

## **Standsted Mountfitchet Parish Council**

*Internal Audit Report 2023-24 (Interim)*

---

*Stuart J Pollard*

*Director  
Auditing Solutions Ltd*

## **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 2023-24 financial year, during our interim review of the Council's records for the year, which we have undertaken in part at our offices in advance of our onsite visit on 9<sup>th</sup> October 2023. 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 generally adequate and effective internal control arrangements with only a few relatively minor procedural issues identified requiring attention.

Details of those 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 Rialtas Omega software to maintain its accounting records with three bank accounts currently remaining in place with Barclays, transactions on each account being recorded in a separate cashbook in the Omega software. We have again noted the Council's minuted intention to move to Unity bank, noting that action is in hand currently to expedite that transition. We are also pleased to note that surplus funds totalling £295,000 have been transferred to three separate accounts with the Redwood Bank and Cambridge and Counties Building Society (£85,000 in each) and the CCLA Public Sector Deposit Fund (£125,000). To date, we have: -

- Checked and agreed the opening trial balance with the 2022-23 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 30<sup>th</sup> September 2023;
- Checked and agreed detail of transactions in the current bank account cashbooks to the relevant bank statements for April & September 2023;
- Due to their low volume, checked the full year transactions on all the other accounts, including the new investment accounts detail, for the year to 30<sup>th</sup> September 2023; and
- Checked that bank reconciliations are prepared routinely each month verifying detail in those at the month-ends for April and September 2023 on each of the three bank accounts.

In examining the Omega ledgers, we noted that the three new investment account deposits during the year to date have all been coded as expenditure to nominal account code 4086. As these deposits remain part of the Council's overall bank holdings, separate nominal control account codes should be established in the 200 series to record each of the investment account deposits thereby not showing the establishment of these deposits as expenditure. We also note that interest earned on these accounts is being deposited into the Barclays Current account, detail of which we have verified for the year to date.

### *Conclusions and recommendations*

*In reviewing the year-to-date bank reconciliations, we have noted that they have not been the subject of independent councillor review and sign-off, as required by the adopted Financial Regulations (FRs): we understand that this has arisen following the resignation of the councillor who previously undertook this check. We have discussed this with the Clerk, who has advised that a new councillor will be nominated to undertake the check and sign-off accordingly.*

*We will undertake further work in this area at our final review for the year including checking further cashbook and month-end bank reconciliations, also ensuring the accurate disclosure of the combined cash and bank balances in the year's AGAR at Section 2, Box 8.*

- R1. *Separate nominal control account codes should be established for each of the three “Investment” accounts set up to date in the financial year: an appropriate journal should be raised moving the balances from the expenditure code (no. 4086) to the new codes.*
- R2. *The previously in place independent councillor review of bank reconciliations should be reimplemented as soon as practicable to ensure compliance with the adopted Financial Regulations.*

## **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 and are pleased to record that, at present, no issues exist or are apparent as being considered by the Council that may have an adverse effect, through litigation or other causes, on the Council’s future financial stability.

We note that both SOs and Financial Regulations (FRs) were reviewed and re-adopted by the Council in May 2023. In our final 2022-23 report we advised the Clerk and Council of a recent clarification of the value at which tenders must be formally publicised on the Government’s Contract Finder website, that value being advised as £30,000 including VAT and suggested that, when the Council’s SOs and FRs are next reviewed, the clarified value should be reflected in both documents. Examination of the recently re-adopted documents indicates that this clarification has still to be recorded in both the SOs and FRs.

We are also pleased to note that the external auditors signed-off the 2022-23 AGAR without any formal qualification but with a minor comment noting the need to amend a misstatement in the AGAR as submitted for certification.

### ***Conclusions and recommendation***

***We are pleased to record that no significant issues arise currently, although we suggest that the recorded value in the SOs and FRs for formal advertising of contracts on the Government’s Contract Finder website be amended following the recent clarification in the value. We shall continue to monitor the Council’s approach to governance at future visits, also continuing our examination of Council and Committee minutes.***

- R3. *To ensure clarity, the Standing Orders and financial Regulations should be amended to reflect the clarified value of £30,000 including VAT at which tenders should be formally advertised on the Government’s Contract Finder website.*

## **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 with returns submitted to HMRC in a timely manner.

We have discussed the procedures in place for the approval and release of payments with the Clerk and are pleased to note that a rubber certification stamp continues to be affixed to each invoice / payment docket with the Clerk and one councillor signing them off approving the invoice for payment: we also note that a schedule of payments is prepared and reviewed by members with each entry checked to the underlying invoices and initialled accordingly. We consider this process appropriate for the Council's present requirement affording clear evidence of members' control and approval of payments for release.

We have made previous reference to the need for improved controls over the physical release of funds by the introduction of a degree of segregation of duties between setting up and actually releasing the payments. Appropriate action to implement such segregation of duties has stalled pending transfer of the Council's banking arrangements to Unity from Barclays. Consequently, we will check on progress at our final review visit for the year and report accordingly: we do not consider it necessary to raise a formal recommendation at this stage but again urge that the move to Unity is expedited as soon as is practicable.

We have selected a sample of 38 payments to 30<sup>th</sup> September 2023, including 5 Uttlesford DC NNDR invoices to be paid over ten months of the year: our test sample includes those payments individually exceeding £2,500, plus every 35<sup>th</sup> payment recorded in the Omega Current account cashbook, regardless of value, for compliance with the above criteria and totals £129,270 equating to 65% by value of non-salary related payments made during the year to 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 2022-23 and the first quarter's reclaim for 2023-24 by reference to the reclaims submitted and Omega nominal control account record with no issues arising.

### ***Conclusions and recommendations***

***We are pleased to record that no significant concerns arise in this area at present, although as indicated above, we urge that appropriate action be taken to open the Unity bank accounts and to implement a degree of segregation of duties between the set-up of online payments and their physical release, thereby affording a greater degree of security and protection to staff and over public funds.***

***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 2023-24 agreeing detail to the underlying Omega control account.***

## 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 arrangements exist to monitor and manage any significant risks identified and to minimise the opportunity for their coming to fruition.

We noted in last year's final report that a further more robust Financial Risk Register had been developed that being adopted in May 2023. We have examined the content of the document and consider it appropriate for the Council's present requirements.

We have examined the Council's insurance policy for 2023-24 with Hiscox 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, all of which we consider appropriate for the Council's present requirements.

### *Conclusions*

*We are pleased to report that no issues arise in this area warranting formal comment or recommendation at this stage of our review: we will continue to monitor the Council's approach to risk management at our final review visit.*

## 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 2024-25: consequently, we shall revisit this area at our final review ensuring that both 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 2023 Omega budget report detail noting a number of significant variances, which we have examined and for which we have obtained appropriate explanations by reference to the Omega detailed transaction reports for the year to date. The most significant variance is the previously referenced transfer of funds to the three investment accounts (Recommendation R1 refers).

### *Conclusions*

*We are pleased to record that no further issues have been identified in this area warranting formal comment or recommendation currently. As indicated above, we will undertake further work in this area at our final review, including ensuring, as above, the formal debate on and adoption of the 2024-25 budget and precept. We shall also examine the year-end budget outturn and consider 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 including rent from the local Library Service, cemetery activities, allotment rents, occasional hires of the Day Centre & Exchange, plus recoverable VAT, sundry grants and donations and bank / investment interest. We are pleased to note that fees and charges for 2023-24 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 burials occurring to date in 2023-24, as recorded in the formal 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 a small sample of bookings recorded in the underlying booking diary ensuring that appropriate hire agreement forms were held and that invoices had been raised for the appropriate amounts with recovery of fees due duly received within a reasonable timescale.

Allotment rents fall due on 1<sup>st</sup> 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.

### *Conclusions*

*No issues arise in this area currently warranting formal comment or recommendation. We will examine allotment income and revisit other income streams at our final review reporting accordingly.*

## Petty Cash Account and Credit / Debit Cards

*The Council no longer operates a petty cash account.*

## 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 kindly 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 September 2023. We have, by reference to those payslips, ensured that all staff have been paid in accordance with their approved, as advised to us, pay rates, that PAYE, NI and pension contributions have been

applied in accordance with the relevant HMRC tables and that pension contribution have been deducted at the appropriate percentage.

As noted previously, the Clerk remains the only employee paid on the national NJC Local Government Salary Scales: we have noted previously that Ellis Whittam have been appointed to undertake a review of the Council's staff structure with the intention of moving everyone onto the national pay scales. This review has still to be finalised: consequently, we will check on 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.

As recorded earlier in this report, we are pleased to note the positive action taken to place surplus funds in three separate banking institutions, which affords greater protection of the Council's resources and has already generated a significant increase in the level of interest earned. Other than the aforementioned incorrect recording of the deposits as expenditure in the Omega accounts no additional issues arise in this area at present this year.

We are pleased to note that the Council's Investment Strategy has again been reviewed and re-adopted by the Council in May 2023 and consider it appropriate for the Council's present requirements.

The Council currently has no loans in pace payable either by or to it.

### ***Conclusions***

***No issues arise in this area currently warranting formal comment or recommendation: we shall undertake further work in this area at our final review ensuring the appropriate recoding of the three investment deposits to nominal control account codes rather than expenditure, also ensuring the accurate recording of future interest receipts and disclosure of balances in the year's AGAR.***



Rec. No.	Recommendation	Response
<b>Review of Accounting Arrangements and Bank Reconciliations</b>		
R1	Separate nominal control account codes should be established for each of the three “Investment” accounts set up to date in the financial year: an appropriate journal should be raised moving the balances from the expenditure code (no. 4086) to the new codes.	
R2	The previously in place independent councillor review of bank reconciliations should be reimplemented.	
<b>Review of Corporate Governance</b>		
R3	To ensure clarity, the Standing Orders and financial Regulations should be amended to reflect the clarified value of <u>£30,000 including VAT</u> at which tenders should be formally advertised on the Government’s Contract Finder website.	