

Standsted Mountfitchet Parish Council

Internal Audit Report 2021-22 (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 in relation to the 2021-22 financial year, during our interim review of the Council's records for the year, which we undertook on site on 10th November 2021. We thank the Clerk and her staff for assisting the process, providing all necessary documentation in either hard copy or electronic format to facilitate commencement of 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 to date, 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, 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 ask that the report be presented to members and a formal response be provided in advance of our final review to those recommendations indicating the actions taken and / or in hand at that time.

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 three separate cashbooks in the Omega software. We note the intended move to Unity bank and will monitor progress in this respect at our final review. To date, 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’ as of 30th September 2021;
- Checked and agreed detail of transactions in the current bank account cashbook to the relevant bank statements for April & September 2021;
- Due to their low volume, checked the full year transactions on the other two accounts to 30th September 2021; and
- Checked that bank reconciliations are prepared routinely each month verifying detail in those at the month-ends for April and September 2021 on each of the three accounts.

Conclusions

We are also pleased to note that a councillor has been reviewing and signing-off bank reconciliations and bank statements during the current financial year.

We will undertake further work in this area at our final review including checking a further two months’ transactions and ensuring the accurate disclosure of the combined cash and bank balances in the year’s AGAR at Section 2, Box 8.

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

We have commenced our review of the Council and standing committee’s minutes for the current financial year, examining those posted on the Council’s website, to ensure that no issues exist or 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 last year’s report that both SOs and Financial Regulations (FRs) were reviewed and re-adopted by Council in May 2021

We are pleased to note that the external auditors have signed-off the 2020-21 AGAR without qualification or comment.

Conclusions

We are pleased to record that our review has identified no issues to date 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 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 has understandably, due to the impact of Covid, not been applied to date in 2021-22. We have suggested to the Clerk that, with the current relaxation in Covid restrictions, the previous certification and evidencing of member review and approval of invoices be re-implemented as soon as is practicable.

We have made previous reference to the need for improved controls by 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 have selected a sample of 34 payments, including three NNDR annual costs paid up to 30th September 2021 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 £120,800 equating to 55% by value of non-salary related payments made during the year to that date.

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 and the first quarterly reclaim for 2021-22 by reference to the Omega nominal control account record with no issues arising. We also note preparation and submission of the September 2021 reclaim.

Conclusions and recommendations

We are pleased to record that no significant concerns arise in this area: however, as indicated above, we reiterate our previous recommendation in relation to the need to instigate effective segregation of duties between the setting up of online payments and their physical release, also for the previously in place, use of the certification stamp and the physical signing-off of invoices by members as evidence of the review of purchase invoices, etc.

We shall undertake further work in this area at our final review selecting a further sample of purchase invoices and examination of the remaining quarterly VAT reclaims for 2021-22 agreeing detail to the underlying Omega control account.

- 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: 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 we noted from our examination of minutes was duly adopted by the Council at the March 2021 meeting of the Finance and General Purposes Committee. We also note that the Risk Management Policy was re-adopted at the July 2021 Council meeting. To assist the Clerk and Council develop a potentially more succinct risk register of risks, we have provided the Clerk with a specimen document in use at several of our clients: should the Council determine to use the document it will need to tailor it appropriately to the Council’s own circumstances.

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 at this stage of our review: we take this opportunity to remind the Clerk and members of the requirements of the “Governance and Accountability Manual – The Practitioner’s Guide” that risk registers should be subjected to at least once annual review and re-adoption and will ensure appropriate action has been taken at our final review.

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 the District Council: 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.

This review visit took place in advance of the Council's formal consideration of its budget and precept requirements for 2022-23: consequently, we shall revisit this area at our final review ensuring that the budget and precept are formally approved and minuted as adopted.

We also note that members continue to receive periodic budget monitoring reports and have reviewed the latest position by reference to the September 2021 Omega budget report detail with no obvious concerns arising at this stage of the financial year.

Conclusions

We are pleased to record that no issues have been identified in this area warranting formal comment or recommendation at present. We will undertake further work in this area at our final review, including ensuring, as above, the adoption of the 2022-23 budget and precept, examining the year-end budget outturn and considering the appropriateness of retained reserves at the financial year-end to meet the Council's ongoing revenue spending commitments together with any further development aspirations.

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: property rentals from the local Library Service, cemetery activities, allotment rents, VAT recoveries, sundry grants and donations plus bank interest. Again, due to the Covid situation, only limited hires of the Mountfitchet Exchange have occurred to date in the current financial 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 have reviewed detail of the 7 burials occurring to date in 2021-22, as recorded in the Burial Register ensuring that for each entry, appropriate interment forms have been received from undertakers, together with the legally required burial / cremation certificates and that the correct fees and charges have also been levied. 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 shall review that income stream at our final visit together with other income sources ensuring appropriate and timely recovery of fees due to the Council.

We have reviewed the Omega detailed income transaction reports for the year to date 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 two debtors recorded in the 2020-21 accounts remain unpaid at present, noting that the clerk is pursuing them appropriately.

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 then occur as and when required with transactions recorded in a manual cash book supplemented by periodic postings to Omega.

We understand that no use has been made of the account to date in 2021-22 and will recheck the position at our final visit, also checking the physical cash holding.

Conclusions and recommendation

If it transpires that the petty cash account is no longer required, we suggest that the physical cash be banked and the account effectively closed down: consideration should be given to acquiring a Council credit card.

R3. Consideration should be given to the acquisition of a Council credit card in conjunction with the move to Unity Bank with the petty cash account being effectively “closed down”.

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 have, by reference to the October 2021 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 identified previously the Clerk remains the only employee paid on the national NJC Local Government Salary Scales: 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 final review.

Conclusions

No issues arise in this area currently 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 are pleased to note 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.

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: we acknowledge that this will be actioned once new accounts are set up with Unity Bank.	
Petty Cash Account and Credit Card		
R3	Consideration should be given to the acquisition of a Council credit card in conjunction with the move to Unity Bank with the petty cash account being effectively “closed down”.	