

Internal Controls Effectiveness Review

Town Council Report 17.3.2021 – Item 20

1. Background

Local Authorities have a responsibility to maintain an adequate system of internal control, including measures designed to prevent and detect fraud and corruption, and to review its effectiveness. This is evidenced by the response to Assertion 2 in the Annual Governance Statement (AGS).

Portishead Town Council adopted an Internal Control Policy on 20 January 2012 that sets out its approach to Internal Control and the procedures in place. This paper reviews that Statement of Internal Control and the effectiveness of those controls.

This review follows guidance of the Joint Panel on Accountability & Governance (JPAG) in the Practitioners' Guide to Proper Practices for Smaller Authorities in England, dated March 2020. In particular, the Section 1 guidance and Section 5 examples of 'Assertion 2- Internal Control' have been followed.

2. Review of Statement of Internal Control

2.1. Cash book and bank reconciliations

All cash and bank balances have been reconciled monthly to bank and cash balances in the RBS Omega system and a monthly reconciliation schedule produced and approved at Town Council meetings.

Month-end closing cash and bank balances have been reconciled to bank statements and petty cash balances at the end of each month with the Chair at each Staffing and Finance committee quarterly meeting reviewing bank statements and checking closing reconciliation balances.

Petty cash has been reconciled monthly with two officers confirming the end of month cash balance. The petty case reconciliation sheet requires supporting invoices/receipts, and all expenses are posted to the petty cash book in the month to which they relate. The use of petty cash has decreased significantly, and it is recommended that expenditure wherever possible is dealt with by accounts payable, debit card or staff expenses claim. However, it is recommended that a small petty cash balance not exceeding £50 is maintained and petty cash is only used for a amounts of £15 or less.

To improve reconciliation information, it is recommended that RBS Omega Cash and Investment Reconciliation Report is also provided to Town Council and the Staffing and Finance Committee.

2.2. Financial Regulations

Financial Regulations dated 27 May 2020 are in place and have been followed during the year. A review and update of the regulations being considered by council on 17 March 2021.

2.3 Order & Tender Control

All purchases over £100 are recorded in the purchase order log and assigned a purchase order number, with the appropriate level of delegated authority approval being obtained and recorded for each expenditure. Approval is generally by an exchange of email with those authorising, or by council/committee resolution for, the expenditure and the purchase order log is updated with details of the approval (names of those approving or resolution number).

Orders placed are generally confirmed with vendors online or by email with the agreed value and purchase order number being provided to the vendor. For more significant purchases, a formal contract or agreement may be entered.

Invoices received are checked against satisfactory receipt of the goods/services and the purchase order log before being processed for payment (invoices may be entered in the RBS Omega purchase ledger but marked as disputed and not for payment where problems with the supply exist). The purchase order log is updated with the receipt of the invoice.

Financial Regulation 11.1.(i) provides that where a purchase or contract is between £5,000 and £25,000 that three quotations are obtained. Where this has not been possible the reasons have been explained to town council and a dispensation obtained.

Financial Regulations 11.1.(b) to (h). provide that all contracts valued at £25,000 or more shall comply with The Public Contracts Regulations 2015, which require the advertisement of the tender and the procedures set out in Standing Order 18(d). There has been no procurement requisition exceeding this threshold during the year.

2.4 Legal Power

All purchases are considered against the legal power of the council to incur the expenditure. Any expenditure that is not covered by a specific legal power it is recorded as expenditure under s137 LGA1972 (power of local authorities to incur expenditure for certain purposes not otherwise authorised). It is considered that all expenditure during the year is covered by specific legal powers and does not fall within the s137 limitation.

The specific legal power against which expenditure has been incurred has not been formally recorded as this would be an onerous task for all items of council expenditure. However, to improve information it is recommended that the relevant legal power is noted in the resolution approving expenditure approved at town council and committee meetings.

2.5 Payment Controls

Order procedures and controls are reviewed in section 2.3 above.

All cheque payments have been signed by two councillors authorised by the bank mandate. The Chair of the Staffing and Finance committee is not an authorised signatory.

All Bank (Electronic) Transfer payments were approved in advance by two councillors, one of whom is the Chair or Vice Chair of the council who were provided with an RBS Omega schedule of invoices to be settled by electronic payment. Approval is generally by an exchange of emails, with the approval emails being saved as part of the accounting records.

Approved Bank Transfers are paid via the Lloyds online banking system that has several anti-fraud controls including the validation of account name, sort code and account number. Currently, payments can be set-up and approved by a single authorisation by either of the Clerk or Assistant Clerk who both have online account access. It is recommended that this be changed to require dual authorisation to release payments from the account, although due to part time working this does present some operational complexity.

All Direct Debit and Debit Card payments were similarly approved, in retrospect, by two councillors, one of whom is the Chair or Vice Chair of the council, who were provided with an RBS Omega schedule of invoices settled by direct debit payment. Debit Card transactions being separately identified in the payment schedule (by a DC reference). Approval is generally by an exchange of emails, with the approval emails being saved as part of the accounting records.

One debit card is held by the Clerk, all expenditure by debit card is subject purchase order approval in accordance with normal delegated authority limits and recorded in the purchase order log. Additionally, all debit card transactions are assigned a debit card 'DC' transaction reference and recorded (with order and invoice documents) in a separate debit card log which is linked to the purchase order reference. The debit card reference for the transaction also being noted in the purchase order log.

All payments have been reported to the Town Council in the monthly payment and bank reconciliation report that includes details of the date, vendor, amount and nature of the payment.

2.6 VAT Reclaims

All invoices are addressed to the town council and RBS Omega requires a VAT code for all transactions from which input VAT is automatically calculated. Where a different VAT amount is entered a warning is produced that must be accepted to process the transaction. This provides assurance that VAT amounts are correctly input and reconciled to the invoice.

The month-end procedure and checklist requires the review of the net, VAT and Gross amounts of all posted transactions to check their VAT treatment and recovery.

At the end of each quarter the month-end checklist also requires the updating of the VAT partial exemption calculation, to check that input tax attributable to exempt supplies is within the insignificant limits (s33 VAT Act 1994).

The quarterly VAT return is automatically produced by the RBS Omega system, reconciled to the VAT control account and after review submitted

directly to HMRC via Making Tax Digital. Accordingly, submission or keying errors should not arise.

2.7 Income Controls

All income is recorded in the RBS Omega system in the month in which it is invoiced or received. Precept and other grant income being recorded in specific accounts, to enable reporting, reconciliation, and appropriate Earmarked Reserve reporting.

Cash income (mainly from the Wyndham Way Toilets) is promptly banked and the total cash held on premises should and has never exceeded £250.

To enable efficient use of banking facilities and staff time, subject to income being properly recorded (including VAT amounts) in the RBS Omega system it is recommended that cash receipts may be used to replenish the petty cash balance, subject to the receipt of the cash income being recorded in the RBS petty cash book or a cash book transfer made from the bank account to the petty cash book.

The month-end checklist includes a review of uninvoiced bookings to ensure that all income is promptly invoiced. The month-end procedure also includes a review of all outstanding sales and purchase ledger balances to ensure that debts are collected, and invoices are paid, unless specific circumstances exist with respect to a delay in collection or payment.

The write-off of uncollectable amounts requires approval of the RFO or the council. All amounts written off during the year have been approved by the Staffing and Finance committee.

2.8 Financial Reporting

An RBS Omega Income and Expenditure Report by Budget Heading, comparing actual receipts and payments to the budget has been produced each month (accordance with the month end checklist). The cumulative year to date report being presented for approval to each quarterly Staffing & Finance committee meeting.

2.9 Budgetary Controls

The budget and precept amount for 2021-22 was approved at the extraordinary town council meeting on 16 December 2020. The precept demand for £775,290 was submitted to North Somerset Council on 4 January 2021 and approved on 5 January 2021.

2.10 Payroll Controls

All staff, including those holding Clerk and RFO positions, have been paid under deduction of PAYE and all necessary pension returns have been submitted to the Avon Pension or other funds.

The payroll is prepared using a control schedule that maintains employ contractual terms and compares amounts payable to the prior month. Payroll deductions are calculated using SAGE cloud payroll that is automatically updated for legal and rate changes, to avoid calculation error. The control total

from the SAGE monthly payroll report being reconciled to the payroll control schedule to minimise errors.

Each monthly payroll, including the control schedule, is approved in advance of payment by the Chair of the Staffing and Finance committee. The control schedule showing and seeking approval for overtime and TOIL balances.

Year-end payroll returns, including employee P60 are produced by the SAGE system and reconciled to employee terms during the year.

2.11 Risk Assessment

The council risk assessment has been reviewed and presented to the Staffing and Finance committee on 27 May 2020 and the Town Council on 17 March 2021.

2.12 Asset Control

An asset register has been maintained within the RBS Omega system and capital expenditure is recorded against account code 9000. Capital '9000' expenditure is reviewed, and the asset register updated as part of the month-end checklist.

The level of insurance cover was reviewed against the asset register to ensure that cover was sufficient to protect all assets at the last insurance renewal in May 2020. Assets are subject to a 5 yearly insurance valuation the last valuation, that is reflected in the asset register, being on 13 March 2017.

Proceeds from the disposal of assets are known as capital receipts and must be ringfenced to be used only to purchase new assets, make capital grants or to repay long term loans. There have been no capital receipts in the current year.

2.13 Internal Audit

An internal auditor is appointed for the current year, with the interim audit report and recommendations being presented to Town Council on 17 March 2021. The internal audit will be completed after the year end, for the year ended 31 March 2021.

2.14 External Audit

The external annual return for the year ended 31 March 2020 was submitted to the external auditor on 16 July 2020. The external audit was completed, and conclusion of audit notice issued on 22 October 2020.

The only point of note being that the period for the exercise of public rights commenced on 22 July 2020, as permitted by the Covid-19 regulation relaxation. In future years the period of exercise of public rights should commence as soon as reasonably practical after the approval of the accounts and annual governance return by the authority and no later than 1 July.

3. Recommendations

- i. **Cash book and bank reconciliation** - the RBS Omega Cash and Investment Reconciliation Report is provided to Town Council and the Staffing and Finance Committee together with other payment and bank reconciliation information.
- ii. **Cash book and bank reconciliation** – the Petty Cash balance is limited to a maximum of £50 and only used for amounts of £15 or less.
- iii. **Legal Power** - the relevant legal power is noted in the resolution approving expenditure approved at town council and committee meetings.
- iv. **Payment Controls** – dual authorisation for the release of payments from Lloyds electronic banking system is introduced.
- v. **Income Controls** - cash receipts may be used to replenish the petty cash balance, subject to the receipt of the cash income being recorded in the RBS petty cash book or a cash book transfer made from the bank account to the petty cash book.

4. Proposal

Subject to the above recommendations, it is proposed that Portishead Town Council has conducted its affairs in accordance with its Internal Control Policy and has an adequate and effective system of internal control, including measures designed to prevent and detect fraud and corruption.