

Standsted Mountfitchet Parish Council

Internal Audit Report 2023-24 (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 2023-24 financial year, during our two review visits to the Council's offices which took place on 9th October 2023 and 4th June 2024, together with work in advance of those visits at our offices.

We thank the Clerk and her staff for assisting the process, providing all necessary documentation in either hard copy or electronic format to facilitate completion 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 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 and its staff continue to maintain adequate and effective internal control arrangements with only a few relatively minor issues identified at our interim visit requiring attention. Details of those issues were set out in the resultant interim report with any recommendations arising further summarised in the appended Action Plan: we are pleased to note and record that positive action has been taken to address those issues.

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 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 also noted in our interim report that surplus funds totalling £295,000 had been transferred to three separate accounts with the Redwood Bank, Cambridge and Counties Building Society (£85,000 in each) and the CCLA Public Sector Deposit Fund (£125,000). Consequently, 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 the financial year-end;
- Checked and agreed detail of transactions in the current bank account cashbooks to the relevant bank statements for April & September 2023, plus January & March 2024;
- Due to their low volume, checked the full year transactions on all the other accounts, including the new investment accounts detail;
- Checked that bank reconciliations are prepared routinely each month verifying detail in those for 30th April and September 2023, plus 31st March 2024 on each of the three main bank accounts; and
- Ensured the accurate disclosure of the combined account cash and bank balances in the year’s AGAR at section 2, Box 8.

In examining the Omega ledgers at our interim visit, we noted that the three new investment account deposits during the year had all been coded as expenditure to nominal account code 4086. We advised the Clerk that, as these deposits remain part of the Council’s overall cash / 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 are pleased to note that an appropriate correcting journal has been raised.

Conclusions and recommendations

In reviewing bank reconciliations at our interim visit, we noted that they had not been the subject of independent councillor review and sign-off, as required by the adopted Financial Regulations (FRs): we understand that this arose following the resignation of the councillor who previously undertook this check. We discussed this with the Clerk during our interim visit, who advised that a new councillor would be nominated to undertake the check and sign-off accordingly. We are pleased to note that reconciliations are now being reviewed and initialled accordingly confirming completion of the independent review.

*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. **This has been actioned as suggested.***

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. A **nominated councillor is now reviewing and initialling the reconciliations confirming completion of the review.***

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 extended our review of the Council and standing committee's minutes for the remainder of the financial year as posted on the Council's website or provided in hard copy format by the Clerk, 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 note that both SOs and Financial Regulations (FRs) have been reviewed, updated and re-adopted by the Council in November 2023 including clarification of the value at which tenders must be formally publicised on the Government's Contract Finder website as £25,000 net.

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 in this area, although we suggested at our interim review 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.

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. **Both documents have been amended accordingly.***

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.

However, 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 releasing the payments. We note that, due to a few concerns over the service currently being provided by Unity Bank, the Clerk is considering remaining with Barclays and intends to discuss the potential implementation of the suggested segregation of duties with the bank in the near future.

We have selected an extended sample of 54 payments in the year, including 5 Uttlesford DC NNDR invoices being paid over ten months of the year: our test sample includes those payments individually exceeding £2,500, plus every 35th payment recorded in the Omega Current account cashbook, regardless of value, for compliance with the above criteria and totals £261,340 equating to 66% 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 2022-23 and the quarterly reclaims for 2023-24 by reference to the reclaims submitted and Omega nominal control account record with no issues arising.

Conclusions

We are pleased to record that no significant concerns arise in this area, although as indicated above, we urge that appropriate action be taken to either open a Unity bank account or to liaise urgently with Barclays and establish an appropriate process whereby the Clerk sets up the payments and one or two members then need to go online and physically release the payments having verified the details to invoices, etc. thereby also affording a greater degree of security and protection to staff and over public funds.

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 our interim report that a new and more robust Financial Risk Register had been developed and been adopted by the Council in May 2023. We have examined the document and consider it appropriate for the Council's ongoing requirements.

We have also examined the Council's insurance policy schedule 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 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 the 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.

We are pleased to note that, following due deliberation, the Council approved the budget and precept for 2024-25 setting the latter at £477,766 at the full Council meeting held in January 2024.

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 total income equated to 112% of the planned budget whilst total expenditure equated 113% of the planned budget at the financial year-end.

We have reviewed the level of retained reserves at the financial year-end, noting that they have increased to £515,000 (£496,856 at 31st March 2023). The General Reserve balance at 31st March 2024 has also increased to £164,120 (£159,059 at the prior year-end): this equates to approximately 4½ months' general revenue spending at the 2023-24 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 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 were reviewed and adopted in accordance with the requirements of the Council's FRs (Para 9.3 refers).

At our interim visit, we reviewed detail of the burials occurring to that date during 2023-24, as recorded in the formal 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 have also been levied: no issues arose.

We also examined a sample of room 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, again with no issues arising.

Allotment rents fall due on 1st January annually: consequently, we have at this final review for the year examined the spreadsheet control record and are pleased to note that the record identifies for each plot, the rent due and date of receipt. Examination of the register shows that all bar one of the tenant's rents were paid by the financial year-end with that one being settled by agreed monthly instalments.

We have also reviewed the Omega detailed income transaction reports for the year ensuring, as far as we may 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 warranting formal comment or recommendation.

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 also 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. However, this review has still to be undertaken.

Conclusions

No issues arise in this area currently 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 value (i.e., purchase cost net of VAT) reported in the year's AGAR. The AGAR recorded value should only be amended year-on-year by the cost of new additions (net of VAT) less any in year disposals at the Asset Register recorded value in the prior year.

We are pleased to note that the register has been appropriately updated to reflect the cost of new acquisitions during the year, which detail has also been accounted for by DCK Accounting in preparing on behalf of the Council a detailed Statement of Accounts and the AGAR value to be recorded in the 2023-24 Return at Section 2, Box 9, which value we have agreed to the underlying Asset Register with a total value of £2,114,901 recorded.

Conclusions

We are pleased to record that no issues arise in this review area this year.

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.

We are pleased to note that the Council's Investment Strategy has again been reviewed by the Finance and General Purposes Committee in March 2024 with a recommendation to full Council that the document be formally adopted at the next meeting, which was duly enacted. We consider the document to be appropriate for the Council's present requirements.

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

Conclusions

No issues arise in this area currently 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 again checked and agreed the financial entries in the detailed Statement of Accounts generated by DCK Accounting based on the Omega accounts closing Trial Balance detail for 2023-24 and the accountants own generated intermediary working papers.

Conclusions

We are pleased to record that no additional issues arise in this area this year and, based on the satisfactory conclusions drawn from our programme of work for the year, we have duly signed off the IA Certificate in the year's AGAR assigning positive assurances in each area.

Review of Accounting Arrangements and Bank Reconciliations

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. *This has been actioned as suggested.*

R2 The previously in place independent councillor review of bank reconciliations should be reimplemented. *A nominated councillor is now reviewing and initialling the reconciliations confirming completion of the review.*

Review of Corporate Governance

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