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## **Marden Parish 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 systems of internal control and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR).

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 5<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 is designed to afford appropriate 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 several internal control objectives.

## **Overall Conclusion**

We are again pleased to conclude that, based on the programme of work undertaken this year, the Council continues to maintain adequate and effective internal control arrangements with a few relatively minor issues requiring action. We are again pleased to acknowledge the quality of records maintained by the Clerk and thank her for her assistance, which has ensured the smooth progress of our review process, especially in the present circumstances.

Based on the satisfactory conclusions drawn from our review of the Council's systems of financial control and content of the detailed Statement of Accounts and that summarised detail set out in the AGAR, we have signed off the Internal Audit Report therein assigning positive assurances in each relevant area.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

The Council uses the RBS Rialtas Alpha software to maintain its accounting transactions with four bank accounts in use. Current and Deposit accounts are in place with NatWest with a daily sweep facility between the two, together with a Santander and Unity Trust bank account, the last being used for most transactions (on-line), although the NatWest account is still used to pay previously existing direct debit and standing order transactions and occasional cheques.

Our objective is to ensure that accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. We have: -

- Agreed the opening Alpha software trial balance detail with that in the 2018-19 Statement of Accounts and certified AGAR
- Verified that the financial ledger remains in balance at the financial year-end
- Ensured that the cost and expenditure coding structure remain appropriate for purpose
- Checked and agreed detail of all transactions, in view of their relatively low volume, in all cashbooks for the year to 30<sup>th</sup> September 2019 and also for March 2020
- Verified the accuracy of bank reconciliation detail on all accounts as at 30<sup>th</sup> September 2019, excepting the Santander account, which was verified as at 30<sup>th</sup> June 2019 and on all as at 31<sup>st</sup> March 2020, and
- Ensured the accurate disclosure of the combined cash at bank balances in the 2019-20 AGAR.

### **Conclusions and recommendation**

*No significant issues have been identified in this review area this year, although we have suggested to the Clerk that, to ensure that when checking the monthly bank reconciliations, members are also provided with a copy of the Alpha Trial Balance detail for the accounts as at that date in order that they may verify the month-end “Balance per Cashbook” value shown on the reconciliation statements.*

*Given the relatively low volume of transactions annually, we have previously questioned the need to retain the two NatWest accounts and understand that, after due consideration, members determined to continue their retention at present. We also noted at our interim visit that further consideration was to be given in the near future to the placement of surplus funds with the CCLA Deposit Fund: members have determined to retain funds with Santander for the moment, but with the probable receipt of CIL moneys in the near future, will reconsider options at that time.*

*R1. In order to afford members the opportunity to validate all monthly bank reconciliation detail, the month-end trial Balance should also be printed and provided for their examination to provided detail of the “Balance per Cashbook” value recorded on the reconciliations.*

## Review of Corporate Governance

Our objective here is to ensure that the Council has robust corporate governance documentation and processes in place, and that, as far as we may reasonably be expected to ascertain (as we do not attend Council or Committee meetings), all meetings are conducted in accordance with the adopted Standing Orders and no actions of a potentially unlawful nature have been or are being considered for implementation. We have: -

- Noted that Standing Orders were reviewed and re-adopted at the December 2019 Council meeting with the Financial Regulations also revised and brought into line with the latest (2019) NALC model document and duly adopted in September 2019
- Noted that tendering limits in both documents are in line with the requirements of the Public Contracts Regulations (2015) and are set at £25,000, and
- Reviewed minutes, as posted on the Council's website, for the full financial year (excluding those relating to planning issues), to ensure that no actions have been taken or are being considered that might result in unlawful activity or expense being incurred by the Council.

We again acknowledge the existence of a substantial file of the Council's Corporate Policies and Procedures, which are subjected to periodic review and update.

### Conclusions

*We are pleased to record that no issues have arisen in this area of our review process warranting formal comment or recommendation this year: we shall continue to consider the Council's approach to Corporate Governance issues at future visits.*

*We also 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.*

## Review of Expenditure

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 appropriate form of document confirming the payment as due and/or an acknowledgement of receipt, where no other form of invoice is available
- Members are provided with full details of all payments made at meetings as appropriate and that they are formally verifying the supporting invoices accordingly
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount
- The correct expense codes have been applied to invoices when processed. and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We discussed the payment release process with the Clerk last year, specifically in relation to electronic payments through the Unity online banking facility and considered them generally appropriate, with one proviso / recommendation. Whilst not wishing to imply any impropriety on the part of the Clerk or members, we noted that members are now initialling the covering sheet to each payment, but are not signing-off the actual invoices confirming their review.

Following a relatively recent fraud by a Town Clerk in Hampshire where members were not evidencing their review of invoices with the invoices subsequently being represented for payment sometimes on more than one occasion resulting in duplicated payments: the cheques were actually written in erasable ink, which the Clerk then amended to show her own name as the payee.

We have examined a sample of 37 payments made during the financial year, selecting all those non-salary related transactions in the NatWest and Unity Trust accounts in excess of £500 plus a more random sample of every 25<sup>th</sup> transaction to ensure compliance with the above criteria. Our test sample totals £96,150 and equates to 71% of non-salary related expenditure in the year with all the above criteria met.

We note that the VAT reclaim for the second half-year in 2018-19 was prepared, submitted to and reimbursed by HMRC, now also noting that the first half-year reclaim for 2019-20 has been prepared, submitted and been repaid by HMRC in February 2020.

In examining the detailed Alpha nominal ledger codes, we noted that the 2018-19 second half-year's reclaim (six months to 31<sup>st</sup> March 2019) had, as above, been repaid by HMRC, but again coded to an income code (# 1065) rather than to the VAT Control account (# 105). As advised in last year's report, with the Council's Accounts and AGAR detail prepared and presented in "Income and Expenditure" format, rather than "Receipts and Payments", all reclaimed / recovered VAT should be posted to the control account (# 105), as recording the prior year-end reclaimed amount as an income item effectively overstates the Council's income and expenditure by that amount in the year of receipt. We are pleased to acknowledge that an appropriate correcting journal was raised prior to the year-end closedown of the Alpha Accounts for 2019-20.

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

***We consider that improved controls and evidencing of members' review of invoices and their approval for payment should be implemented as indicated in the body of the report.***

- R2. *To reduce the potential risk of purchase invoices being paid twice, the actual invoices, rather than the covering sheet, should be initialled to confirm members' examination and approval of the payments for release. As suggested previously, this could be achieved through acquisition of a suitably designed certification stamp.*
- R3. *All VAT reclaimed and repaid by HMRC should be coded to the VAT control account and not be regarded as separate income: an appropriate journal adjustment should be made to transfer the 2018-19 final half-year's amount recovered to the control account. **This has been actioned accordingly as advised.***

## 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 in order to minimise the opportunity for their coming to fruition. We have: -

- Examined the Council's current insurance schedule to ensure that appropriate cover is in place with AXA plc, noting that Public and Employer's Liability cover are set at £10 million with Fidelity Guarantee cover set at £500,000, all of which we consider more than adequate to meet the present needs of the Council
- Noted that an appropriate Financial Risk Assessment has been reviewed and re-adopted by the Council at the July 2019 meeting: we also note the existence of a comprehensive file of other service delivery specific risk assessments which were also reviewed and re-adopted at the March 2020 Council meeting, and
- Also noted from our examination of risk documentation that, with the approval of Insurers, detailed health and safety inspections in accordance with RoSPA guidelines are undertaken at the Council's play areas fortnightly, also noting that the results of these inspections are reported to members with any necessary appropriate action taken to address issues identified.

### Conclusions

*We are pleased to report that no issues have been identified in this area of our review process warranting formal comment or recommendation this year. We understand that the Village Caretaker who undertakes the fortnightly play area checks has, in the past, received the relevant accredited training and suggest that it may be beneficial for him to attend a refresher training session to ensure he is fully up-to-date on legislation, etc. We shall continue to monitor the Council's approach to risk management at future visits.*

## Budgetary Control and Reserves

We aim in this area of our work to ensure that the Council has appropriate procedures in place to determine its future financial requirements leading to the adoption of an approved budget and formal determination of the amount to be precepted on the parent Council; that effective arrangements are in place to monitor budgetary performance throughout the financial year and that the Council has identified and retains appropriate reserve funds to meet future spending plans.

We are pleased to note that, following due deliberation, the Council approved its budget and precept for 2020-21 setting the latter at £145,795.77 at the January 2020 full Council meeting.

We are again pleased to note that members are provided with detail of monthly transactions, together with detail of bank balances and quarterly budget performance reports, prepared by the Clerk based on the Alpha accounting software. We have reviewed the year-end budget position as set out in the detailed report generated by the Alpha software with a few individual areas where significant variances existed, although, overall, both income and expenditure equated to only 79% of the planned budget. Examination of the detail indicates that this was largely due to the non-receipt and hence non-usage of over 50% of the target S.106 funded budget, together with a number of other relatively insignificant variances.

We have again reviewed the level of retained funds at the year-end, assessing their adequacy to meet the Council's ongoing revenue spending requirements. As at 31<sup>st</sup> March 2020, total reserves stood at £75,700 (£79,600 as at 31<sup>st</sup> March 2019). As previously, we note that, despite their existence, the retained earmarked reserves are not separately identified in the Alpha accounting software. To ensure that members are fully aware of and can effectively monitor the level of the General Reserve Fund balance we again suggest that separate nominal account codes (in the 300 series) be set up in the Alpha accounts: balances on each should be recorded by journal transfer from the General Reserve Fund balance (Code 310).

### **Conclusions and recommendation**

***Whilst no significant concerns have been identified in this area, consideration should be given to the formal identification of each earmarked reserve (EMR) retained at 31<sup>st</sup> March 2020 by the establishment of separate codes for each in the Alpha Accounts. Then, as and when EMR funds are applied, a suitable journal transfer from the specific EMR to the General Reserve Fund should be made.***

*R4. To ensure that members are fully aware of the level of Earmarked and General Fund balances, separate EMR control accounts (in the 300 series) should be established in the Alpha accounts with funds for each transferred by journal from the General Reserve Fund balance.*

## **Review of Income**

In addition to the annual precept, the Council receives income from additional service areas, including the cemetery, the annual Christmas Fayre, the Summer Holiday Play Scheme and occasional rental income from the Playing field and Sowden field, together with occasional grants from the parent Council.

We are pleased to note that fees and charges in respect of the cemetery and Summer Play Scheme have been reviewed and formally adopted by the Council for 2019-20 in accordance with the requirements of the Council's Financial Regulations.

We have examined the controls in place in respect of the cemetery in relation to the identification and processing of fees arising in respect of interments for the year to 30<sup>th</sup> September 2019 ensuring that for each, an appropriate entry has been made in the Burial Register; that all expected and legally required supporting documentation, such as undertakers' interment applications, burial or cremation certificates, are in place and that the appropriate fees have been levied and recovered within a reasonable time frame. We noted last year that one undertaker had been reticent in settling fees due to the Council and are pleased to note that these have now finally been recovered. We also examined the controls in place regarding memorials for the year to date and are pleased to record that no matters have arisen in this area.

We have also examined income relating to the Summer Holiday Play Scheme agreeing detail in the control spreadsheet record to the Alpha nominal income code and ensuring that the income due has been received and banked accordingly.

Finally, we have examined the detailed nominal income records in the Alpha accounting software for the full financial year to ensure that no significant misanalyses or other anomalous details are evident and are pleased to record that no additional issues arise in this area this year.

## **Conclusions**

*We are pleased to record that no issues arise in this area warranting formal comment or recommendation.*

## **Petty Cash Account**

*The Council does not operate a formal Petty Cash scheme: any out-of-pocket expenses incurred by staff are reimbursed on submission of a properly authorised and supported claim form, together with till receipts and / or trader invoices. As also suggested last year, the Council may wish to consider acquiring an appropriate credit card to facilitate payment for any ad hoc expenses incurred rather than rely on staff using their own finances initially.*

## **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 legislation as regards the deduction and payment over of income tax and NI contributions.

The Clerk uses bespoke Sage payroll software to produce the monthly payroll for the four permanent members of staff, together with casual Play Scheme helpers. Consequently: we have:

- Noted that all staff, including the Play Scheme helpers, are now paid from the Unity Trust bank account
- Noted that members have reviewed staff pay approving implementation of the revised national NJC pay scales effective from 1<sup>st</sup> April 2019, with all four permanent staff being formally advised on their revised salary / hourly pay rate
- Verified the gross salaries paid in October 2019 to the four permanent staff members and August 2019 to the Play Scheme helpers by reference to the approved NJC scales (Clerk and Assistant) and hourly rates for the remainder
- Verified that Tax and NIC deductions have been calculated correctly by reference to the monthly payslips as above also ensuring that these deductions have been paid over to HMRC in an accurate and timely manner, and
- Noted that three of the four permanent employees are contributing to "NEST" pensions.

## **Conclusions**

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

*We also 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. We have provided the Clerk with an electronic copy of the document for her future reference.*



## Asset Register / Inventory

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. We are pleased to note that an appropriate asset register is in place detailing both purchase and estimated replacement costs: also, that a photographic record is being maintained, as previously recommended by us. The register has been updated to include new additions and any disposals occurring during the financial year.

We have also ensured that the asset value reported in the 2019-20 AGAR at Section 2, Box 9 corresponds with the total asset value in the register.

### *Conclusions*

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

## Investments & Loans

Our objectives here are to ensure that the Council is investing “surplus funds”, be they held temporarily or on a longer term basis in appropriate banking and investment institutions; that an appropriate investment policy is in place; that the Council is obtaining the best rate of return on any such investments made, that interest earned is brought to account correctly and appropriately in the accounting records and that any loan repayments due to or payable by the Council are transacted in accordance with the relevant loan agreements.

We drew attention in last year’s report to the revised requirement (effective from 1<sup>st</sup> April 2018) for Councils with total funds in excess of £100,000 to develop an appropriate Annual Investment Policy / Strategy (the limit was formerly £500,000). We were disappointed to note at our interim visit that the Council had still to comply with this requirement, understanding that it was probably due for consideration at the next Finance meeting in January 2020. We now understand that it was due to be presented to the Annual Meeting, which, due to the Covid-19 situation, has been deferred: the Clerk has advised that it will now be circulated to members and discussed / adopted at a future full Council meeting.

The Council has one residual PWLB loan repayable half-yearly: we have verified the value of the two half-yearly repayments for 2019-20 to the PWLB demand notes as part of our above referenced payment review sample and have, at this final review also confirmed the residual loan liability to be disclosed in the year’s AGAR by reference to the PWLB website where detail of all local council loans are reported as at 31<sup>st</sup> March annually.

### *Conclusions and recommendation*

*The Council needs to ensure compliance with the legislative requirement for a formal Investment Strategy to be developed and adopted: to assist the process, we have provided the Clerk with a few examples in use at our other clients.*

*R5. The Council must ensure that it complies with extant legislation as soon as practicable developing and adopting a formal Investment Strategy / Policy.*

## Statement of Accounts and AGAR

The AGAR now forms the Council's statutory Accounts subject to external audit review and certification. The detail for the AGAR is generated automatically by the Alpha accounting software and we have, as previously, reviewed the content and analysis across the various boxes for consistency and accuracy.

### *Conclusions*

*We are pleased to record that no issues arise in this area this year and, based on the satisfactory conclusions drawn from the work undertaken this year, we have duly signed off the Internal Audit Report 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	In order to afford members the opportunity to validate all monthly bank reconciliation detail, the month-end trial Balance should also be printed and provided for their examination to provided detail of the "Balance per Cashbook" value recorded on the reconciliations.	Will commence this practice from the start of the 2020/21 Financial Year.
<b>Review of Expenditure &amp; VAT</b>		
R2	R2. To reduce the potential risk of purchase invoices being paid twice, the actual invoices, rather than the covering sheet, should be initialled to confirm members' examination and approval of the payments for release. As suggested previously, this could be achieved through acquisition of a suitably designed certification stamp.	Stamp already purchased and is being used.
R3	All VAT reclaimed and repaid by HMRC should be coded to the VAT control account and not be regarded as separate income: an appropriate journal adjustment should be made to transfer the 2018-19 final half-year's amount recovered to the control account.	Already transferred via journal transfer on the accounting system
<b>Budgetary Control &amp; Reserves</b>		
R4	To ensure that members are fully aware of the level of Earmarked and General Fund balances, separate EMR control accounts (in the 300 series) should be established in the Alpha accounts with funds for each transferred by journal from the General Reserve Fund balance.	Not used this before on the accounting software so will look into this
<b>Investments &amp; Loans</b>		
R5	The Council must ensure that it complies with extant legislation as soon as practicable developing and adopting a formal Investment Strategy / Policy.	Draft Investment Policy being finalised and will circulate ready for discussion/agreement at May Council meeting.