

Marden Parish Council

Internal Audit Report 2022-23 (Interim)

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Background

Statute requires all town and parish councils to arrange for an independent Internal Audit (IA) 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 at our first review visit for the 2022-23 financial year, which took place on Friday 14th October 2022. We thank the Clerk for her assistance, providing all necessary documentation in either electronic or hard copy format to facilitate commencement of our review. We have agreed with the Clerk that, as last year, we will undertake a second visit in March 2023 with a final review undertaken remotely in April / May once the accounts have been closed down for the financial year and the AGAR is ready for our certification. We will update this report following our final remote review.

Internal Audit Approach

In undertaking 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, as usual, 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 IA Certificate 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 work carried out to date this year, the Clerk & Council continue to maintain adequate and effective internal control arrangements with a few relatively minor issues requiring action identified, detail of which are set out in the following report with the resultant recommendations summarised in the appended Action Plan. 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.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Council uses the Rialtas Alpha software to maintain its accounting transactions with four bank accounts in use. Current and Deposit accounts exist with NatWest with a daily sweep facility between the two, together with Santander and Unity Trust bank accounts, the last now being used for most transactions which are generally processed online: the NatWest account is still used to pay previously existing direct debit and standing order transactions and occasional cheques.

Our objective here 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 2021-22 Statement of Accounts and certified AGAR;
- Verified that the financial ledger remains in balance at the end of September 2022;
- Ensured that the cost and expenditure coding structure remain appropriate for purpose;
- Checked and agreed detail of all transactions to 30th September 2022, in view of their relatively low volume, in all cashbooks; and
- Verified the accuracy of bank reconciliation detail on all accounts at 30th April and September 2022.

Conclusions and recommendation

We are pleased to record that no significant issues have been identified in this review area, although we have discussed with the Clerk a suggested enhancement to the exiting bank reconciliation review process whereby the Trial Balance should be printed off at each month-end when the bank reconciliation is completed. The reviewing member should then not only sign-off the reconciliation evidencing completion of their review, but should also sign-off the Trial Balance print and month-end bank statements thereby confirming their review and agreement of values recorded in the reconciliation statement detail.

We shall undertake further work in this area at our final review, ensuring the accuracy of the year-end bank reconciliations and disclosure of the combined account balances in the year's AGAR at Section 2, Box 8.

- R1. *As indicated in the body of the report, when completing the month-end bank reconciliations, the Alpha Trial Balance at that time should be printed-off and, together with the month-end bank statement, be signed-off by the reviewing councillor as evidence of their review and agreement of detail to the reconciliation: all documents should be retained for audit examination.*

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 (SOs) and no actions of a potentially unlawful nature have been or are being considered for implementation.

We have noted previously that Standing Orders (SOs) were reviewed and re-adopted at the December 2019 Council meeting with the Financial Regulations (FRs) also revised and brought

into line with the latest (2019) NALC model document being adopted in September 2019. The SOs have been further revised to reflect the required changes in meeting arrangements, etc., resulting from the Covid situation with the revised document being adopted in March 2020.

We have reviewed Council and Standing Committee minutes, as posted on the Council's website, for the year to date, 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 are also pleased to note that the 2021-22 AGAR has been signed off by the external auditors without recommendation or comment.

Conclusions

We are pleased to record that no issues have arisen in this area of our review process warranting formal comment or recommendation at the present time: we shall continue to consider the Council's approach to Corporate Governance issues at future reviews, also continuing our review of minutes for the remainder of the financial year.

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 have examined a sample of 27 payments made during the year to September 2022, 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 25th transaction to ensure compliance with the above criteria. Our test sample totals £30,440 equating to 65% by value of non-salary related expenditure in the year to date with all the above criteria met.

We note that the 2021-22 VAT reclaim was submitted and repaid by HMRC on 10th May 2022: we have agreed detail to the underlying Alpha control account.

Conclusions

We are pleased to report that no issues arise in this review area warranting formal comment or recommendation currently. We shall extend testing in this area at our final review applying the same criteria to payments processed over the remainder of the year, also checking the status of the year-end VAT reclaim.

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 policy schedule with Hiscox, to ensure that appropriate cover is in place, noting that Public and Employer's Liability cover both stand at £10 million, together with Fidelity Guarantee cover at £500,000, all of which we consider more than adequate to meet the present needs of the Council.

We noted in last year's final report that the Council's Financial Risk Assessment was reviewed and re-adopted by the Council at the March 2022 meeting also noting the existence of a very comprehensive file of other service delivery specific risk assessments which are also subject to periodic review and re-adoption. We understand that the risk documentation will again be reviewed and re-adopted in March 2023 and will review the final document as part of our final review for the year.

We 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 review area warranting formal comment or recommendation at the present time. We shall continue to monitor the Council's approach to risk management at future reviews.

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 MBC; 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.

This visit occurred in advance of any formal consideration or decision on the budgetary and precept requirement for 2023-24: consequently, we shall review the outcome of members deliberations at our final review of the year.

We are again pleased to note that members are provided with detail of monthly transactions, together with detail of bank balances and budget performance reports based on the Alpha accounting software throughout the course of the year. We have reviewed the position as at 30th September 2022 obtaining appropriate explanations for the few potentially significant variances existing at that date.

We are also pleased to note that, following our previous recommendation, a raft of specific earmarked reserves have been identified and exist in the Alpha accounting software.

In examining the cashbooks and detailed nominal account transactions for the year to date, we noted a few instances (EDF refund received and reimbursement of overpaid cemetery fees) that have erroneously been coded to income and expenditure codes respectively. As these are purely “refunds” they should be coded as contras to the original codes: we have discussed this with the clerk and will ensure appropriate correction at our final review.

We have also discussed the way of recording detail in respect of the occasional “Square” transactions, with the “charge” applied duly recorded as a separate expense in the cashbook and the total income received accordingly recorded as a receipt in the cashbook. Ideally the net value should be recorded as a single income in the cashbook, with the gross income recorded appropriately and the charge levied coded as an expense.

Conclusions and recommendation

We are pleased to record that no significant issues arise in this area currently this year. We shall undertake further work at our final review ensuring the formal discussion and approval of the budget and precept for 2023-24, reviewing the year-end (2022-23) budget outturn and considering the ongoing appropriateness of the retained reserves to meet the Council’s ongoing revenue spending commitments and any future development aspirations.

R2. Where refunds of either previously recorded expenditure or income arise, they should be coded as contras to the original code in the Alpha accounts. Similarly, the “Square” transactions should be recorded in the cashbooks as detailed in the body of the report.

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 and Southons fields, together with occasional grants from the parent Council.

We note that fees and charges in respect of the cemetery have again been reviewed and formally adopted by the Council for 2022-23.

We have previously examined the controls in place in respect of the cemetery in relation to the identification and processing of fees arising in respect of interments and erection of headstones, etc and considered them sound. We have, as part of this interim review, examined the 6 interments taking place to 30th September 2022 agreeing the fees charged to the approved scale of fees and charges. We have also examined the file of stonemasons’ applications for erection of new headstones and application of additional inscriptions to existing memorials with no issues arising in that respect.

We have also examined the income relating to the Summer Holiday Play Scheme checking a sample of detail in the spreadsheet register of cash, cheques and bank credit income received and banked with no issues arising.

We have also examined the detailed nominal income records in the Alpha accounting software for the financial year to 30th September 2022 to ensure that, as far as we are reasonably able, no income receivable has been overlooked to date in the year.

Conclusions

We are pleased to record that no issues arise in this area warranting formal comment or recommendation currently: we will undertake further work at our final review visit.

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.

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 five permanent members of staff, together with casual Play Scheme helpers. Consequently: we have:

- Verified the gross salaries paid in September 2022 to the five permanent staff members by reference to the approved NJC scales (Clerk, Deputy Clerk and Admin Assistant) and hourly rates for the two "outside" staff;
- Similarly checked and agreed the Play Scheme helpers' payslips relating to week 1 salaries; and
- 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.

Conclusions

We are pleased to record that no issues arise in this area of our review process 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 are pleased to acknowledge the existence of an appropriate Investment adopted by the Council in April 2021, as required by the statutory guidance on Local Government Investments which came into force on 1st April 2018.

The Council has one residual PWLB loan repayable half-yearly: we have verified the value of the first half-yearly repayment for 2022-23 to the PWLB demand note as part of our above referenced payment review sample.

Conclusions

We are pleased to advise that no issues arise in this area currently. We shall undertake further work in this area at our final visit verifying the second PWLB loan repayment to the supporting documentation and ensuring the accurate disclosure of the residual loan liability balance at 31st March 2023 in the year's AGAR.

Rec. No.	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	As indicated in the body of the report, when completing the month-end bank reconciliations, the Alpha Trial Balance at that time should be printed-off and, together with the month-end bank statement, be signed-off by the reviewing councillor as evidence of their review and agreement of detail to the reconciliation: all documents should be retained for audit examination.	
Budgetary Control and Reserves		
R2	Where refunds of either previously recorded expenditure or income arise, they should be coded as contras o the original code in the Alpha accounts. Similarly, the “Square” transactions should be recorded in the cashbooks as detailed in the body of the report.	