

Stanstead St Margaret's Parish Council

Internal Audit Report: Interim 2021-22

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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 in relation to the 2021-22 financial year. To simplify the process this year and ease work pressures at the financial year-end, we have agreed with the Clerk that we would undertake a mid-year review, which took place on 9th November 2021. We thank the Clerk for providing all necessary documentation for this initial review in either hard copy or electronic format, the work being undertaken in the evenings during our visits to other clients in the vicinity. The final review will, as usual, be timed to coincide with closure of the year's Accounts, hopefully again in conjunction with final visits to other neighbouring councils.

Internal Audit Approach

In commencing our review for the year, we have again 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 undertaken 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 work undertaken to date, the Clerk and Council continue to maintain effective control arrangements with transactions accurately recorded in the Alpha accounting software, although we have noted a few instances where recoverable VAT has not been identified in the Alpha cashbook .

The following report provides detail of our objectives in each area embodied in the IA Certificate, the work undertaken and any issues arising that require action by the Council. Any such issues are further summarised as recommendations in the appended Action Plan, and we ask that members consider the report and provide appropriate responses to each recommendation indicating the action to be or already taken to address them. The report will be updated following completion of our final review for the year and sign-off of the IA Certificate in the year's AGAR.

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, with two bank accounts in place with Unity Bank, one for day-to-day transactions, the other for retention of surplus funds, together with a deposit account with NatWest: we note that the Council is in the process of closing the NatWest account with the intention of transferring the residual funds to the Unity Deposit account and will monitor progress at our final review.

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 2021-22;
- Verified that the accounts remain “in balance” at the present date;
- Ensured that an appropriate coding structure remains in place to facilitate reporting of the Council’s budgetary performance throughout the year;
- Checked and agreed detail of the year’s financial transactions on each of the bank accounts to 31st October 2021, apart from the NatWest account where no movement is recorded in the current financial year, by reference to supporting bank statements; and
- Verified the bank reconciliation detail on each bank account as of 30th April and 31st October 2021.

Conclusions

We are pleased to record that no issues arise in this area currently 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 will examine the remaining transactions for the year at our final review, also checking the year-end bank reconciliations and ensuring the accurate disclosure of the combined account balances in the AGAR at Section 2, Box 8.

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 noted in last year’s report that the Council’s SOs and Financial Regulations (FRs) were reviewed and re-adopted at the March 2021 Council meeting with detail 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.

We have reviewed the minutes of Council meetings held to date in 2021-22 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.

We note that the Council has not adopted the General Power of Competence: consequently, when considering and approving grants and donations to local bodies the approving minutes should, in line with best practice, record the powers relied on for such approvals bearing in mind that Section 137 may only be used in approving grants “for a proportion of the electorate” and where no other specific powers exist.

As the Council’s annual turnover in 2020-21 was below the £25,000 threshold for submission of the AGAR for external audit review, the Council duly claimed exemption and consequently, no external audit certificate will be available for posting on the Council’s website. We highlighted some concerns in relation to the Council’s website which was not compliant with the requirements of the Transparency Code, Accounts and Audit Regulations or best practice, with much of the required documentation not published.

Conclusions and recommendations

We acknowledged in last year’s report the intent to upgrade the existing Council website and note that work is in hand currently to ensure compliance with the disclosure requirements of the Transparency Code and Accounts and Audit Regulations 2015.

R1. When considering and approving grants and donations to local bodies, the powers relied on for such approvals should be minuted formally.

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.

We have discussed the controls in place over the approval and release of moneys to traders, etc with the Clerk last year and considered them sound and appropriate for the Council’s requirements. Due to low volume of transactions, we have examined all payments processed in the year to 31st October 2021 for compliance with the above criteria and are pleased to record that no significant issues arise currently.

We are pleased to note that members continue to sign-off the invoices with two councillors also physically releasing the payments following the Clerk’s setting up the payments online, although we have noted that a few invoices require members’ initials which we understand will be actioned accordingly at the next council meeting.

We are pleased to note that, following our previous recommendation, a unique sequential number is now being allocated to each invoice / payment made: to ensure effective cross-referencing of the invoices to the Alpha accounting detail, we suggest that the unique number allocated to each payment should be entered in Alpha when inputting the payments as though that number were a cheque number.

We note that, due to the low volume and value of VAT expended, a single VAT reclaim was prepared for 2020-21 covering the limited VAT expended during the year.

In checking the payments we have also noted a few instances where invoices are made out in the name of the clerk rather than the Council (e.g., PlusNet): as these are genuine Council expenses and the invoices bear a valid VAT Registration number, the Council is entitled to reclaim the VAT: we attach a schedule of the relevant payments at Appendix A and suggest that the Clerk amends the relevant cashbook entries so that the VAT is identified: Rialtas should, if necessary, be contacted to assist in making the relevant amendments.

Conclusions and recommendations

We are pleased to record that no significant concerns have been identified in this area, although as indicated above, we reiterate our prior year suggestion regarding recording the sequential transaction numbers in the Alpha cashbook as if they were cheque numbers. Then as yet, entries in respect of the unrecorded VAT should be amended appropriately to ensure that amounts involved are included in the next reclaim to be submitted to HMRC.

We shall review further payments in the year at our final visit also checking to see that an appropriate VAT reclaim is prepared and submitted to HMRC for 2021-22.

- 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. The unique reference number now being allocated to each payment should be identified in the Alpha accounts when entering the payments as though it were a cheque number, thereby providing an effective cross-reference between the two items of documentation.*
- R5. The cashbook detail should be amended to ensure that the VAT, as detailed in the attached Appendix, is recorded for recovery when the next VAT reclaim is prepared and submitted to HMRC.*

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 were pleased to note last year that an appropriate financial risk assessment register was in place, which had been formally reviewed and re-adopted at the March 2021 meeting of the Council.

We have 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. We take this opportunity to remind the Clerk and members that the Practitioner's Guide requires councils to review, update (if appropriate) and re-adopt the risk register at least once in each financial year.

Budgetary Control & Reserves

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and level of precept to be drawn down from the District Council: also, that an effective reporting and monitoring process is in place. We also aim to ensure that the Council retains appropriate funds in general and earmarked reserves to finance its ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

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 year. We have reviewed the budget position as recorded in the Alpha accounts as of 31st October 2021 with no unexplained or unanticipated significant variances existing warranting further explanation with income standing at virtually 100% of budget and expenditure at 48%.

Conclusions

This review was undertaken in advance of members formal consideration and approval of the 2022-23 budget and precept requirements. We shall, consequently, review the position at our final visit ensuring appropriate action has been taken with the value of the 2022-23 precept formally approved and minuted. We shall also review the level of retained reserves assessing their appropriateness to fund the Council's ongoing revenue spending requirements

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 noted last year that the Clerk had been provided with a formal employment contract and 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 October 2021 to the Clerk. In doing so, we have noted that she is still being paid on Scale Point 18, whereas, as we have been advised, members agreed the uplift to Scale Point 19 earlier in the financial year. The payroll provider will need to be advised of the increase with any backpay payable duly added to the next monthly salary calculations.

Conclusions and recommendation

We are pleased to report that no significant issues arise in this area, although it appears that the Clerk’s salary is being underpaid as recorded above.

R6. *The Clerk should liaise with the payroll service provider advising them of the increase in her salary scale point and advising the applicable date so that arrears may be paid with the next month’s salary.*

Investments and Loans

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

Rec. No.	Recommendation	Response
Review of Corporate Governance		
R1	When considering and approving grants and donations to local bodies, the powers relied on for such approvals should be minuted formally.	
Review of Expenditure and VAT		
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	The unique reference number now being allocated to each payment should be identified in the Alpha accounts when entering the payments as though it were a cheque number, thereby providing an effective cross-reference between the two items of documentation.	
R5	The cashbook detail should be amended to ensure that the VAT, as detailed in the attached Appendix, is recorded for recovery when the next VAT reclaim is prepared and submitted to HMRC.	
Review of Staff Salaries		
R6	The Clerk should liaise with the payroll service provider advising them of the increase in her salary scale point and advising the applicable date so that arrears may be paid with the next month’s salary.	

Recoverable VAT to be identified in cashbook

Payment date	Payee	Total payment	Recoverable VAT
26/4	Total AV	£22.80	£3.80
16/4	Community Action Dacorum	£102.00	£17.00
10/5	Plusnet	£8.00	£1.33
21/5	Plusnet	£8.00	£1.33
21/5	Community Action Dacorum	£321.67	£5.20
15/7	PlusNet	£8.36	£1.39