of our final visit / review to those recommendations indicating the actions taken and / or in hand at that time.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Council has dispensed with the services of its former local accountants having acquired the RBS Rialtas Omega accounting software which has been fully applied in 2020-21 and is now being managed by the RFO. The Council operates two bank accounts with Lloyds Bank (Current & CIL), supplemented by three further deposits with the Monmouth and Nationwide Building Societies.

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 cost centre and nominal account coding structure is in place 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 2019-20 Accounts and AGAR have been brought forward accurately as opening balances for 2020-21 in the Omega Accounts;
- Verified three months' transactions on the Lloyds Current account (April, August & December 2020) by reference to supporting bank statements;
- Verified the year's transactions to 31st December 2020 on the three Building Society accounts by reference to underlying records;
- Verified the content of the resultant Omega month-end bank reconciliations for each of the above three months on the current account and as at 31st December 2020 on the other accounts.

We are pleased to note from our review of minutes that the combined bank reconciliation prepared at each month-end by the RFO is presented to and signed-off by Council. We have drawn the RFO's attention to the Omega facility to generate a similar combined month-end bank reconciliation through the Management Accounts module (> Annual Return > Cash and Investment reconciliation and remove the Summary tag) and urge that this is used in future for review and sign-off by members.

Conclusions and recommendation

We are pleased to record that no significant concerns have been identified in relation to the maintenance of the accounting records. We shall undertake further work in this area at our final review checking further monthly cashbook entries to bank and Building Society statements, verifying the accuracy of the combined year-end bank reconciliation and accurate disclosure of that balance in the year's AGAR at Section 2, Box 8.

R1. As the Omega accounting software will form the backbone of the year-end Accounts and AGAR disclosures, the Omega software should be used to generate documentation at each month-end for scrutiny and sign-off by members: we remind members that the bank statements should be similarly signed-off as evidence of their review and agreement to bank reconciliations.

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 SOs and Financial Regulations (FRs) were reviewed and re-adopted in May 2020, both documents being in line with the NALC model documents and making appropriate reference to the extant Contract Regulations.

We have commenced our review of the Council's and Standing Committee's minutes, as posted on the Council website, examining those for the financial year to date 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.

We note that the 2019-20 external audit review has been completed satisfactorily with the AGAR duly signed-off with only one "except for" issue recorded relating to the timing of publication of the Notice of Public Rights to inspect the records. The Council will need to ensure compliance with the statutory timetable for publishing the 2020-21 Notice.

Conclusions

We are pleased to record that no issues arise in this area currently warranting formal comment or recommendation. We shall continue to monitor the Council's approach to governance issues at future visits, also continuing our review of minutes.

We referred in our final report for 2019-20 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 last summer: this timescale has obviously now slipped: we will keep the Council advised as soon as we hear of any developments in this respect.

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 have discussed with the RFO the procedures in place for processing purchase invoices, noting the continued use of internet banking and, following our previous suggestion, the bank transaction confirmation reports attached to either individual or a group of payments were being initialled by both the RFO and Assistant as evidence of the duality of the checking and release

process. Whilst we appreciate the difficulties in affording members the opportunity to review hard copy invoices in the present situation, we urge that improved evidencing of their involvement in the review and processing of payments is introduced as soon as physically practicable. Ideally, members should be examining and signing off the hard copy invoices as well as a supporting schedule as evidence of their scrutiny and effective discharge of their fiduciary responsibilities: this not only serves as a safeguard to staff, but also reduces the risk of potential duplicated payments occurring and as above, effectively demonstrates members involvement in the payment approval process.

To ensure compliance with the above anticipated controls, we have selected a sample of 35 individual payments processed during the financial year to 31st December 2020, including all those individual payments in excess of £1,500 plus every 25th payment processed and two NNDR accounts for the Council's halls, those payments being processed for ten months during the year. Our test sample totals £89,400 and equates to 46% by value of non-pay related payments processed during the year to date.

VAT reclaims continue to be prepared and submitted to HMRC quarterly. We have ensured the accuracy of and ensure appropriate repayment by HMRC of the final quarter's reclaim for 2019-20 and first two quarterly reclaims for 2020-21 by reference to the Omega control account with no issues arising.

Conclusions and recommendation

We are pleased to record that no significant issues arise in this area currently, although, as indicated above, we suggest that improved control should, if not already in place, be implemented with members both reviewing and signing-off individual invoices as evidence of that review and segregation between the set-up of online payments and their physical release reimplemented.

- R2. *Members should be physically reviewing and signing-off individual invoices as evidence of their review and effective discharge of their fiduciary responsibilities.*
- R3. *Effective separation of duties should be implemented between the set-up of online payments and their physical release.*

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 note that the Council has switched its insurance cover from Zurich to BHIB for 2020-21 and have reviewed the new policy schedule, noting that Employer's and Public Liability cover are both in place at £10 million, together with Fidelity Guarantee cover at £1 million and "Loss of Revenue" cover set at £96,000 all of which we consider appropriate for the Council's present requirements.

We noted in our final report for 2019-20 that the Council reviewed and re-adopted the previously prepared risk assessment document at the full Council meeting on 15th May 2019, but have seen no subsequent indication of any further formal Council review of the over-arching document,

although we have been provided with a copy of the document indicating that it was assessed in July 2020 and is due for further review in July 2021. Whilst the July 2020 minutes refer to completion of a risk assessment in relation to the re-opening of play areas, no reference is made to the Financial Risk document. The Governance and Accountability Manual – The Practitioner’s Guide requires that financial risk registers be reviewed and adopted formally at least once annually.

We noted last year that an annual review of play areas was undertaken by RoSPA, supplemented with fortnightly checks by a local company who have appropriate qualifications and provide reports which are filed and acted on accordingly. We understand and are pleased to note that the same arrangement remains in place in 2020-21.

Conclusions and recommendation

We are pleased to record that no significant issues arise in this area this year, although we remind the Council that the over-arching risk assessment should be subjected to formal review and adoption by the Council prior to the financial year-end.

R4. The over-arching risk register should be presented to Council for formal review and adoption prior to the financial year-end.

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 budget reports based on the Omega information and have reviewed the latest position with no unexplained or unanticipated variances apparent that require further enquiry. Obviously, the Covid situation has had a significant impact on hall income and running costs, both of which are significantly below budget, although we note the receipt of significant government support by way of grants to help cover lost rent for each of the halls.

We are also pleased to note that, following due deliberation, members have determined their budgetary and precept requirements for 2021-22 setting the latter at £775,290 at the December 2020 full Council meeting.

Conclusions

We are pleased to record that no concerns arise in this area currently. We will undertake further work in this area at our final review considering the final budget outturn and appropriateness of the level of retained reserves to meet the Council’s ongoing revenue spending requirements and any development aspirations.

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. Obviously the Covid situation has had a significant impact on the income arising from hall hire during the financial year due to the closure of the halls for much of that time.

We have examined a sample of one week's (commencing 1st October 2020) hall bookings for all halls, ensuring that appropriately priced fee invoices have been raised and that they are settled within a reasonable time period and are pleased to record that no issues have arisen in this respect.

We have examined the Omega detailed transaction reports of income arising in the year to date to determine, as far as we are reasonably able, whether all income due has been received, coded appropriately and banked within a reasonable time frame.

We have also reviewed the Omega record of unpaid accounts as at 31st December 2020 (copy attached) which contains 16 individual entries all (bar 1) of which are dated pre 31st March 2020. Of the remaining 15, 12 relate to unpaid invoices and 3 to unmatched receipts. The final entry relates to a credit note issued in June 2020. Whilst the total outstanding debt is less than £200, we suggest that positive action be taken to pursue the unpaid amounts and to clear the "unmatched" receipts from the Omega Sales Ledger.

Conclusions and recommendation

No significant issues arise in this area currently, although, as indicated above, we suggest that action be taken to pursue the unpaid debts dating from 2019-20 and clear the three unmatched receipts.

R5. The Sales Ledger "Unpaid Debts Report" should be reviewed with all long-standing debts pursued for recovery and the three "unmatched" receipts cleared appropriately.

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. Due to the Covid situation, only 6 payments totalling £95.14 have occurred on the account in the year and those only since 1st August 2020 to the date of this interim review: we have reviewed the supporting till receipts with no issues arising. However, we note that £11.50 cash received from the Wyndham Way toilets was used to purchase paint. Whilst we appreciate the impact of the current Covid situation, the deposit of the above toilet takings into the petty cash account is in direct contravention of the Council's FRs (Para 9.5 refers), which require that all sums receive must be banked intact.

We understand that the Council has acquired and is using a Debit Card and that the petty cash account is being run down, currently standing at £4.01, and will be closed once all funds have been used.

Conclusions and recommendation

Whilst no significant issues of concern have been identified in this area, we remind the RFO of the requirements of the adopted FR in relation to the banking of income received intact.

R6. All income received must, in accordance with the adopted Financial Regulations (Para 9.5 refers) be banked intact.

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 in post currently by reference to the November and December 2020 payslips. We note that the Council approved implementation of the 2020-21 nationally agreed pay award, which was applied in two tranches in November and December 2020.

The RFO has kindly provided detail of staff in post, including their NJC spinal pay point and basic weekly working hours, together with, for those two months, copies of the payslips for each employee. We note that the 2020-21 nationally agreed pay award was applied over two months due to an error in the formulae applied in calculating the arrears paid with the November 2020 salaries.

Consequently, we have: -

- Examined the gross salary payments made to all staff in post in both November and December 2020, agreeing detail to the establishment schedule provided by the RFO, together with the backdated arrears detail paid over the two months;
- Checked to ensure that appropriate tax and NI deductions / contributions have been applied by reference to the relevant HMRC & NI 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;
- Ensured the correct net pay salaries have been paid to individuals based on the payslips for the same two months; and
- Ensured the accuracy of payments made to HMRC and the Pension Fund Administrators again in relation to the November & December 2020 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.

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, also ensuring the appropriate receipt and recording of any gross interest earned.

As reported previously, the Council adopted a formal Investment Policy as required from 1st 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.

Rec. No	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	As the Omega accounting software will form the backbone of the year-end Accounts and AGAR disclosures, the Omega software should be used to generate documentation at each month-end for scrutiny and sign-off by members: we remind members that the bank statements should be similarly signed-off as evidence of their review and agreement to bank reconciliations.	
Review of Expenditure & VAT		
R2	Members should be physically reviewing and signing-off individual invoices as evidence of their review and effective discharge of their fiduciary responsibilities.	
R3	Effective separation of duties should be implemented between the set-up of online payments and their physical release.	
Assessment and Management of Risk		
R4	The over-arching risk register should be presented to Council for formal review and adoption prior to the financial year-end.	
Review of Income		
R5	The Sales Ledger “Unpaid Debts Report” should be reviewed with all long-standing debts pursued for recovery and the three “unmatched” receipts cleared appropriately.	
Petty Cash Account		
R6	All income received must, in accordance with the adopted Financial Regulations (Para 9.5 refers) be banked intact.	