

## **Marden 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 at our two review visits for 2021-22 financial year, which took place on 2<sup>nd</sup> November 2021 and 22<sup>nd</sup> March 2022, together with final work undertaken remotely on receipt of the year-end closed down Alpha accounts and other additional supporting information on 15<sup>th</sup> April 2022.

We wish to thank the Clerk and her Deputy for their assistance, providing all necessary documentation in either electronic or hard copy 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 misrecording or misrepresentation in the year-end Statement of Accounts / AGAR. Our programme of cover is, as usual, designed to afford appropriate 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 several internal control objectives.

## **Overall Conclusion**

We are again pleased to conclude that, based on the work undertaken this year, the Council and officers continue to maintain adequate and effective internal control arrangements with two issues relating to the draft AGAR detail as recorded in the year-end Alpha accounts requiring action. We are again pleased to acknowledge the quality of records maintained by the Clerk, which has ensured the smooth progress of our review process, especially in the present circumstances.

We have duly completed and signed the IA Certificate in the year's AGAR, having concluded that, in all significant respects, the control objectives set out in that report were being achieved throughout the financial year to a standard adequate to meet the needs of the Council and meet regulatory requirements. We ask that, if our conclusions in relation the Asset and Loan values recorded in the Alpha accounts are correct, we be advised of the revised values so0 that we may update our records accordingly.

We draw the Clerk's attention to 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

The Council uses the Rialtas Alpha software to maintain its accounting transactions with four bank accounts in use. Current and Deposit accounts exist with NatWest with a daily sweep facility between the two, together with Santander and Unity Trust bank accounts, the last now being used for most transactions which are generally processed online: the NatWest account is still used to pay previously existing direct debit and standing order transactions and occasional cheques.

Our objective here is to ensure that accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. We have: -

- Agreed the opening Alpha software trial balance detail with that in the 2020-21 Statement of Accounts and certified AGAR;
- Verified that the financial ledger remains in balance at the financial year-end;
- Ensured that the cost and expenditure coding structure remain appropriate for purpose;
- Checked and agreed detail of all transactions for the full financial year, in view of their relatively low volume, in all cashbooks;
- Verified the accuracy of bank reconciliation detail on all accounts on 30<sup>th</sup> April and September 2021, plus 28<sup>th</sup> February and 31<sup>st</sup> March 2022; and
- Ensured the accurate disclosure of the combined cash and bank balances in the year's AGAR at Section 2, Box 8.

### Conclusions

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

*We have noted previously that the Council gave further consideration to the placement of surplus funds with the CCLA Deposit Fund, also noting that members determined to retain funds with Santander for the time being: however, with the probable future receipt of CIL moneys members will reconsider options at that time: consequently, we shall continue to monitor the situation at future review visits.*

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

We noted in last year's report that the Standing Orders (SOs) were reviewed and re-adopted at the December 2019 Council meeting with the Financial Regulations (FRs) also revised and brought broadly into line with the latest (2019) NALC model document: these have been further amended and re-adopted in March 2022 and are now more closely aligned to the NALC model

document. The SOs were further revised to reflect the required changes in meeting arrangements, etc resulting from the Covid situation with the revised document being adopted in March 2020.

We have reviewed Council and Standing Committee minutes, as posted on the Council's website, for the year, excluding those relating to planning issues, to ensure that no actions have been taken or are being considered that might result in unlawful activity or expense being incurred by the Council.

We are also pleased to note that the 2020-21 AGAR was signed off by the external auditors without recommendation or significant comment affecting the 2021-22 AGAR.

### **Conclusions**

***No issues have arisen in this review area warranting formal comment or recommendation: we shall continue to consider the Council's approach to Corporate Governance issues at future visits, also continuing our review of minutes.***

## **Review of Expenditure**

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 are provided with full details of all payments made at meetings as appropriate and that they are formally verifying the supporting invoices accordingly
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount
- 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.

We have examined a sample of 66 payments made during the financial year, selecting all those non-salary related transactions in the NatWest and Unity Trust accounts in excess of £500 plus a more random sample of every 25<sup>th</sup> transaction to ensure compliance with the above criteria. Our test sample totals £85,970 equating to approximately 65% by value of non-salary related expenditure in the year with all the above criteria met.

We note that the 2020-21 VAT reclaim was submitted and repaid by HMRC on 27<sup>th</sup> April 2021 and have agreed detail to the underlying Alpha control account. We are also pleased to note the preparation and submission of the 2021-22 reclaim and have agreed detail to the Alpha accounts.

### **Conclusions**

***We are pleased to report that no issues arise in this review area warranting formal comment or recommendation.***

## 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 those risks in order to minimise the opportunity for their coming to fruition.

We have examined the Council's current insurance policy schedule, now with Hiscox as part of a three-year agreement, 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 cover at £500,000, all of which we consider more than adequate to meet the present needs of the Council.

We are pleased to note that the Council's Financial Risk Assessment has again been reviewed and re-adopted by the Council at the March 2022 meeting and have reviewed its content considering it appropriate for the Council's present requirements also taking account of the very comprehensive file of other service delivery specific risk assessments which are also subject to periodic review and re-adoption.

We have also again noted from our examination of risk documentation that, with the approval of Insurers, detailed health and safety inspections in accordance with RoSPA guidelines are undertaken at the Council's play areas fortnightly, also noting that the results of these inspections are reported to members with any necessary appropriate action taken to address issues identified.

### *Conclusions*

*We are pleased to report that no issues have been identified in this review area warranting formal comment or recommendation. We shall continue to monitor the Council's approach to risk management at future visits.*

## Budgetary Control and Reserves

We aim in this area of our work to ensure that the Council has appropriate procedures in place to determine its future financial requirements leading to the adoption of an approved budget and formal determination of the amount to be precepted on MBC; that effective arrangements are in place to monitor budgetary performance throughout the financial year and that the Council has identified and retains appropriate reserve funds to meet future spending plans.

We note that, following due deliberation, members agreed the required budget and precept for 2022-23 setting and formally adopting the latter at £168,004 in January 2022.

We are again pleased to note that members continue to be provided with detail of monthly transactions, detail of bank balances and budget performance reports based on the Alpha accounting software throughout the course of the year. We have reviewed the year-end outturn obtaining appropriate explanations for the few potentially significant variances existing by reference to the detailed transaction reports in Alpha and minutes approving budget variances.

We have reviewed the level of retained funds at the year-end, assessing their adequacy to meet the Council's ongoing revenue spending requirements. As at 31<sup>st</sup> March 2022, total reserves have decreased to £99,940 (£123,100 as at 31<sup>st</sup> March 2021) comprising earmarked reserves totalling £47,790 with the General Reserve standing at £50,150 equating to marginally in excess of 3 months' revenue spending at the 2021-22 level.

## ***Conclusions***

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

## **Review of Income**

In addition to the annual precept, the Council receives income from additional service areas, including the cemetery, the annual Christmas Fayre, the Summer Holiday Play Scheme and occasional rental income from the Playing and Southons fields, together with occasional grants from the parent Council.

We note that fees and charges in respect of the cemetery were reviewed and formally adopted by the Council for 2020-21, those fees remaining in place during 2021-22.

We have examined the controls in place in respect of the cemetery in relation to the identification and processing of fees arising from interments and erection of headstones, etc and considered them sound. At our interim review, we examined the 11 interments occurring to October 2021 and agreed the fees charged to the approved scale of fees and charges. We also examined the file of stonemasons' applications for erection of new headstones and application of additional inscriptions to existing memorials noting that fees in respect of one application dated 28<sup>th</sup> April 2021 held on the file appeared to have not been received: we have subsequently been advised that the form was completed at the time of the related interment but has not, as yet, been followed up with a formal application and, consequently, no fee is due at the present time. We also noted that fees in respect of the latest three applications received and held on file did not appear to have been recovered at the time: we understand that some confusion existed over two of these with the funds inadvertently being paid to the PCC by the undertakers: we have now verified that these fees have all been received by the Council.

We also examined the income relating to the Summer Holiday Play Scheme at our interim review checking a sample of detail in the spreadsheet register of cash, cheques and bank credit income received and banked with no issues arising.

We have now, at our update review visit in March 2022, examined the detailed nominal income records in the Alpha accounting software for the financial year to ensure that no unexpected non-receipt of income or significant misanalyses or other anomalous details are evident and are pleased to record that no issues arise in this area. The most significant variance noted is the non-receipt of the budgeted £50,000 S.106 contribution during the year.

## ***Conclusions***

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

## **Petty Cash Account**

***The Council does not operate a formal Petty Cash scheme: any out-of-pocket expenses incurred by staff are reimbursed on submission of a properly authorised and supported claim form, together with till receipts and / or trader invoices.***

## Review of Staff Salaries

In examining the Council's payroll function, we aim 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.

The Clerk uses bespoke Sage payroll software to produce the monthly payroll for the four permanent members of staff, together with casual Play Scheme helpers. Consequently: we have:

- Verified the gross salaries paid in September 2021 to the four permanent staff members by reference to their approved NJC scales (Clerk and Assistant) and hourly rates for the two "outside" staff;
- Similarly checked the Play Scheme helpers' payslips relating to week 1 salaries;
- Verified that Tax and NIC deductions have been calculated correctly by reference to the monthly payslips as above also ensuring that these deductions have been paid over to HMRC in an accurate and timely manner; and
- Noted that three of the four permanent employees are contributing to "NEST" pensions.

We note that, following final agreement of the 2021-22 national pay award, the clerk has calculated the revised monthly salary to be paid to all staff in March 2022, together with the arrears dating back to 1<sup>st</sup> April 2021 or, in one case, the date of appointment. We have checked these and agreed the calculations and resultant tax and NI contributions noting that, due to the manner in which they have been calculated a few very minor variances exist in the calculations for staff not working full time. We have discussed this with the clerk advising that for part time staff the easiest and generally recognised way of calculating the monthly salary is to divide the annual salary by 12 and then pro-rata the part time amount payable by dividing the contracted weekly hours by the standard 37 hour week (for example the monthly gross salary for someone working 20 hours per week on a Full time salary of £23,500 would be calculated as  $£23,500 / 12 * 20 / 37 = £1,058.56$ ).

### *Conclusions*

*We are pleased to record that no issues arise in this area of our review process warranting formal comment or recommendation.*

## Asset Register / Inventory

The Practitioner's Guide requires all councils to maintain a record of all assets owned. We are pleased to note that an appropriate asset register remains in place detailing both purchase and estimated replacement costs: also, that a photographic record is being maintained, as previously recommended by us.

The register has been updated to include new additions and any disposals occurring during the financial year. In checking the total value of assets recorded in the asset register, we note that it does not correlate to the value recorded in the Alpha accounting software, which appears to record the AGAR reported asset values as at 31<sup>st</sup> March 2020 and 2021 rather than at 2021 and 2022, which agreed with the asset register at both of the original financial year-ends.

The Clerk will consequently need to ensure that, when completing Section 2 of the year's AGAR at Box 9, the correct value of assets as at 31<sup>st</sup> March 2021 and 2022 are recorded.

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

***Whilst no significant issues have arisen in this area, as indicated above, the Clerk will need to ensure that the corrected asset values as at 31<sup>st</sup> March 2021 and 2022 are recorded in the AGAR at Section 2, Box 9.***

*R1. The asset values to be recorded in the 2021-22 AGAR at Section 2, Box 9 should be amended bringing them into line with the Asset Register values at both dates.*

## **Investments & 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 institutions; 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 the relevant loan agreements.

We have previously referred to the revised requirement (effective from 1<sup>st</sup> April 2018) for Councils with total funds in excess of £100,000 to develop an appropriate Annual Investment Policy / Strategy (the limit was formerly £500,000) and are pleased to note the production and adoption of an appropriate Policy document by the Council in April 2021.

The Council has one residual PWLB loan repayable half-yearly: we have verified the value of the two half-yearly repayments for 2020-21 to the PWLB payment requests as part of our above referenced payment review sample. We have also checked the residual loan liability balance at 31<sup>st</sup> March 2022 as currently recorded in the AGAR Section 2, Box 10 (£296,808) and note that, per the UK Debt Agency record of all such balances posted on the Agency’s website, the residual loan balance is actually £289,038.

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

***The apparent incorrect value of the residual loan liability at 31<sup>st</sup> March 2022 should be checked against the PWLB advice and, if our interpretation of the UK Debt Agency recorded value is correct, the AGAR value recorded in the Alpha accounts and AGAR should be amended accordingly.***

*R2. The Clerk should check and ensure that the correct residual loan liability is recorded in the year’s AGAR at Section 2, Box 10.*

## **Statement of Accounts and AGAR**

The AGAR now forms the Council’s statutory Accounts subject to external audit review and certification. The detail for the AGAR is generated automatically by the Alpha accounting software and we have, as previously, reviewed the content and analysis across the various boxes for consistency and accuracy.

Due to the Council having exceeded turnover in excess of £200,000 for the three years preceding 2020-21, that year’s AGAR had to be presented in Income and Expenditure format, which had effectively been applied in prior years.

## *Conclusions*

*We are pleased to record that no additional issues arise in this area warranting formal comment or recommendation and, based on the satisfactory conclusions drawn from the work undertaken this year, we have duly signed off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area. As indicated in the preceding sections of the report, the asset values at 31<sup>st</sup> March 2021 and 2022, together with the residual loan liability at the latter date as currently recorded on the draft AGAR detail in the Alpha accounts will require appropriate amendment.*

Rec. No.	Recommendations	Response
<b>Fixed Asset Register</b>		
R1	The asset values to be recorded in the 2021-22 AGAR at Section 2, Box 9 should be amended bringing them into line with the Asset Register values at both dates.	
<b>Investments and Loans</b>		
R2	The Clerk should check and ensure that the correct residual loan liability is recorded in the year's AGAR at Section 2, Box 10.	