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## **Marden Parish Council**

*Internal Audit Report 2018-19 (Final update)*

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## **Background**

Statute requires all town and parish councils to arrange for an independent internal audit 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), which requires assurances over ten specific areas.

This report sets out the work undertaken in relation to the 2018-19 financial year, during our interim visit to the Council, which took place on 11<sup>th</sup> March 2019 and subsequent work at our offices.

## **Internal Audit Approach**

In conducting our review for the year, 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 has again been 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 'Internal Audit Report' in the Council's AGAR, which requires independent assurance over several internal control objectives.

## **Overall Conclusion**

We have concluded that, based on the programme of work undertaken this year, the Council continues to maintain adequate and effective internal control arrangements with a few relatively minor issues identified warranting formal comment and recommendation. We are again pleased to acknowledge the quality of records maintained by the Clerk and thank her for her assistance, which has ensured the smooth progress of our review process.

Based on the satisfactory conclusions drawn from our review of the Council's systems of financial control and content of the detailed Statement of Accounts and that summarised detail set out in the AGAR, we have signed off the Internal Audit Report of the AGAR assigning positive assurances in each relevant area.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

The Council uses the RBS Alpha software to maintain its accounting transactions with five bank accounts in use for most of the year, the NS&I account being closed in November 2018: A Current and Deposit account are in place with NatWest with a daily sweep facility between the two accounts. Further accounts are in place with Santander and Unity banks, the latter now being used to process the Council's main financial transactions, although the NatWest account is still used to pay previously existing direct debit and standing order transactions and occasional cheques.

Our objective 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 this year: -

- Agreed the opening Alpha software trial balance detail with that in the 2017-18 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, in view of their relatively low volume, in the four cashbooks for the year to the relevant NatWest, NS&I, Santander and Unity bank statements;
- Verified the accuracy of bank reconciliation detail on all accounts as at 31<sup>st</sup> January and March 2019; and
- Ensured the accurate disclosure of the combined bank account balances in the year's AGAR at Section 2 Box 8.

### **Conclusions and recommendation**

*No significant concerns have been identified in this area of our review process, although we noted at our interim visit that the closing balance on the NS&I account (November 2018) had not been deposited in any of the other Council accounts by 31<sup>st</sup> January 2019: we understand that this was the result of the format of the closing bank payment instrument not being acceptable to Santander, with the result that the amount was only paid into the Unity account in early February 2019, which deposit we have verified by reference to the relevant Unity account bank statement.*

*Also, in noting that monthly reconciliations have been undertaken throughout the year, we have seen no evidence confirming that they are being subjected to formal member scrutiny as required by the Council's extant Financial Regulations (Paragraph 2.2 refers – "On a regular basis, at least once a year, and at each financial year end, at least two Cllrs shall be appointed to verify bank reconciliations (for all accounts) produced by the RFO. The Cllrs shall sign the reconciliations and the original bank statements (or similar document) as evidence of verification. This activity shall on conclusion be reported, including any exceptions, to and noted by the Finance Committee").*

*Given the relatively low volume of transactions annually, we question the need to retain the two NatWest accounts and, whilst we cannot offer investment advice, we draw attention to the*

***generally higher rate of interest return being achieved by several of our other clients who have placed surplus funds in the CCLA Deposit Fund.***

- R1. *In order to comply with best practice and the Council's own Financial Regulations, bank reconciliations should be subjected to regular evidenced scrutiny by members, ideally at least quarterly, that review being evidenced by the reviewing members' signature(s) or initials and date of review. **Councillors will meet quarterly, review and sign-off reconciliations.***
- R2. *The Council should consider the need to retain the NatWest bank accounts, which are only providing minimal interest on the combined account balances, also considering the potential benefits of placing surplus funds in a suitable form of interest earning account such as that offered by CCLA. **The Finance Committee will consider this recommendation at their next meeting.***

## **Review of Corporate Governance**

Our objective 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 have: -

- Noted that Standing Orders and Financial Regulations were both reviewed, updated as deemed necessary and re-adopted earlier in 2018-19;
- Noted that tendering limits in both documents are in line with the requirements of the Public Contracts Regulations (2015) and are set at £25,000; and
- Reviewed minutes, as posted on the Council's website for the year and to date in 2019-20 (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 again acknowledge the existence of a substantial file of the Council's Corporate Policies and Procedures, which we note is subject to periodic review and update.

### ***Conclusions***

***We are pleased to record that no issues have arisen in this area of our review process warranting formal comment or recommendation currently: we shall continue to consider the Council's approach to Corporate Governance issues at future visits.***

## **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 discussed the payment release process, specifically in relation to electronic payments through the Unity online banking facility and consider them generally appropriate, with one proviso / recommendation. Whilst not wishing to imply any impropriety on the part of the Clerk or members, we consider that, following a relatively recent fraud by a Town Clerk where members were not evidencing their review of invoices by physically initialling the documents, which were then being presented for payment on more than one occasion: the cheques were also written in erasable ink, which the clerk then amended to show her own name as the payee.

We also note that a separate typed summary sheet is attached to each invoice, although it appears to serve no purpose as it is also not initialled or signed-off by members, although this would not prevent any possible resubmission of the actual invoice. Whilst not fool-proof, we suggest that, in line with best practice, a suitably designed rubber certification stamp should be acquired and be affixed to each invoice payment voucher replacing the need for any separate additional covering sheet: this should contain the following information / initials and would help to strengthen control and afford appropriate evidence of members effective discharge of their fiduciary responsibilities, whilst also affording a degree of security for the clerk in the event of any externally generated fraudulent activity on the Council's accounts: -

- Clerk's initials confirming receipt of the goods and / or services and arithmetic accuracy of the invoice
- Payment date
- Payment reference number (cheque, etc)
- Alpha Cost Centre and Nominal account codes
- Signatures / initials of two members authorising the payment.

We have examined a sample of 43 payments made during the financial year, selecting all those non-salary related transactions in the NatWest and Unity 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 £91,100 and equates to 56% of non-salary related expenditure in the year to the above date with all the above criteria met.

We note that the VAT reclaims for the first 9 months of the year have been prepared, submitted to and reimbursed by HMRC. In examining the detailed nominal ledger codes, we noted that the prior year's second reclaim (six months to 31<sup>st</sup> March 2018) has been repaid by HMRC, but coded to an income code (# 1085) rather than to the VAT Control account (# 105): it appears that this has been standard practice in recent years, although the first half-yearly reclaims have been coded correctly to the control account. As the Council's Accounts and AGAR detail are prepared and presented in "Income and Expenditure" format, rather than "Receipts and Payments", all reclaimed / recovered VAT should be coded to the control account: recording the prior year-end reclaimed amount as an income item effectively overstates the Council's income by that amount in the year of receipt.

Further examination of the 2017-18 and current financial year reclaims indicates that the closing 2017-18 VAT debtor (£6,432.17) was an inflated figure, as the final reclaim for 2017-18 totalled

£2,415.34. The year-end VAT control account balance should match the final reclaim for the year and with a difference of £4,016. 83, we can only assume that the 2017-18 control account closing balance included not only the 31<sup>st</sup> March 2018 reclaimed amount of £2,415.34, but also the prior year and maybe previous years' closing balances as an amount of £3,914 is recorded in the 2017-18 Accounts at Code 1085 as prior year VAT. In view of the difference between this value and the above £4,016.83, we have suggested to the Clerk that she seek assistance from RBS to resolve the issue and ensure that the closing 2018-19 VAT debtor on the control account (Code 105) equates to the year-end reclaim and that the miscoding of the prior year(s) balances is corrected by journal.

### **Conclusions and recommendations**

*As indicated above, accounting for the second half-yearly VAT recovery should be amended to show the balance as a debtor rather than as an income item, together with suitable adjustment made to ensure that the year-end control account (Code 105) balance matches the year-end VAT reclaim.*

*We also consider that improved controls and evidencing of the Clerk and members' review of invoices and their approval for payment should be improved as indicated in the body of the report.*

*We shall extend our testing in this area at our final visit to include a further sample of payments over the remainder of the year also ensuring compliance with the above criteria and the correct disclosure of the year-end VAT reclaim as a debtor in the Accounts and AGAR rather than an additional income item.*

*R3. All VAT reclaimed and repaid by HMRC should be coded to the VAT control account and not be regarded as separate income: an appropriate journal adjustment should be made to ensure that the year-end VAT reclaim value matches that on the control account (Code 105). To be discussed with the software supplier and adjusted appropriately.*

*R4. Enhanced controls over evidencing the approval and authorisation of payments for release should be implemented, ideally by affixing a suitably designed certification stamp containing the information as set out in the body of the report, but most importantly the initials of members approving the release of payments. The clerk will investigate the benefits of obtaining and applying a suitable rubber stamp.*

## **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 schedule to ensure that appropriate cover is in place with AXA plc, noting that Public and Employer's Liability cover are set at £10 million and Fidelity Guarantee increased to £500,000, all of which we consider more than adequate to meet the present needs of the Council;
- Noted that an appropriate Financial Risk Assessment has been reviewed and adopted by the Council at the May 2018 meeting with a further review undertaken and adopted by the Council in March 2019: we also note the existence of a comprehensive file of other service

delivery specific risk assessments which was reviewed and re-adopted at the March 2019 Council meeting; and

- Also 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 area of our review process warranting formal comment or recommendation this year. 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 the District Council; 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 are pleased to note the satisfactory conclusion to deliberations regarding the Council's budgetary and precept requirements for 2019-20 with the precept formally approved and adopted at the January 2019 meeting and set at £136,500.

We are again pleased to note that members are provided with detail of monthly transactions, together with detail of bank balances and quarterly budget performance reports in excel format, prepared by the clerk based on the Alpha accounting software. We have reviewed the year-end outturn budget position noting that income only equated to 66% of the at budgeted, primarily due to the shortfall of £88,000 on anticipated S.106 income whilst expenditure equated to 74% of the planned budget, also primarily due to the underspend of £100,000 on S.106 moneys.

We have again 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 2019, total reserves stood at £86,025 (£133,050 as at 31<sup>st</sup> March 2018). We note that, despite the existence of earmarked reserves totalling almost £93,000 as at 1<sup>st</sup> April 2018, these funds are not identified specifically in the accounting software and suggest that, to ensure that a true position of the General Fund balance is readily identifiable, separate nominal account codes (in the 300 series) be set up in the Alpha accounts with balances on each set up by journal transfer from the General Reserve balance (Code 310).

### **Conclusions and recommendation**

***We are pleased to report that no significant areas of concern issues have been identified in this area of our review process. However, as indicated above, we suggest that separate nominal accounts codes be established to identify the amounts held in reserves earmarked for specific projects.***

- R5. Consideration should be given to the establishment of separate nominal account codes in Alpha for each earmarked reserve, with amounts recorded by means of journal transfer from the General Reserve account code.*

## **Review of Income**

In addition to the annual precept, the Council receives income from a few service areas, including the cemetery, annual Christmas Fayre, summer holiday play scheme and rental income from the Playing field and Sowden field, together with occasional grants and concurrent funding from the Borough Council.

We have examined the controls in place in respect of the cemetery in relation to the identification and processing of fees arising in respect of interments for the year to 30<sup>th</sup> November 2018 (11 in all) ensuring that for each, an appropriate entry has been made in the Burial Register; that all expected and legally required supporting documentation, such as undertakers' interment applications, burial or cremation certificates, are in place and that the appropriate fees have been levied and recovered within a reasonable time frame. We note that the clerk is in negotiation with one undertaker over fees that they say have been paid, but were not received by the clerk (the relevant burial certificate has also not yet been received), also noting one instance where an "out-of-parish" interment occurred with only "in-parish" fees paid by the undertaker: the clerk has pursued this with the undertaker without successful recovery to date.

We have similarly examined the controls in place regarding memorials for the same period and are pleased to record that no matters have arisen in this area, also noting that fees and charges have been reviewed during 2018-19 with appropriate increases approved.

We have also examined the income relating to the Summer Holiday Play Scheme checking a sample of detail in the bookings register against the schedule of cash, cheques and bank credit income received and banked with no issues arising.

Finally, we have examined the detailed nominal income records in the Alpha accounting software to ensure that no significant mis-analyses or other anomalous details are evident: again, no issues arise other than in relation to the aforementioned VAT issue.

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

***Whilst not warranting a specific recommendation, we have discussed the detail recorded on undertakers' interment applications suggesting that, in order to provide a clearer audit trail, the documents should identify whether the deceased is regarded as "in" or "ex-parish", together with identifying the constituent elements of the total fee received.***

***In view of the problems experienced in recovering fees from certain undertakers, the Council needs to determine an effective policy for the pursuance of any outstanding fees or whether to take formal write off action in relation to the above two instances, possibly insisting on payment in advance of any interment in order to avoid repetition of the current recovery difficulties.***

- R6. Consideration should be given to the most effective way of ensuring that all interment fees are recovered and at the appropriate rate, whilst considering the action to be taken to either pursue the two identified non / under-payments or write them off. The clerk will give this further consideration.*



## 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.*

*The Council may wish to consider acquiring an appropriate credit card to facilitate payment for any ad hoc expenses incurred rather than rely on staff using their own finances initially.*

## 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 now 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: -

- Noted that standing orders for payment of salaries are set up by the clerk, following member approval, at the start of the year, with any necessary adjustment made in the March salary payment;
- Noted that members generally review staff pay annually with decisions formally minuted;
- Verified the gross salaries paid in January 2019 to the four permanent staff members by reference to the approved NJC scales (Clerk and Assistant) and hourly rates for the other two;
- Verified that Tax and NIC deductions have been calculated correctly again using the January 2019 payroll and ensured that these deductions have been paid over to HMRC in an accurate and timely manner; and
- Noted that employees are contributing to "NEST" pensions.

## 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 Governance and Accountability Manual requires all councils to maintain a record of all assets owned. We are pleased to note that an appropriate asset register is 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 year.

We have ensured that the asset value reported in the 2018-19 AGAR at Section 2, Box 9 corresponds with the total asset value in the register.

## **Conclusions**

***No issues have arisen in this area warranting formal comment or recommendation.***

## **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.

The Council held deposit accounts with NS&I and Santander Bank at the start of the financial year, the NS&I account being closed in November 2018. As indicated earlier in this report, we consider that the Council may potentially achieve a better rate of interest return were surplus funds “invested” in alternative banking institutions.

We also discussed with the clerk the revised requirements (effective from 1<sup>st</sup> April 2018) whereby Councils with total funds held in excess of £100,000 must now develop an appropriate Annual Investment Policy / Strategy (the limit was formerly £500,000). We are pleased to note that the clerk has drafted an appropriate document that will be presented to members in due course for formal approval and adoption.

The Council has one residual PWLB loan repayable half-yearly: we have verified the value of the two half-yearly repayments made in 2018-19 to the PWLB demand notes as part of our above referenced payment review sample, also ensuring the accurate disclosure of the residual loan liability in the AGAR at Section 2, Box 10 by reference to the schedule of outstanding loan balances published on the PWLB website.

## **Conclusions**

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

## **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 usual, reviewed the content and analysis across the various boxes for consistency and accuracy.

## **Conclusions**

***We are pleased to record that no issues arise in this area this year and, based on the satisfactory conclusions drawn from the work undertaken this year, we have duly signed of the Internal Audit Report in the year’s AGAR assigning positive assurances in each relevant area.***

Rec. No.	Recommendation	Response
<b>Review of Accounting Arrangements and Bank Reconciliations</b>		
R1	In order to comply with the best practice and the Council's own Financial Regulations, bank reconciliations should be subjected to regular evidenced scrutiny by members, ideally at least quarterly that review being evidenced by the reviewing members' signature or initials and date of review.	<i>Councillors will meet quarterly, review and sign-off reconciliations.</i>
R2	The Council should consider the need to retain the NatWest bank accounts, which are only providing minimal interest on the combined account balances, also considering the potential benefits of placing surplus funds in a suitable form of interest earning account such as that offered by CCLA.	<i>The Finance Committee will consider this recommendation at their next meeting.</i>
<b>Review of Expenditure &amp; VAT</b>		
R3	All VAT reclaimed and repaid by HMRC should be coded to the VAT control account and not be regarded as separate income: an appropriate journal adjustment should be made to ensure that the year-end VAT reclaim value matches that on the control account (Code 105).	<i>To be discussed with the software supplier and adjusted appropriately.</i>
R4	Enhanced controls over evidencing the approval and authorisation of payments for release should be implemented, ideally by affixing a suitably designed certification stamp containing the information as set out in the body of the report, but most importantly the initials of members approving the release of payments	<i>The clerk will investigate the benefits of obtaining and applying a suitable rubber stamp.</i>
<b>Budgetary Control &amp; Reserves</b>		
R5	Consideration should be given to the establishment of separate nominal account codes in Alpha for each earmarked reserve, with amounts recorded by means of journal transfer from the General Reserve account code.	
<b>Review of Income</b>		
R6	Consideration should be given to the most effective way of ensuring that all interment fees are recovered and at the appropriate rate, whilst considering the action to be taken to either pursue the two identified non / under-payments or write them off.	<i>The clerk will give this further consideration.</i>