

Marden Parish Council

Internal Audit Report 2020-21 (Final update)

Stuart J Pollard

*Director
Auditing Solutions Ltd*

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 2020-21 financial year. Due to the ongoing impact of the Covid-19 pandemic with travel and hotel / catering restrictions, we have of necessity also undertaken this final review for the year remotely: we wish to thank the Clerk in assisting the process, providing all necessary 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.

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, as usual, 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 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 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.

We have duly completed and signed the Annual Internal Audit Certificate in the year's AGAR, having concluded that, in all significant respects, the control objectives set out in that report were being achieved throughout the financial year to a standard adequate to meet the needs of the Council. We also draw the Clerk's attention to the guidance notes in the preface to the year's AGAR 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.

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 the majority of transactions processed online, 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 2019-20 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 full financial year;
- Verified the accuracy of bank reconciliation detail on all accounts as at 30th September 2020 and 31st March 2021; and
- Ensured the accurate disclosure of the combined cash and bank balances in the year's AGAR at Section 2, box 8.

Conclusions

We are pleased to record that no issues have been identified in this review area at the present time warranting formal comment or recommendation. As reported previously, we noted that further consideration was to be given to the placement of surplus funds with the CCLA Deposit Fund, also noting that members determined to retain funds with Santander for the moment, but with the probable receipt of CIL moneys would reconsider options at that time: no further action has taken place in this respect to date other than noting the intention to place future CIL receipts with Santander.

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 noted in last year's report 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 and duly 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, 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 2019-20 AGAR was signed off by the external auditors without recommendation or significant comment following the resubmission of the document at the external auditor's request. We take this opportunity to remind the Clerk that the Council needs to ensure compliance with the Council's website disclosure requirements, as set out in the preface to the year's AGAR and in accordance with the Accounts and Audit Regulations 2015.

Conclusions

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

We drew attention in last year's final report to NALC's intention to revise and issue revised SOs and FRs following the UK's exit from the EU: promulgation of those documents has obviously slipped due to the Covid situation. We will keep the Council advised as soon as we hear of any further 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 have examined a sample of 28 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 25th transaction to ensure compliance with the above criteria. Our test sample totals £41,150 equating to 58% by value 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 2019-20 was prepared, submitted to and reimbursed by HMRC: we now note that the first half-yearly reclaim for 2020-21 was submitted and repaid by HMRC in November 2020-21: the final half-year's reclaim will be submitted in due course following closedown of the Alpha accounts for the year, that balance appearing as a debtor in the year's Statement of Accounts.

Conclusions

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

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, now with Hiscox as part of a three-year agreement, to ensure that appropriate cover is in place, noting that Public and Employer's Liability cover 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 are pleased to note that the Council's Financial Risk Assessment has been reviewed and re-adopted by the Council at the July 2020 meeting: we have also previously noted the existence of a comprehensive file of other service delivery specific risk assessments which are also subject to periodic review and re-adoption.

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 area of our review process warranting formal comment or recommendation at the present time. 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 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.

We are also pleased to note that, following due consideration, members agreed the required budget and precept for 2021-22 setting and formally adopting the latter at £152,675 at the 26th January 2021 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 budget performance reports, prepared by the clerk based on the Alpha accounting software throughout the course of the year. We have reviewed the year-end budget outturn as detailed in the Alpha software with no significant or unanticipated variances identified warranting further enquiry or investigation.

We have reviewed the level of retained funds at the year-end, assessing their adequacy to meet the Council's ongoing revenue spending requirements. As at 31st March 2021, total reserves stood at £123,100 (£75,700 as at 31st March 2020): the increased year-end balance arises primarily due to a significant reduction in overall expenditure during the year, primarily due to there being no S.106 expenditure in 2020-21 (£46,000 in 2019-20), which is partly offset due to a reduction in income with no Summer Play Scheme run and reduced S.106 receipts.

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, as suggested previously, consideration should be given to the formal identification of each earmarked reserve (EMR) 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.

R1. 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 usually 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. Obviously as a result of the Covid situation, certain events have been cancelled for the current financial year with a resultant reduction in income received to date.

We are pleased to note that fees and charges in respect of the cemetery were reviewed and formally adopted by the Council for 2020-21 in accordance with the requirements of the Council's Financial Regulations.

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 our interim review, received detail of the 4 interments that took place early November 2020 and agreed the fees charged to the revised scale of fees and charges applying from 1st April 2020 noting that the first was charged at the prior year fee rate, as it was booked prior to 1st April 2020.

We have also examined the detailed nominal income records in the Alpha accounting software for the full financial year to ensure that no unexpected non-receipt of income or significant mis-analyses or other anomalous details are evident and are pleased to record that no 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 at the present time and will, as indicated above, 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 four permanent members of staff, together with casual Play Scheme helpers, although due to Covid that event did not take place this year. Consequently: we have:

- Noted that all staff are paid from the Unity Trust bank account;
- Noted that members have reviewed staff pay approving implementation of the revised national NJC pay award from 1st April 2020, payment of the new rate and arrears for the year being made with the September 2020 salaries;
- Verified the gross salaries paid in both September (including arrears and the approved bonuses for the clerk and her assistant) and October 2020 to the four permanent staff members by reference to the approved NJC scales (Clerk and Assistant) and hourly rates for the two outside staff;
- 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.

Asset Register / Inventory

The Practitioner's Guide 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 2020-21 AGAR at Section 2, Box 9 corresponds with the total asset value in the updated asset register.

Conclusions

We are pleased to record that 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 have previously referred to the revised requirement (effective from 1st 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 remain disappointed to note that the Council has still to comply with this requirement and understood that it was due to be presented to the Annual Meeting in 2020, but, due to the Covid-19 situation, appropriate action was deferred.

The Council has one residual PWLB loan repayable half-yearly: we have verified the value of the two half-yearly repayments for 2020-21 to the PWLB demand note as part of our above referenced payment review testing and have now also verified the residual loan liability existing at 31st March 2021 by reference to the UK Debt Agency website, where detail of all outstanding council loans is recorded..

Conclusions and recommendation

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

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 as at 31st March 2021 in the year’s AGAR.

R2. 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.

Due to the Council having now exceeded turnover in excess of £200,000 for three years, the AGAR detail must be presented in Income and Expenditure format, which has to a great degree

been the case in previous years with the year-end recoverable VAT identified as a debtor in the AGAR. Going forward into 2021-22, the Clerk will need to identify detail of any other unpaid income debts at the financial year-end and any payments in relation to goods and services provided prior to the financial year-end for which provision will need to be made in the Accounts and AGAR.

Conclusions

We are pleased to record that no issues arise in this area warranting formal comment or recommendation and, based on the satisfactory conclusions drawn from the work undertaken this year, we have duly signed off the Internal Audit Certificate in the year's AGAR assigning positive assurances in each relevant area.

Rec. No.	Recommendation	Response
Budgetary Control & Reserves		
R1	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.	
Investments & Loans		
R2	The Council must ensure that it complies with extant legislation as soon as practicable developing and adopting a formal Investment Strategy / Policy.	