

Horndean Parish Council

Internal Audit Report 2020-21 (Final Update)

Claire Lingard
Consultant Auditor

For and on behalf of
Auditing Solutions Ltd

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 in the Annual Return.

This report sets out the work undertaken in relation to the Internal Audit Process for the 2020-21 financial year; the Interim review which took place on the 16th November 2020, supplemented by the Final Update review which took place on the 24th May 2021.

Internal Audit Approach

In commencing our review for the year, 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 / Annual Return. Our programme of cover, which has been modified in light of the Covid-19 directives under which Councils are required to operate, is designed to afford appropriate assurance that the Council has appropriate and robust financial systems in place that 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' as part of the Council's Annual Governance and Accountability Return process, which requires independent assurance over a number of internal control objectives.

Overall Conclusions

We have followed up the recommendations made in our 2019-20 reports and acknowledge that the members have noted and considered these in their deliberations and have implement these. The Council has continued to make business processes and performance improvements, even in these challenging times and we have reviewed the Council's modified practices implemented to comply with the Government's Covid-19 directives, and report that, on the basis of the work undertaken to date in the current year, the Council continues to operate adequate and effective internal controls in all areas examined to date. Resultantly, only one minor recommendation for improvement has been made as a result of the review process of the year, in the Review of Expenditure and VAT.

We have noted that the Council has complied, as far as it is possible to do so, with the Government's Covid-19 directives, maintaining a consistently high standard of service provision. The Council has also taken all reasonable steps to ensure the health and safety of its Staff, Members, Clients and members of the public utilising the Council's facilities. All modified and exceptional working practices are formally Reviewed, Resolved and Recorded in the Council's Minutes and its Health & Safety Risk Assessments of the year.

Once again, we take this opportunity to commend not only the Chief Officer and RFO for their continued professional management and administration of the Council's finance and governance functions, but also the Members and Staff who have worked strenuously to maintain services for their constituents during these unprecedented and challenging times. The operational and fiscal management of Horndean Parish Council can only be described as exemplary, and should be viewed as the 'Gold Standard' of Corporate Governance and Management by other Councils.

We ask that members consider the content of this report and acknowledge that the report has been formally reviewed and adopted by Council.

Detailed Report

Review of Accounting Records & Bank Reconciliations

Our objective here is to ensure that accounting records are being maintained accurately and currently and that no anomalous entries appear in the cashbooks, also that effective controls are in place to confirm the accuracy of that detail.

The Council uses the RBS Rialtas software to maintain its accounting records and is now using the Purchase, Sales Ledger and Bookings modules. Three bank accounts are in use currently, a Co-op Current account, a Lloyds Bank current account and a deposit account with the Cambridge and Counties Bank: detail of transactions is recorded in separate control accounts / Omega cashbooks for each bank account. We have commenced our review process in this area and have:

- Agreed the Opening Balance detail in the financial ledger with that in the 2019-20 Statement of Accounts and certified Annual Return;
- Ensured that an appropriate Cost Centre and Coding structure exists within the software to provide appropriate detail in the year-end Accounts and Annual Return;
- Checked and verified detail of three months' transactions on the Co-op Current account (April, June & September 2020, and March 2021) cashbook by reference to supporting bank statements;
- Checked and agreed the detail of transactions on the other two accounts Cambridge and Counties Bank and Lloyds Bank (April, June & September 2020, and March 2021) cashbook by reference to supporting bank statements;
- Agreed detail on the month-end Co-op current bank account and the Lloyds Bank and Cambridge & Counties Bank account reconciliations as at 30th April, 30th June and 30th September 2020 and the 31st March 2021;
- Reviewed the arrangements for processing and verifying the content of journals raised on the software; and,
- Reviewed the effectiveness of the "back-up" and "restore" procedures for the accounting and other computerised systems in use at the Council.

Conclusions

There are no matters arising in this area of our review warranting formal comment or recommendation.

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 and that, as far as we can ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation. We have undertaken the following work in this area to date:

- Noted that the Council continues to take all reasonable steps to ensure compliance with the General Data Protection legislation;
- Received an Unqualified External Auditor's Certificate for the 2019-20 Financial Year;

- We note that the Council's Standing Orders and Financial Regulations were last reviewed with revised versions adopted in the Annual Parish Council meeting in May 2019, (we have noted that both the Standing Orders and Financial regulations were readopted in May 2021);
- Reviewed the minutes of the Full Council, together with those of Committees excluding those pertaining to Planning issues, for the year to the 30th September 2020, to ensure that no issues exist affecting the Council's financial stability either in the short, medium or long term; and,
- We note that the Council has taken all reasonable steps to comply with the Government's Covid-19 directives, which have changed from time to time, thereby safeguarding Staff, Members, Clients and members of the public interacting with the Council and its facilities.

Conclusions

There are no matters arising in this area of our review warranting 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 form of document confirming the payment as due;
- Members take an active role in reviewing supporting documentation and approving expenditure for release;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure any applicable discount;
- The correct analysis has been applied to invoices when processed; and,
- Expended VAT is appropriately identified for recovery through reclaims prepared and submitted to HMRC quarterly.

We note that the council's official ordering system continues to provide effective control measures over procurement with copies of Purchase Orders matched to resultant trade invoices. To ensure compliance with the above criteria, we have examined a sample of 52 payments in the financial year to the 31st March 2021, (27 payments in the Interim sample and a further 25 payments in the Final Update sample) comprising each individual payment in excess of £1,500 together with every 20th transaction as recorded in the cashbook in the year to date. This represented a transactional value of approximately £752,113 equating to 86% of all non-pay related expenditure.

The 500% + increase in expenditure over prior year levels of non-pay related payments is directly due to expenditure related to the Jubilee Hall extension and associated project and building works, all of which had been properly budgeted, planned for and Approved at every stage.

We note the continued use of the certification stamp affixed to each payment processed. This provides for the payment document to be matched with its corresponding purchase order, assigned a payment reference number, which can be traced via to the corresponding 'Order of Payment'

List, which is subsequently authorised by the Chair prior to the Order of Payment list being approved by the Responsible Finance Officer and processed. Each individual BACS payment, can be traced via its unique payment reference to the detail of the corresponding bank statement.

We also note that members of the Council scrutinise the Invoices and other Payment documents included on an Order of Payment List and initial these.

We are also pleased to note that all four Quarterly VAT reclaims have been prepared, submitted to and repaid by HMRC. We have verified the accuracy of that reclaim to the underlying Rialtas control account.

Conclusions

There are no further matters arising in this area of our review warranting formal comment or recommendation.

Interim review - Conclusions and recommendation

We have noted that the Council has awarded a small number of Grants which are properly let, and which have been recorded in the Council's Minutes. The Chief Officer is reminded that as the Council is not currently eligible to adopt the General Power of Competence, that the Power under which a Grant is awarded must be recorded in the corresponding Minute; i.e. "A grant is awarded to the 1st Horndean Cub Scouts in the amount of £100 to purchase camping equipment Local Government Act 1972 S.137."

R1. The Power under which a Grant is awarded must be recorded in the corresponding Minute. Response: Implemented.

Review of 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 to minimise the opportunity for their coming to fruition. We have: -

- Examined the Council's approach to the identification, recording and management of financial risks;
- Examined the Council's insurance cover as provided by Zurich Municipal, noting from the Council's Minutes that a new three year term agreement has been entered into for the provision of the Council's insurance cover. We consider that appropriate cover is in place with Employer's, Products and Public Liability standing at £12 million, together with Hirer's Liability cover at £2 million, Liable and Slander at £500 thousand. We note the existence of Business Interruption – "Loss of Revenue" cover at £52,000, which we also consider appropriate given the annual level of hall income, however we note that the policy specifically excludes losses made as a result of any 'communicable disease';
- Noted the Council's continuous attention to Risk Assessment, Mitigation and Management in relation to the evolving public health directives issued by Central Government in response to the Covid-19 situation; and,

- Examined the Council's arrangements for the regular inspection of playgrounds and playing fields, noting that these facilities have been closed for significant periods of the year to date, due to the Central Government public-health directives.

As in previous years, we understand that the Councils Health & Safety and Business Risk assessments will be undertaken during the fourth quarter of the financial year, and have included Covid-19 Risk mitigation processes in compliance with Government directives from time to time throughout the year. We note that the Health & Safety and Business Risk Registers were presented at the meeting of the Full Council in February 2021 and formally readopted under Minute reference HPC/152/20/21.

We have also discussed the council's inspection regimes for the playground and recreation facilities at Deep Dell, Downs Park, Jubilee Field, Lychgate Drive, Merchistoun Hall and Five Heads Recreation Ground. We are advised that RoSPA conducts an annual inspection on each of the council's facilities with a separate inspection of outdoor gym equipment where fitted. On a weekly basis, the Caretaker and Groundsmen, who are certified to conduct playground inspections by RoSPA, conduct an inspection of each facility and produce a detailed written report, with photographic evidence, which is given to the Health & Safety officer for retention.

Conclusion

There are no matters arising in this area of our review warranting formal comment or recommendation.

Review of 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 level of precept to be drawn down from the parent 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 revenue spending plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

We have noted the robust Budget setting and Precept determination process that has again been managed by the Responsible Finance Officer using a detailed report pack he produced to assist members to professionally address the process for the 2021-22 financial year. We further note that the Finance & General Purpose Committee made the formal recommendation that the draft Budget and Precept be placed before the Full Council for final scrutiny. The Budget and Precept were Approved and Adopted at the Full Council meeting of the 14th December 2020 under Minute reference HPC115/20/21 in the amount of £380,265.

We commend the detailed financial management of the construction of the Linked Building at Jubilee Hall which has now been completed. We note, from reference to prime documentation, that all funds available from the Public Works Loan Board Loan, in relation to the above project had been drawn down.

Finally, in this area of our review we have examined the Council's Reserves position as at the 31st March 2021: Total Reserves at the year-end stood at £332,418 (£408,785 prior year) comprising of seventeen active Earmarked reserves totalling £238,226 (£264,041) and a residual General Reserve balance of £94,192 (£144,744 prior year). The latter represents just over two-and-one-

third months' reserve at the 2020-21 financial year average level of expenditure. This is somewhat lower than the current Chartered Institute of Public Finance and Accountancy (CIPFA) guidance which recommends organisations retain between 3 and 6 months general reserve based on prior year average expenditure.

It must be noted however, that the Council's reserves have been impacted by the closures of Napier and Jubilee Hall, and the Football-pitches for significant periods during the financial year, in compliance with Central Government public-health directives. This has resulted in an underachievement in the projected income streams in excess of £50,000. The receipt of these funds would have placed the Council's reserves comfortably within the recommended CIPFA range and the loss of these income streams could not have been anticipated during the Council's robust budgetary and financial planning processes.

The Council's reserve position remains solid and its finances well managed.

Conclusion

There are no matters issues arising in this area of our review warranting formal comment or recommendation.

Review of Income

The Council has relatively limited sources of income in addition to the annual precept. Income is derived primarily from CIL monies, the Information Officer contribution from EHDC, South Downs National Park Authority Grant, the grant from HCC for Land Management, general grants and donations, VAT reclaims, hire of the two halls, sports pitches (based on an annually agreed sum, paid monthly by direct credit to the Council's current bank account), plus interest on bank deposits.

We have noted that the Halls were all closed from the beginning of the financial year until they reopened in July, and have subsequently been closed again in compliance with the Government's latest lockdown directives. In the period from the 1st April to the 31st July 2020, the sales bookings were approximately £24K, (twenty-four thousand pounds) below target. This shortfall was compounded by the year-end/new-year open-ended lockdowns and the necessary cancellation of traditional Christmas and New Year activities which resulted in a loss of projected income in excess of £50,000.

NB: The Council's insurance policy specifically excludes claims for losses resulting from any 'Communicable Disease'.

We have assessed the controls in place over the booking of the two halls, noting that the council has now migrated to the Rialtas electronic bookings system.

We note that Finance & General Purpose Committee reviewed fees and charges for the 2020-21 financial year. The recommendation to increase the hire fees was approved at the November 2019 meeting of the Full Council.

We have examined a sample of bookings, as recorded in the Rialtas Bookings system, covering the period of the 1st April to the 30th June 2020, ensuring that appropriate invoices were raised and the correct fees charged in accordance with the Council's approved scale of fees and charges, also ensuring that payment has been received within an acceptable time.

We have reviewed the new Football Pitch hire agreements noting that the terms and conditions are appropriate, and in accordance with the Council's Financial Regulations and Standing Orders.

We have also reviewed a further sample of bookings invoices from 'On all Paws' and 'Slimming World' with no issues arising.

Finally, in this area of our review, we have examined the Rialtas detailed transaction reports for the financial year, to ensure that no apparent mis-postings have occurred and that, as far as we may reasonably be expected to verify, all income due has been brought to account or is being pursued appropriately with no issues arising.

Conclusion

There are no matters arising in this area of our review warranting formal comment or recommendation.

Review of Petty Cash Account(s)

The Minutes of the Full Council meeting of the 13th July 2020, reference HPC005/20/21 confirm that the Petty Cash System was finally closed down, due to its non-usage, and in accordance with the internal auditor's prior year recommendation.

The HDC Petty Cash system was finally closed on the 11th August 2020, with the balance of £100 banked on the 11th August, confirmed to the cashbook and to prime documentation.

No transactions had been recorded against this account during the financial year to the 31st March 2021.

Conclusions

There are no matters arising in this area of our review warranting formal comment or recommendation.

Review of Staff Salaries

In examining the Council's payroll function, we aim to confirm that extant legislation is observed appropriately as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenues and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions.

The Council continues to outsource the preparation of the monthly payroll to a local company, Watling & Hirst. The company provides a full payroll service; reporting includes appropriate supporting detail of individuals' gross monthly payments due, including overtime, etc. and tax, NI and pension deductions applying. The Chief Officer prepares a summary schedule of any overtime or enhanced payments due to individual officers, which is provided to the payroll bureau for production of the monthly payroll.

We note that the annual staff performance appraisal was conducted by the Chief Officer. The Staff Committee subsequently considered the Chief Officer's report at its meeting of the 3rd February

making its recommendations to the Full Council, which Approved these, in full, at its meeting of the 17th February 2020 (properly recorded under confidential minutes).

We have noted that there have been two new hires in the financial year to date. Both employees are in receipt of full employment contracts. The Responsible Finance Officer has provided us with a detailed schedule of each staff member's basic gross salary, contracted working hours and other relevant detail, which we have used to verify the accuracy of detail in the whole of the June 2020 payroll documentation.

We have also checked detail of the June 2020 deductions from all employees in respect of tax, NI and pensions, including the employer's contributions, by reference to the current year's HMRC Database and Pension scheme schedule of percentage rates applicable. Additionally, we have verified the detail of any enhanced hours to be paid to officers in June 2020 by reference to the supporting timesheets, also noting that these have been duly certified as appropriate for payment by the Chief Officer.

We have also verified the accuracy of individual staff net salary payments and total payments to HMRC and the Pension Fund Administrators by reference to the September current account bank statements (net salaries are recorded as a single value in the Rialtas cashbook, but as individual amounts on bank statements).

Finally, in this area of our review we have noted that the Council has, once again, undertaken formal employee appraisals during its exemplary Budget setting and Precept determination process. The Confidential Minutes and Minutes of the Full Council confirm the deliberations of Members in this regard and the Approval of salary increases to be made from the 1st April 2021.

Conclusions

There are no recommendations in this area of our review warranting formal comment or recommendation.

Review of the Fixed Asset Register

The Governance and Accountability Manual requires councils to develop and maintain a register of all assets. The Annual Return requires disclosure of the value of assets retained by the Council as at 31st March, annually, with a revision to the reporting detail issued in 2010 that requires asset values to be reported at cost price or, where that value is unknown, the prior year Annual Return value updated to reflect the cost of any new acquisitions or deletions / disposal.

The Council continues to manage its Asset Register in an Excel spreadsheet developed by the RFO. We have previously commented on the exceptional quality of this register and note that this system continues to be used accurately and effectively.

We are confident that the overall asset values for the 2020-21 financial year have been correctly reported for in Box 9, Section 2 of the Accounting Statements in the amount of £1,850,633 (1,368,454 prior year FAR value) in accord with the in-year purchases and disposals.

The significant increase in value recorded in the Fixed Asset Register is in relation to the Jubilee Hall project and new fixtures, fittings and equipment pertaining to the furnishing of this new facility and the Council's new accommodations therein.

Conclusions

There are no matters arising in this area of our review warranting formal comment or recommendation.

Review of Investments and Loans

The Council has, as indicated above, placed surplus funds in two bank accounts. We have verified the accuracy of interest earned to the 31st March 2021 on each account. We note from our discussions with the Responsible Finance Officer that members are considering how best to re-invest these funds to maximise the interest return, without creating an administrative overhead.

We note that the Council continues to maintain a robust Investment Policy and that the Responsible Finance Officer is currently in the process of considering the Council's finance arrangements in light of the ongoing Hall development project.

Finally, in this area of our review we note that the Public Works Loan Board (PWLB) loan, which had been approved in the total amount of £500K (five-hundred thousand pounds) for the purposes of the new development at the Jubilee Hall site, was drawn down in the amount of £499,825 on the 10th August 2020

The Minutes of the Extraordinary Meeting of the Full Council of the 3rd August 2020, Minute reference 11, record that the Council requested an extension to the draw down period, due to the delays caused by the Covid-19 situation. This request was denied due to the standard terms of the loan agreements. Minute HPC011/20/21 confirms that the:

“RFO stated that the plan was originally to drawdown the loan in stages, but due to the upcoming deadline the loan had to be drawn down by the end of the year from which it was agreed. He said that if nothing goes wrong during the remainder of the build, he anticipates that there would be £120K left; but said that it could be risky not taking the entire amount. He suggested that he would expect to be able to put £100K early on in the Cambridge and Counties Bank Account and said that HPC could look to withdraw some if needed, giving 45 days' notice”.

We consider the recommendation made by the RFO prudent, and the Members subsequent Resolution well considered in that the recommendation and Resolution ensured the successful completion of the Jubilee Hall project and the financial security of the Council.

We have noted from the prime documentation that the first PWLB (now UK Debt Management Office) loan repayment of £13,265.33 (£5,850.00 Interest, 7,415.33 Principal) was collected, as scheduled, on the 10th February 2020. Each subsequent loan repayment will be recovered in bi-annual instalments made at six-monthly intervals.

Both the loan repayment, and the disclosure of the outstanding loan balance have been correctly disclosed in Section 2 of the Accounting Statements in the 2020-21 Annual Governance and Accountability Return.

The Council has no other loans issued by it, or to it.

Conclusion

There are no issues arising in this area of our review warranting formal comment or recommendation.

Statement of Accounts and Annual Governance & Accountability Return

The Council's annual Statement of Accounts have, as in previous years, been prepared from the Rialtas accounting software, together with detailed supplementary supporting notes. We have checked and agreed, by reference to the accounting system's closing Trial Balance and other relevant documents, the content of the Statement of Accounts and the supporting notes, detail of which is transferred to Section 2 of the Annual Return.

We have also reviewed the process for identifying and verified the accuracy of year-end debtors and creditors, as disclosed in the Balance Sheet to appropriate supporting documents.

Conclusion

We are pleased to record that no issues arise in this area and, on the basis of the work undertaken during the course of our review for the year, we have "signed off" the Internal Audit Certificate in the Annual Governance and Accountability Return assigning positive assurances in all areas.

We confirm that all sensitive and confidential information, including Bank Statements and Payroll information supplied electronically for the purposes of this Internal Audit has been permanently deleted from our records in compliance with the General Data Protection Regulation and Auditing Solutions Ltd., Document Retention Policy.

Finally, we take this opportunity to remind the Chief Officer and RFO of the requirements in relation to the documentation that should be displayed on the Council's website, together with the need to ensure compliance with the timing requirements for publication of the Notice of Public Rights to examine the Council's documentation for the financial year.

Rec. No.	Recommendation	Response
Review of Expenditure and VAT		
R1.	The Power under which a Grant is awarded must be recorded in the corresponding Minute.	<i>Response: Implemented.</i>