

Annual Governance and Accountability Report 2019/20 – Explanation of discrepancies

1 - Introduction

Due to staff absences, it has not been possible to submit the Annual Governance and Accountability Return (AGAR). Despite the figures being examined by the usual Internal Auditor and an independent accountant, it was not possible to make the figures balance. When I looked at the figures in the first instance, it seemed that they had been prepared partly on a receipts and payments basis and partly on an income and expenditure basis. In addition, it seemed that the discrepancies were likely to be related to VAT, but without any knowledge of how VAT had been dealt with in previous AGARs, it was not possible to determine exactly what the problems were.

The Full Council agreed at its meeting on 9th November (minute reference 0154) to allocate £1000 to engage the services of a professional and experienced Internal Auditor who would be able to find out why the AGAR did not balance. Tim Light of Lightatouch Internal Audit Services was engaged because he is known to the Locum Clerk and was able to complete the work promptly.

I am pleased to report that the AGAR figures now balance and that the reasons for the discrepancies have been identified.

2 – Overview of the AGAR process

There are several steps to the AGAR process. The AGAR form is made up of four main sections:

- Internal Auditor's report
- Section 1 – Governance statements
- Section 2 – End of year figures compared with last year's AGAR figures
- External Auditor's report

The Town Council must answer 'yes' or 'no' to all of the governance statements in Section 1. The figures for Section 2 are entered by the Clerk/Responsible Financial Officer (RFO) and checked by the Internal Auditor, who then completes the Internal Audit report.

Before the form can be sent to the External Auditor, the RFO must prepare an end of year bank reconciliation covering all bank accounts held by the Council. If reporting on an income and expenditure basis, the RFO must also prepare a reconciliation to explain any difference between the figures in boxes 7 and 8 of Section 2 of the form. In addition, the RFO must complete a spreadsheet (provided by the External Auditor) that shows the difference

between the AGAR figures for the year being audited and the previous year. The External Auditor asks for explanations of any variances of over 15% between the two year's figures.

Finally, the Council must approve Sections 1 and 2 of the form at a Full Council meeting. It is a requirement that Section 1 and Section 2 are listed as separate agenda items with their own distinct agenda item numbers.

3 – Governance Statements

Section 1 of the AGAR asks the Council to answer 'yes' or 'no' to several statements. Ideally, the Council should be able to answer 'yes' to all of the statements. Unfortunately, this year the Council will need to answer 'no' to statement 4 because the financial statements have not been published in line with the External Auditor's schedule. The other questions can be answered with 'yes'. The following table shows the questions and recommended responses:

	Agreed		*Yes' means that this authority:
	Yes	No*	
1. We have put in place arrangements for effective financial management during the year, and for the preparation of the accounting statements.		✓	<i>prepared its accounting statements in accordance with the Accounts and Audit Regulations.</i>
2. We maintained an adequate system of internal control including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness.	✓		<i>made proper arrangements and accepted responsibility for safeguarding the public money and resources in its charge.</i>
3. We took all reasonable steps to assure ourselves that there are no matters of actual or potential non-compliance with laws, regulations and Proper Practices that could have a significant financial effect on the ability of this authority to conduct its business or manage its finances.	✓		<i>has only done what it has the legal power to do and has complied with Proper Practices in doing so.</i>
4. We provided proper opportunity during the year for the exercise of electors' rights in accordance with the requirements of the Accounts and Audit Regulations.		✓	<i>during the year gave all persons interested the opportunity to inspect and ask questions about this authority's accounts.</i>
5. We carried out an assessment of the risks facing this authority and took appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.	✓		<i>considered and documented the financial and other risks it faces and dealt with them properly.</i>
6. We maintained throughout the year an adequate and effective system of internal audit of the accounting records and control systems.	✓		<i>arranged for a competent person, independent of the financial controls and procedures, to give an objective view on whether internal controls meet the needs of this smaller authority.</i>
7. We took appropriate action on all matters raised in reports from internal and external audit.	✓		<i>responded to matters brought to its attention by internal and external audit.</i>
8. We considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on this authority and, where appropriate, have included them in the accounting statements.	✓		<i>disclosed everything it should have about its business activity during the year including events taking place after the year end if relevant.</i>
9. (For local councils only) Trust funds including charitable. In our capacity as the sole managing trustee we discharged our accountability responsibilities for the fund(s)/assets, including financial reporting and, if required, independent examination or audit.	Yes	No	N/A
			✓

4 - 2019 AGAR figures to be restated

In 2018 and 2019, some of the AGAR figures were not recorded correctly. This was due to the VAT debtor being incorrectly treated in previous years. The following table gives the correct figures and explanations for the amendments:

	Figures submitted in 2018/19 AGAR	Restated figures for 2018/19 AGAR	Difference +/-	Reasons for restatement of figures
	31-Mar-19	31-Mar-19		
	£	£	£	
1. Balances brought forward	53,481	53,481	-	No change
2. (+) Precept or Rates and Levies	269,555	267,745	-1,810	SSDC grant removed and added to box 3
3. (+) Total other receipts	20,792	32,105	11,313	SSDC grant added from box 2; VAT debtor of £3348 added from 19/20 & £6055 from 18/19
4. (-) Staff costs	136,111	136,111	-	No change
5. (-) Loan interest/capital repayments	-	-	-	No change
6. (-) All other payments	174,764	174,764	-	No change
7. (=) Balances carried forward	32,953	42,456	9,503	Difference equals the amount of VAT debtors added to box 3
8. Total value of cash and short-term investments	64,427	32,953	-31,474	This should be the value of all the bank balances at 31 March 2020 less unreconciled cheques. Unreconciled cheques to the value of £31474 included in error so now removed
9. Total fixed assets plus long-term investments and assets	367,180	367,180	-	No change
10. Total borrowings	-	-	-	

5 - 2020 AGAR Figures

Now that the amendments above have been made, the 2020 figures balance. The table below shows the AGAR figures for 2019 and 2020, as they are recorded on the AGAR documentation that will be submitted to the external auditor.

	Year ending		Notes and guidance
	31 March 2019 £	31 March 2020 £	
			<i>Please round all figures to nearest £1. Do not leave any boxes blank and report £0 or Nil balances. All figures must agree to underlying financial records.</i>
1. Balances brought forward	53,481	42,456	<i>Total balances and reserves at the beginning of the year as recorded in the financial records. Value must agree to Box 7 of previous year.</i>
2. (+) Precept or Rates and Levies	267,745	267,850	<i>Total amount of precept (or for IDBs rates and levies) received or receivable in the year. Exclude any grants received.</i>
3. (+) Total other receipts	32,105	159,873	<i>Total income or receipts as recorded in the cashbook less the precept or rates/levies received (line 2). Include any grants received.</i>
4. (-) Staff costs	136,111	148,046	<i>Total expenditure or payments made to and on behalf of all employees. Include gross salaries and wages, employers NI contributions, employers pension contributions, gratuities and severance payments.</i>
5. (-) Loan interest/capital repayments	0	0	<i>Total expenditure or payments of capital and interest made during the year on the authority's borrowings (if any).</i>
6. (-) All other payments	174,764	220,063	<i>Total expenditure or payments as recorded in the cash-book less staff costs (line 4) and loan interest/capital repayments (line 5).</i>
7. (=) Balances carried forward	42,456	102,070	<i>Total balances and reserves at the end of the year. Must equal (1+2+3) - (4+5+6).</i>
8. Total value of cash and short term investments	32,953	83,998	<i>The sum of all current and deposit bank accounts, cash holdings and short term investments held as at 31 March – To agree with bank reconciliation.</i>
9. Total fixed assets plus long term investments and assets	367,180	507,539	<i>The value of all the property the authority owns – it is made up of all its fixed assets and long term investments as at 31 March.</i>
10. Total borrowings	0	79,972	<i>The outstanding capital balance as at 31 March of all loans from third parties (including PWLB).</i>
11. (For Local Councils Only) Disclosure note re Trust funds (including charitable)	Yes	No	<i>The Council, as a body corporate, acts as sole trustee for and is responsible for managing Trust funds or assets.</i>
		✓	<i>N.B. The figures in the accounting statements above do not include any Trust transactions.</i>

6 – Bank reconciliation at 31st March 2020

To check that these figures are correct, I have completed a bank reconciliation for all accounts to 31st March 2020, as follows:

				£	£
Balance per bank statements as at 31/3/20:					
Current Account				1,500.00	
Business Reserve Account				12,153.71	
Business Reserve Account				16,157.49	
Deposit Account				117,361.85	
					147,173.05
Petty cash float (if applicable)				0	
Less: any unpresented cheques as at 31/3/20 <i>(normally only current account)</i>					
Cheque number	10590			165.00	
	10638			36.00	
	10653			2,053.96	
	10654			300.00	
	10650			96.00	
	10651			32.34	
	10655			10.00	
	10659			60,482	
					63,175.04
Add: any un-banked cash as at 31/3/20					0
Net balances as at 31/3/20 (Box 8)					83,998.01

The net balances figure highlighted in yellow is the same as the figure calculated for box 8 of the AGAR. This shows that the figures used to populate the AGAR are correct and have been added together correctly because box 8 agrees with the actual bank balances at 31st March 2020.

7 - Preparing Accounts on an Income and Expenditure basis

Any Town or Parish Council with gross income or expenditure of over £200,000 is required to process its accounts on an income and expenditure basis, rather than on a receipts and payments basis. Income and expenditure requires the processing of accruals and pre-payments at the end of the financial year but this is not required with receipts and payments. Simply, this means making sure that any income or expenditure is recorded in the correct financial year. For example, it is usual for councils to complete a quarterly VAT claim after 31st March each year, to capture all VAT due for the final quarter of the financial year. The amount claimed will be received by the council from HMRC after the end of the financial year. This will result in a difference between the totals of boxes 7 and 8 in the AGAR, equal to the amount of the VAT owed to the Council (the VAT debtor).

To explain this, Councils must complete a reconciliation between boxes 7 and 8. I have prepared this for submission to the External Auditor, as follows:

					£	£
Box 7: Balances carried forward						102,070.00
Deduct:	Debtors (enter these as negative numbers)					
	VAT Recoverable				(18,072.00)	
					(18,072.00)	
Deduct:	Payments made in advance (prepayments) (enter these as negative numbers)					
	1				0.00	
					0.00	
Total deductions						(18,072.00)
Add:	Creditors (must not include community infrastructure levy (CIL) receipts)					
	1				0.00	
					0.00	
Add:	Receipts in advance (must not include deferred grants/loans received)					
	1				0.00	
					0.00	
Total additions						0.00
Box 8: Total cash and short term investments						83,998.00

The reconciliation shows that, when the VAT debtor is removed from the figure in box 7, the balance remaining equals the sum of all of the bank account balances at 31st March 2020, as shown in the bank reconciliation in section 6 of this report.

8 – Explanation of Significant Variances

Any variances between the 2019 and 2020 AGAR figures that are higher than 15% must be explained. The majority of the variances are due to income and expenditure on the new skate park. It is not necessary to explain away the total of the variances but to detail figures that will bring the variance below 15%. The following is a copy of the spreadsheet provided by the External Auditor for this purpose:

	2018/19	2019/20	Var	Var	<u>Narrative and figures</u>
	£	£	£	%	
1 Balances Brought Forward	£ 53,481	£ 42,456			
2 Precept or Rates and Levies	£ 267,745	£ 267,850	£ 105	0%	
3 Total Other Receipts	£ 32,105	£ 159,873	£ 127,768	398%	£11250 - grants received for new skate park; £79972 - PWLB received for new skate park; £4128 - additional rent received from Cale Park Kitchen extension.
4 Staff Costs	£ 136,111	£ 148,046	£ 11,935	9%	
5 Loan Interest/Capital Repayment	£ -	£ -	£ -	0%	
6 All Other Payments	£ 174,764	£ 220,062	£ 45,298	26%	£58,430.26 towards cost of supply and installation of new skate park.
7 Balances Carried Forward	£ 42,456	£ 102,071			
8 Total Cash and Short Term Investments	£ 32,953	£ 83,998			
9 Total Fixed Assets plus Other Long Term Investments and Assets	£ 367,180	£ 507,539	£ 140,359	38%	£160,000 added for value of new skate park
10 Total Borrowings	£ 0	£ 79,972	£ 79,972	799719900%	£79,972 Loan received for new skate park

9 – Summary

Now that the AGAR figures balance, the AGAR form has been sent to the Internal Auditor so that she can complete the Internal Auditor's report.

As shown above, the supplementary bank reconciliation, box 7 and 8 reconciliation and explanation of significant variances has been completed.

I will write a letter to the External Auditor to explain the reasons that the AGAR is being submitted late.

Recommendation

That the Town Council approves the Governance Statements in Section 1 and the figures in Section 2, including the restated amounts for 2019.