

Standsted Mountfitchet Parish Council

Internal Audit Report 2021-22 (Final update)

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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, during preliminary work at our offices and our two review visits for the year which we undertook on 10th November 2021 and 16th May 2022. We thank the Clerk and her staff for assisting the process, providing all necessary documentation in either hard copy or electronic format to facilitate our review for the year.

Internal Audit Approach

In undertaking our review, 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. Our programme of cover is designed to afford 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 a series of internal control objectives.

Overall Conclusions

We are pleased to advise that, based on the work undertaken this year, the Council continues to maintain adequate and effective internal control arrangements with only a few issues identified requiring attention. Due to the impact of Covid and the relocation to new premises, the Council has experienced a number of difficulties in the last year or so in maintaining routine procedures and, whilst highlighting issues in this report, we appreciate the underlying reasons for the position, but have referred to the issues in order that they are not overlooked going forward.

Details of such issues are set out in the following detailed report with any resultant recommendations further summarised in the appended Action Plan: we note that our interim report was presented to members with detail of the intended actions duly recorded, detail of which is reflected in this final report for the year.

We have duly signed-off the IA Certificate assigning positive assurances in each relevant area. We take this opportunity to remind the 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 here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. The Council continues to use the RBS Rialtas Omega software to maintain its accounting records with three bank accounts in place with Barclays, transactions on each account being recorded in separate cashbooks in the Omega software. We note the Council's continued intention to move to Unity bank, although this has not been progressed as yet: we will continue to monitor the position and progress at our next review visit. We have: -

- Checked and agreed the opening trial balance with the 2020-21 closing Statement of Accounts and certified AGAR detail;
- Ensured that a full and effective cost centre and nominal account coding structure remains in place;
- Ensured that the accounts remain 'in balance' at the financial year-end;
- Checked and agreed detail of transactions in the current bank account cashbook to the relevant bank statements for April & September 2021, plus January and March 2022;
- Due to their low volume, checked the full year transactions on the other two Council accounts for the full financial year;
- Checked that bank reconciliations are prepared routinely each month verifying detail in those at the month-ends for the four months referred to above on each of the three accounts; and
- Ensured the accurate disclosure of the combined cash and bank account balances in the year's AGAR at Section 2, Box 8.

We note that no journals have been raised "in house" during the year, although a number have been raised by the contract accountants when they closed down the year's accounts: consequently, we have suggested to the Clerk that, should the need to raise any journals "in house" arise in future years, they should ideally be checked and signed off by the Chair of Finance and General Purposes.

Conclusions

No matters arise in this area warranting formal comment or recommendation. We are also again pleased to note that a councillor has been reviewing and signing-off bank reconciliations and bank statements during the financial year.

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 meetings, all are conducted in accordance with the adopted Standing Orders (SOs) and that no actions of a potentially unlawful nature have been or are being considered for implementation.

We have continued our review of the Council and standing committee's minutes for the financial year and to date in 2022-23 as posted on the Council's website to ensure that no issues exist or

actions may be being considered by the Council that may have an adverse effect, through litigation or other causes, on the Council's future financial stability.

We noted in our interim report that both SOs and Financial Regulations (FRs) were reviewed and re-adopted by the Council in May 2021

We also note that the external auditors signed-off the 2020-21 AGAR without qualification or comment.

Conclusions

We are pleased to record that our review has identified no issues warranting formal comment or recommendation. We shall continue to monitor the Council's approach to governance matters at future visits, also continuing our examination of Council and Committee minutes.

Review of Expenditure & VAT

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 have met their fiduciary duties approving release of each payment in accordance with extant legislation;
- An appropriate order has been placed in each case where one would be anticipated;
- All discounts have been taken;
- 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 and that submissions have been returned to HMRC in a timely manner.

We have again discussed the procedures in place for the approval and release of payments with the Clerk, noting at our interim review that the previous practice whereby a rubber certification stamp was affixed to each invoice / payment docket with the clerk and members signing off approving the invoice for payment: understandably, due to the impact of Covid, this had not been applied to that date in 2021-22. We are pleased to note that this control has been re-implemented for the last half of the financial year.

We have made previous reference to the need for improved controls with the introduction of a degree of segregation of duties between setting up and physically releasing the payments and, as above, note the intended move to Unity bank which will facilitate such improved segregation, affording greater protection to the Clerk in the event that any untoward or fraudulent activity should occur on the Council's bank accounts: we note that, due to work pressures, action is still required in this respect and we will, consequently, continue to monitor progress at future reviews.

We have selected an extended sample of 58 payments, including three NNDR annual costs paid during the year including those individually exceeding £3,000, plus every 35th payment recorded in the Omega Current account cashbook regardless of value, for compliance with the above criteria.

Our test sample totals £251,080 equating to 60% by value of non-salary related payments made during the year.

We are pleased to note that VAT returns continue to be prepared and submitted to HMRC quarterly and have ensured the accurate recovery of the final quarter's reclaim for 2020-21, together with the first three quarterly reclaims for 2021-22 by reference to the Omega nominal control account record with no issues arising. We also note preparation and submission of the March 2022 reclaim, which we understand was also repaid in mid-April 2022.

Conclusions and recommendations

We are pleased to record that no significant residual concerns arise in this area following members agreement to reintroduce usage of the invoice certification stamp, which action we have duly verified as now operational.

- R1. The previous regimen of member scrutiny and physical sign-off of purchase invoices should be reinstated as evidence of their formal review and approval for payment. Noted and reinstated.***
- R2. An effective system of control should be implemented with the Clerk setting up payments for processing online, with members then "logging-on" and physically releasing the payments: we acknowledge that this will be actioned once new accounts are set up with Unity Bank.***

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 any significant risks identified and to minimise the opportunity for their coming to fruition.

We noted in our final 2020-21 report that the Clerk and a member had developed an alternative register of risks to the previously used LCRS software, which was duly adopted by the Council at the March 2021 meeting of the Finance and General Purposes Committee. We note that the Council is now acquiring examples of suitable risk registers from other councils and will be developing its own documentation in 2022-23 based on those, also taking account of the sample document we provided to the Clerk previously. Consequently, an adapted and truncated form of the LCRS documentation has been adopted at the March 2022 meeting: we have examined the document with no issues arising and will examine the outcome of the work to develop an "in house" register at our 2022-23 review.

We have examined the Council's insurance policy with Axa running to 31st March 2022, 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 at £500,000 and Hirer's Liability at £5 million.

Conclusions

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

Budgetary Control and 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 Uttlesford District Council (UDC): also, that an effective reporting and monitoring process is in place. Additionally, we 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, following due deliberation, the Council approved the budget and precept for 2022-23 setting the latter at £433,231 at the full Council meeting held in January 2022.

We also note that members continue to receive regular budget monitoring reports and have reviewed the year-end outturn by reference to Omega budget report detail with no significant or unanticipated variances existing warranting further comment or enquiry having examined the relevant nominal account codes and obtained appropriate explanations for their existence. We note that both total income and expenditure marginally exceed the budgets by 6% and 4% respectively.

We have reviewed the level of retained reserves at the financial year-end, noting that they total £434,771 (£406,546 at 31st March 2021). The General Reserve balance at 31st March 2022 has increased marginally to £134,381 (£125,304 at the prior year-end): this equates to approximately four months' general revenue spending at the 2021- level and sits comfortably within the generally recognised level of between three and twelve months such spending.

Conclusions

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

Review of Income

In this area of our review, we aim to ensure that income due to the Council is identified, invoiced (where applicable) and recovered at the appropriate rate and within a reasonable time scale; also, that it is banked promptly in accordance with the Council's adopted FRs.

In addition to the annual precept, the Council receives income from various sources annually: Crafton Green 50% share of income collected by UDC, local library room rent, cemetery activities, allotment rents, VAT recoveries, sundry grants and donations plus bank interest. Again, due to the Covid situation, only limited hiring of the Mountfitchet Exchange had occurred to date in 2021-22 and, consequently, we have not undertaken any work in that respect this year.

We are pleased to note that fees and charges for 2021-22 have been reviewed and adopted in accordance with the requirements of the Council's FRs (Para 9.3 refers).

We reviewed detail of the 7 burials occurring to the date of our interim visit as recorded in the Burial Register ensuring that for each entry, appropriate interment forms had been received from undertakers, together with the legally required burial / cremation certificates and that the correct fees and charges had also been applied. We have also examined the documentation relating to the two memorial headstone applications received from stonemasons in the current year, also ensuring that the approved fees have been charged.

Allotment rents fall due on 1st January annually: consequently, we have reviewed that income stream at this final visit and are pleased to note that all fees for 2022 were paid prior to the financial year-end, although one cheque receipt was not banked until early April and is, consequently, recorded in the Omega accounts in 2022-23.

We note that UDC have paid over the agreed 50% net income from the car park at Crafton Green which is owned by the Parish Council: we have reviewed the account statement provided by UTC in support of the amount paid over with no issues identified, although we obviously have not had the opportunity to validate the recorded detail.

We have reviewed the Omega detailed income transaction reports for the year ensuring, as far as we may reasonably be able to ascertain, that all income due to the Council has been received and coded to the appropriate account. We note that a few debtors recorded in the 2020-21 accounts remain unpaid at this financial year-end including two years' library rent due from Essex County Council, which, we understand, are being withheld whilst new lease discussions continue: we will monitor progress in this respect at our next review visit.

Conclusions

No issues arise in this area currently warranting formal comment or recommendation. We will examine further income streams at our final review.

Petty Cash Account and Credit / Debit Cards

The Council operates a limited petty cash account on an "imprest" basis with a holding of £100 as recorded in the Omega financial ledgers: top-ups generally occur as and when required with transactions recorded in a manual cash book supplemented by periodic postings to Omega. No cash transactions have, as far as we have been able to ascertain, taken place this year with increased usage of the Council's debit card.

Conclusions and recommendation

If it transpires that the petty cash account is no longer required, we suggest that the physical cash be banked.

R3. Consideration should be given to closure of the petty cash account and re-banking of the £100 imprest.

Review of Staff Salaries

We note that the Council continues to outsource production of its monthly payroll to an external provider. In examining the Council's payroll function, we aim to confirm that current legislation is being appropriately observed as regards adherence to the requirements of HMRC legislation and the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme as regards employee contribution bandings.

The Clerk has provided detail of staff in post, their basic hourly pay rates (NJC scale point in her case) and contracted weekly hours together with copies of staff payslips for October 2021. We note that the 2021-22 national pay award was applied with the Clerk's March 2022 salary, together with arrears from 1st April 2021, including the uplift in her spinal point: we also note that the Council has approved a 1.75% uplift in all other staff salaries from 1st April 2022.

We have, by reference to the October 2021, and additionally, Clerk's March 2022 payslips, ensured that, for all staff, they have been paid in accordance with their approved, as advised to us, pay rates; that PAYE, NI and pension contributions were being applied in accordance with the relevant HMRC tables and pension fund contribution bandings and that the net salaries paid were in line with the month's payslip detail.

As indicated above, the Clerk remains the only employee paid on the national NJC Local Government Salary Scale: we also and note that Ellis Whittam have been appointed to undertake a review of the Council's staff structure with one intent being to assimilate all staff onto appropriate spinal points on the NJC salary scale and will monitor progress at our next review.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Fixed Asset Registers

The Practitioner's Guide requires councils to maintain a formal register of their assets with the nominal (i.e., purchase costs net of VAT) reported in the year's AGAR. This value should only be amended year-on-year to reflect the purchase cost of any new additions or, again at nominal value, the reduction in value following disposal of assets.

We are pleased to note that the asset register has again been updated to reflect the cost of new acquisitions during the year: in contrasting the total value recorded therein with the detail in the Statement of Accounts prepared by DCK Accounting on behalf of the Council, we noted a disparity between the recorded values with the Clerk's register omitting the inclusion of a few additional assets acquired during the year and identified by the accountants. We have discussed these with the Clerk who has updated her register accordingly: it now reflects the same content and values as the accountants record with that value duly reported in the AGAR at Section 2, Box 9

Conclusions

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

Investments and 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 accounts; 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 appropriate loan agreements.

The Council does not have any long-term investments currently: however, as noted earlier in the report, it continues to hold a proportion of its funds in a Barclays 'Base Rate Reward' account which pays interest periodically.

We were pleased to note at our interim review that the Council's formal Investment Strategy has been reviewed and re-adopted by the Council in May 2021.

Conclusion

No issues arise in this area warranting formal comment or recommendation.

Statement of Accounts and AGAR

The Accounts and Audit Regulations require all Councils to prepare annually a Statement of Accounts in the AGAR, which now forms the statutory Accounts subject to external audit scrutiny and certification.

As a courtesy to the Council, we have checked and agreed entries in the detailed Statement of Accounts generated by DCK Accounting based on the Omega accounts closing Trial Balance detail for 2021-22 and the accountants own generated intermediary working papers. In doing so, we noted that the salary costs recorded on nominal account codes 4094 & 4095 totalling £25,901 had not been included in the Staff Pay entry in the year's draft AGAR prepared by the accountants for inclusion at Section 2, Box 4 of the AGAR. We have drawn this to the attention of the Clerk and accountants, who have agreed to make the necessary amendment and advise the Clerk accordingly.

Conclusions

Apart from the above adjustment in respect of the understatement of staff costs to be reported in the AGAR at Section 2, Box 4, no other issues arise in relation to the content of the Accounts and AGAR and, based on the satisfactory conclusions drawn from our programme of work for the year and the agreed amendment to the Staff costs AGAR disclosure, we have signed off the IA Certificate in the year's AGAR assigning positive assurances in each area.

Rec. No.	Recommendation	Response
Review of Payments and VAT		
R1	The previous regimen of member scrutiny and physical sign-off of purchase invoices should be reinstated as evidence of their formal review and approval for payment.	
R2	An effective system of control should be implemented with the Clerk setting up payments for processing online, with members then “logging-on” and physically releasing the payments.	<i>We acknowledge that this will be actioned once new accounts are set up with Unity Bank.</i>
Petty Cash Account and Credit Card		
R3	Consideration should be given to closure of the petty cash account and re-banking of the £100 imprest.	