

Stanstead St Margaret's Parish Council

Internal Audit Report 2020-21

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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 system of internal control and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR). The Council approached us during 2020-21 requesting that we provide a quote for provision of the Internal Audit (IA) service to the Council for 2020-21 and duly appointed us.

This report sets out the work undertaken in relation to the 2020-21 financial year. Due to the impact of the Covid-19 pandemic, we have, of necessity, undertaken our review remotely and 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 IA 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 undertaking our review for the year, we have had regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts / AGAR. We have employed a combination of selective sampling techniques (where appropriate) and 100% detailed checks in several key areas to gain sufficient assurance that the Council's financial and regulatory systems and controls are appropriate and fit for the purposes intended.

Our programme of cover is also designed to facilitate our completion of the 'IA Certificate' in the year's AGAR, which requires independent assurance over several internal control objectives.

Overall Conclusion

We are pleased to conclude that, based on the programme of work undertaken, the Clerk, her predecessor and the Council have maintained generally effective internal control arrangements during the year with transactions accurately reflected in the detailed Statement of Accounts and AGAR.

The following detailed report sets out the scope of our audit work this year and our findings with no significant recommendations arising, although we have identified one or two areas where we consider procedures could and should be further strengthened.

We have completed and signed the 'IA Certificate' as part of the year's AGAR process, 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 take this opportunity to remind the new Clerk of the requirements of 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

Our objective in this area is to ensure that accounting records are being maintained accurately and on a timely basis, and that no anomalous entries appear in cashbooks or financial ledgers. We are pleased to note that the accounting records are maintained using the RBS Rialtas Alpha software.

The Council operates two bank accounts, one with Unity Bank for day-to-day transactions, together with a deposit with NatWest: we note that a further Instant Access account was in the process of being opened with Unity Trust and that, once fully operational, the residual NatWest balance will be transferred to the new Unity account.

To ensure the appropriateness and accuracy of the recording of transactions, we have:

- Verified that the prior year closing balances have been correctly rolled forward into 2020-21
- Verified that the accounts remain “in balance” at the financial year-end;
- Ensured that an appropriate coding structure is in place to facilitate reporting of the Council’s budgetary performance throughout the year;
- Checked and agreed detail of the full year’s financial transactions on each of the bank accounts, by reference to supporting bank statements;
- Verified the bank reconciliation detail on each bank account as at 31st March 2021, excepting that for the new Unity Instant Access Account which was not fully open at the financial year-end; and
- Ensured the accurate disclosure of those balances in the year-end Accounts / AGAR.

Conclusions

We are pleased to record that no issues arise in this area this year warranting formal comment or recommendation, noting that bank reconciliations are presented to meetings throughout the year and forwarded to the Vice Chair for review and sign-off. We have not been provided with copies of the signed-off reconciliations, but remind the new Clerk and members of the requirements of the Council’s adopted Financial Regulations (paragraph 2.2) in this respect and urge that the Council ensures compliance in all respects with that requirement.

Review of Corporate Governance

Our objective is to confirm that the Council has a robust regulatory framework in place; that Council meetings are conducted in accordance with the adopted Standing Orders (SOs) and that, as far as we may reasonably be expected to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation.

We are pleased to note that the Council’s SOs and Financial Regulations (FRs) have been reviewed and re-adopted during 2020-21 based on the latest NALC model documents including appropriate reference to the requirements of the Public Contracts Regulations effective from 2015. We also note that the Council has determined a financial limit of £10,000 for formal tender action in the documents, as recommended by us in 2018-19

We have reviewed the minutes of Council meetings held during 2020-21 to assess whether any issues exist that may have an adverse effect on the Council's financial stability in the short, medium or longer term, also that, as far as we may reasonably be expected to ascertain as we do not attend meetings, there is no indication that the Council may either be considering or have taken decisions that might result in ultra vires expenditure being incurred.

The Council's annual turnover is below the £25,000 threshold for submission of the AGAR for external audit review and will consequently again be eligible to certify itself as exempt from that requirement.

We also note that the Council's website currently does not comply with the requirements of the Transparency Code, Accounts and Audit Regulations or best practice, with much of the required documentation not published. We draw the new Clerk's attention to the disclosure requirements of both the Transparency Code and also the Accounts and Audit Regulations, together with detail of required disclosures set out in the preface to the AGAR. The absence of certain items of the required disclosure documents in 2019-20 will require us to give a negative assurance at Boxes L & N in the 2020-21 IA Certificate and members will need to consider their responses in the Governance Section of the year's AGAR at Section 1.

Conclusions and recommendations

Whilst we acknowledge the intent to upgrade the existing Council website, it is evident that it has failed to make the statutorily required disclosures at the present time with the above detailed consequence of our need to issue negative responses in Sections L & N of the 2020-21 AGAR and with the Council also needing to consider carefully the responses it assigns in the Governance Statement (Section 1 of the AGAR for 2020-21).

We 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 has obviously slipped: we will keep the Council advised as soon as we hear of any developments in this respect.

R1. The Council must ensure that the website is updated and populated with all statutorily required information annually.

Review of Payments & VAT

Our objective here is to ensure that:

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Appropriate documentation supports payments, 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;
- Payments are correctly analysed in the accounting records and end of year accounts;
- VAT has been appropriately identified and coded to the control account for periodic recovery; and
- Section 137 payments have been identified accordingly and are within the Council's spending limit.

Due to the impact of the Covid-19 situation and need to undertake this year's review remotely, we have selected and requested the Clerk to provide electronic copies of the relevant invoices / supporting documentation a small sample of 10 payments made during the year for compliance with the above criteria. Our test sample totals £8,460 and equates to 83% by value of the non-pay related payments processed during the year.

Unfortunately, and probably due to the Covid situation and retirement of the former Clerk part way through the year, the new Clerk has only managed to trace documentation in support of 7 of the sample payments: we acknowledge that 1 of those relates to a grant. We are, however, pleased to note that members are signing off the invoices, which we consider an example of best practice. With regard to the missing documentation, we urge that, when grants and donations are issued, the recipient be provided with a second copy of the notification letter with a request that they sign acknowledging receipt of the payment. Where no other formal invoice is available to support the payment, we suggest that a proforma document be prepared and be signed by the Council Chairman confirming the payment as due.

We also suggest that, in line with best practice, each payment be allocated a unique sequential number (similar to a cheque number), which should be recorded on the hard copy invoice and also in the "Reference" section of the Alpha cashbook when entering the data.

We note that, due to the low volume and value of VAT expended, a single VAT reclaim was prepared for 2019-20 and that a single reclaim will similarly be prepared and submitted covering the limited VAT expended during 2020-21.

Conclusions and recommendations

We are pleased to record that no issues of concern have been identified in this area, although as indicated above, we have two suggestions for improved recording and referencing of documentation.

- R2. *When grants and / or donations are approved and issued, the recipient should be asked to acknowledge receipt on a copy of the covering advice letter, which should then be held on the file of processed payment invoices.*
- R3. *Additionally, where no formal invoice is received, the Chairman should, ideally, sign-off a proforma invoice confirming the supply of goods and / or services and approving the "invoice" for payment.*
- R4. *Consideration should be given to allocating each payment in the year a unique reference number, similar to a cheque number, which should be recorded on both the invoice and also the Alpha cashbook.*

Assessment and Management of Risk

Our objective is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and operational / 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 are pleased to note that an appropriate financial risk assessment register is in place, which has been formally reviewed and re-adopted at the March 2021 meeting of the Council.

We have also reviewed the Council's insurance arrangements with Zurich and consider cover appropriate for the Council's present requirements with Employer's and Public Liability in place at £10 million and £12 million respectively, together with Fidelity Guarantee (FG) cover of £250,000.

Conclusions

No issues arise in this review area warranting formal comment or recommendation. We shall continue to assess the appropriateness of the Council's arrangements for the assessment and management of risk at future years' reviews.

Budgetary Control & Reserves

Our objective here is to ensure that the Council has robust procedures in place for identifying and approving its future budgetary requirements and level of precept to be drawn down from the District Council, and that effective budget reporting and monitoring arrangements are in place.

We have considered the procedures in place for preparation and adoption of the Council's annual budget and precept and consider them sound and appropriate for the Council. We note that following due deliberation, the Council approved and adopted its budget and precept for 2021-22 at the February 2021 meeting setting the latter unchanged from 2020-21 at £16,000.

We are pleased to note that members continue to receive regular financial reports throughout the year detailing payments for approval, the occasional receipts and bank reconciliations. As the Alpha software has the facility to generate detailed budget reports at any stage of the year at the press of a few buttons, we suggest that members be provided with that detail at least quarterly during the course of the year. We have reviewed the year-end outturn for 2020-21 with no unexplained (by reference to the detailed transaction reports generated by accounting software), or unanticipated significant variances existing warranting further explanation.

The Council's overall reserves at 31st March 2021 stand at £41,247 (£43,612 as at 31st March 2020) with no funds identified as "set-aside" in specific earmarked reserves (EMRs) for future projects or equipment replacement. The Total Fund balance equates to in excess of two years' revenue spending and is considered potentially "excessive" unless part has been identified by the Council for specific purposes. Should such be the case, we urge that any Council formally determined EMRs be identified on separate codes for each in the Alpha software (coding range 520 et seq.).

Conclusions and recommendations

As indicated above, we have no concerns in this area, although we urge that the existence of any already formally agreed (by Council) EMRs are separately identified on individual codes within the Alpha accounts.

R5. *Members should be provided at least once quarterly with the detailed budget reports generated automatically by the Alpha accounting software.*

R6. *If not already agreed by the Council, funds should be set-aside in specific individual Earmarked Reserves (EMRs) for planned future projects or equipment replacement, each being recorded in a separate nominal account code in the Alpha accounting software.*

Review of Income

The Council receives very limited income primarily by way of the annual Precept, occasional grants, recoverable VAT and a limited amounts of bank interest. We have verified detail of income received and banked to bank statements, and, where available, other supporting documentation.

Conclusion

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

Petty Cash Account

The Council does not operate a petty cash account: any incidental “out-of-pocket” expenses are repaid to the Clerk periodically in conjunction with his salary and are approved and minuted as part of the normal controls exercised over payments.

Review of Staff Salaries

In examining the Council’s payroll function, our objective is 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, together with employee deductions / PC contributions to the LG Pension Scheme.

We are pleased to note that the new Clerk has been provided with a formal employment contract and have reviewed its content, which is in line with the standard NALC created document. We note that the payroll calculations are undertaken by an external agent on behalf of the Council and have consequently checked and agreed the gross salary paid in March 2021 to the new Clerk following her appointment in early February 2021, also checking the accuracy of any tax, NI and pension deductions for her pay to the end of March 2021.

As the Clerk’s salary is below the taxable and NI thresholds, no deductions or Council’s contributions are due in that respect. However, in checking the pension deduction applied to the new Clerks March gross salary, we note that it has been deducted at 6.5%. As the Clerk’s annual earnings will be below £14,600, the appropriate percentage contribution rate is 5.5%.

Conclusions and recommendations

We are pleased to report that no significant issues arise in this area, although it appears that the Clerk’s pension contribution on her gross earnings to 31st March 2021 have been calculated at the incorrect percentage rate of 6.5 rather than the correct rate of 5.5%.

We also note from examination of the detailed AGAR information in the Alpha software that the Clerk’s expenses on Code 4050 are linked to Box 6 on the AGAR. No such expenses arose in 2020-21, but may well arise in 2021-22: consequently, following a change in reporting arrangements on Staff Costs at Section 2, Box 4 of the AGAR, as advised in “The Practitioner’s Guide (2020 update) any such future expenses should be disclosed in Box 6 (Other payments). Consequently, the “linking” in the Alpha software needs to be amended to show this expense

code as linked to Box 6, not 4. To effect this change, the Clerk will need to click on the “Company details” prompt at the bottom left of the Alpha screen and then click on “Nominal Codes” scrolling down to Code 405 and tabbing across to the “Return Code” column and changing the 4 to a 6.

R7. The Clerk should check with the payroll service provider advising them that, in accordance with the current terms of the Local Government Pension Scheme, her contributions should be calculated at 5.5% not 6.5%: any necessary adjustment in respect of the 2020-21 deduction / contribution should then be made in her next quarter’s salary payment.

R8. The Staff travel expense code (no. 4050) linking should be amended from 4 to 6 as detailed in the body of the report.

Fixed Asset Register / Inventory

The reporting arrangements for assets in the AGAR require councils to report the value of each asset at purchase cost or at a suitable proxy where that value is not known, and for community assets to be valued at a nominal £1. The value of individual assets should not change from one year to another, other than for the inclusion of new or removal of any assets disposed of.

We are pleased to note that a comprehensive asset register remains in place identifying the type of asset (i.e., by category), its position in the parish, detail of the asset and cost price (net of VAT). In checking the asset register and AGAR values, we are pleased to note that the register has been updated to record the net cost of the new acquisition in the year less items disposed of, that value duly being reported in the year’s AGAR.

Conclusions

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

Investments and Loans

The Council has no specific investments in place, nor any loans repayable by or to it.

Statement of Accounts and AGAR

The Rialtas Alpha software automatically generates a year-end Receipts and Payments Account together with detail for reporting in the AGAR at Section 2. We are pleased to report that no issues arise in relation to the values recorded in the year’s AGAR at Section 2, which we have agreed to the underlying Alpha accounts and other relevant records.

As the Council’s annual turnover has remained below the £25,000 threshold requiring an external audit review, the Council will again complete the exemption certificate in the year’s AGAR and will need to provide the external auditors with a copy of the adopted and signed document in accordance with the detail in the preface to the year’s Part 2 AGAR.

Conclusions

No additional matters have arisen from this area of our review, although we remind the Clerk and Council of the need to ensure compliance with the disclosure requirements in the Transparency Code and Accounts / Audit Regulations, as also summarised in part in the preface to the AGAR for the year.

We ask that we be provided with a soft copy of the finalised AGAR (Sections 1 and 2), once the Council has approved the document and they have been signed-off.

Based on the satisfactory conclusions drawn for the work undertaken this year, we have signed off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area, excepting, as detailed earlier in this report, in relation to the disclosure of information in the Council's website in relation to 2019-20.

Rec. No.	Recommendation	Response
Review of Corporate Governance		
R1	The Council must ensure that the website is updated and populated with all statutorily required information annually.	
Review of Staff Salaries		
R2	When grants and / or donations are approved and issued, the recipient should be asked to acknowledge receipt on a copy of the covering advice letter, which should then be held on the file of processed payment invoices.	
R3	Additionally, where no formal invoice is received, the Chairman should, ideally, sign-off a proforma invoice confirming the supply of goods and / or services and approving the “invoice” for payment.	
R4	Consideration should be given to allocating each payment in the year a unique reference number, similar to a cheque number, which should be recorded on both the invoice and also the Alpha cashbook.	
Budgetary Control and Reserves		
R5	Members should be provided at least once quarterly with the detailed budget reports generated automatically by the Alpha accounting software.	
R6	If not already agreed by the Council, funds should be set-aside in specific individual Earmarked Reserves (EMRs) for planned future projects or equipment replacement, each being recorded in a sperate nominal account code in the Alpha accounting software.	
Review of Staff Salaries		
R7	The Clerk should check with the payroll service provider advising then that, in accordance with the current terms of the Local Government Pension Scheme, her contributions should be calculated at 5.5% not 6.5%: any necessary adjustment in respect of the 2020-21 deduction / contribution should then be made in her next quarter’s salary payment.	
R8	The Staff travel expense code (no. 4050) linking should be amended from 4 to 6 as detailed in the body of the report.	