
Marden Parish Council

Internal Audit Report 2020-21 (Interim)

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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).

This report sets out the work undertaken in relation to the 2020-21 financial year, during our initial review of the Council's records, which, due to the ongoing Cpovid-19 situation, has taken place remotely on 10th November 2020. We wish to thank the Clerk in assisting the process, providing all necessary documentation in electronic format to facilitate commencement of our review for the year.

Internal Audit Approach

In commencing 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, as usual, is 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 are again pleased to conclude that, based on the programme of work undertaken to date this year, the Council continues to maintain adequate and effective internal control arrangements with a few relatively minor issues requiring action. 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, especially in the present circumstances.

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 the majority of transactions processed online, 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: -

- Agreed the opening Alpha software trial balance detail with that in the 2019-20 Statement of Accounts and certified AGAR
- Verified that the financial ledger remains in balance at 30th September 2020
- 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 all cashbooks for the year to 30th September 2020, and
- Verified the accuracy of bank reconciliation detail on all accounts as at 30th September 2020.

Conclusions

We are pleased to record that no significant issues have been identified in this review area at the present time warranting formal comment or recommendation. We noted at our 2019-20 interim visit that further consideration was to be given to the placement of surplus funds with the CCLA Deposit Fund, also noting that members determined to retain funds with Santander for the moment, but with the probable receipt of CIL moneys would reconsider options at that time: we note that no such action has taken place to date.

We shall undertake further work in this area at our final review visit, extending our testing as for the remainder of the financial year and ensuring the accurate disclosure of the combined account balances in the year's AGAR. We hope to be able to conduct the final review on site next spring / summer.

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 Standing Orders (SOs) were reviewed and re-adopted at the December 2019 Council meeting with the Financial Regulations (FRs) also revised and brought into line with the latest (2019) NALC model document and duly adopted in September 2019.

The SOs have been 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 to date, 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.

Conclusions

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

We drew attention in last year's final report to NALC's intention to revise and issue revised SOs and FRs following the UK's exit from the EU: promulgation of those documents has obviously slipped due to the Covid situation. We will keep the Council advised as soon as we hear of any further developments in this respect.

Finally, in this area we note that the Council has received £11,000 in grants from MBC in relation to the Covid pandemic, as have many other councils across the country from their parent District Councils, some of which have subsequently reclaimed the "grant". We do not wish to appear alarmist in this respect, but understand that the issue of such grants is under debate as to the legality for town and parish councils to receive such a grant. Whilst the debate continues, we suggest that the Council delays use of such funds, ideally recording them as a separate income item in the financial records (as has been done) but setting them aside in a separate Earmarked Reserve for the time being and until the legal position is firmly established.

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 to date examined a sample of 16 payments made during the financial year to 30th September 2020, 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 25th transaction to ensure

compliance with the above criteria. Our test sample totals £21,530 equating to 52% by value of non-salary related expenditure to date with all the above criteria met.

We note that the VAT reclaim for the second half-year in 2019-20 was prepared, submitted to and reimbursed by HMRC: we have, as we have only received the Alpha financial records to 30th September, seen no indication that the first half-year's reclaim for 2020-21 has been prepared and submitted to HMRC for repayment: we shall, consequently, check the position at our final review visit, also ensuring that the second half-year's reclaim has been prepared and submitted.

Conclusions

No issues arise in this review area currently: as indicated above we shall extend our testing of a sample of invoices and VAT reclaims for 2020-21 at our final review reporting our conclusions accordingly.

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 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 noted last year that an appropriate Financial Risk Assessment had been prepared, reviewed and re-adopted by the Council at the July 2019 meeting, also noting the existence of a comprehensive file of other service delivery specific risk assessments which were also reviewed and re-adopted at the March 2020 Council meeting. We note that, in response to the Covid situation, the Clerk has undertaken a further review of the documentation, which has been discussed and agreed by the Council.

We 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 at the present time. We shall undertake further work in this area at future visits ensuring that the Council complies with the requirements of the Governance and Accountability Manual formally adopting the risk register prior to the financial year-end.

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.

This visit occurred in advance of any formal consideration or decision on the budgetary and precept requirement for 2021-22: consequently, we shall review the outcome at our final review visit for the year.

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, prepared by the clerk based on the Alpha accounting software. We have reviewed the current budget position (as at 30th September 2020) as set out in the detailed report generated by the Alpha software with no significant or unanticipated variances (in view of the Covid situation) identified warranting further enquiry or investigation.

As previously, we note that, despite their existence, the retained earmarked reserves are not separately identified in the Alpha accounting software. To ensure that members are fully aware of and can effectively monitor the level of the General Reserve Fund balance we again suggest that separate nominal account codes (in the 300 series) be set up in the Alpha accounts: balances on each should be recorded by journal transfer from the General Reserve Fund balance (Code 310).

Conclusions and recommendation

Whilst no significant concerns have been identified in this area, as suggested previously, consideration should be given to the formal identification of each earmarked reserve (EMR) by the establishment of separate codes for each in the Alpha Accounts. Then, as and when EMR funds are applied, a suitable journal transfer from the specific EMR to the General Reserve Fund should be made.

R1. To ensure that members are fully aware of the level of Earmarked and General Fund balances, separate EMR control accounts (in the 300 series) should be established in the Alpha accounts with funds for each transferred by journal from the General Reserve Fund balance.

Review of Income

In addition to the annual precept, the Council usually 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 Sowden fields, together with occasional grants from the parent Council. Obviously as a result of the Covid situation, certain events have been cancelled for the current financial year with a resultant reduction in income received to date.

We are pleased to note that fees and charges in respect of the cemetery were reviewed and formally adopted by the Council for 2020-21 in accordance with the requirements of the Council's Financial Regulations.

We have previously examined the controls in place in respect of the cemetery in relation to the identification and processing of fees arising in respect of interments and erection of headstones, etc and considered them sound. We have, at our request received detail of the 4 interments taking

place to date in 2020-21 and agreed the fees charged to the revised scale of fees and charges applying from 1st April 2020 noting that the first was charged at the prior year fee rate, as it was booked prior to 1st April 2020. We also note from examination of the detailed nominal income transaction report for the year to date that no fees have been received in relation to headstones and will undertake further work in relation to income at our final review visit.

Conclusions

We are pleased to record that no issues arise in this area warranting formal comment or recommendation at the present time and will, as indicated above, undertake further work at our final review visit.

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. As suggested previously, the Council may wish to consider acquiring an appropriate debit / 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 uses bespoke Sage payroll software to produce the monthly payroll for the four permanent members of staff, together with casual Play Scheme helpers, although due to Covid that event did not take place this year. Consequently: we have:

- Noted that all staff are paid from the Unity Trust bank account
- Noted that members have reviewed staff pay approving implementation of the revised national NJC pay award from 1st April 2020, payment of the new rate and arrears for the year being made with the September 2020 salaries
- Verified the gross salaries paid in both September (including arrears and the approved bonuses for the clerk and her assistant) and October 2020 to the four permanent staff members by reference to the approved NJC scales (Clerk and Assistant) and hourly rates for the two outside staff
- 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.

Conclusions

We are pleased to record that no issues arise in this area of our review process 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.

We have previously referred to the revised requirement (effective from 1st 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). We remain disappointed to note that the Council has still to comply with this requirement. We understood that it was due to be presented to the Annual Meeting earlier this year, but, due to the Covid-19 situation, such action has been deferred.

The Council has one residual PWLB loan repayable half-yearly: we have verified the value of the first half-yearly repayment for 2020-21 to the PWLB demand note as part of our above referenced payment review sample.

Conclusions and recommendation

The Council must ensure compliance with the legislative requirement for a formal Investment Strategy to be developed and adopted: to assist the process, we have previously provided the Clerk with a few examples in use at our other clients.

We shall undertake further work in this area at our final visit verifying the second PWLB loan repayment to the supporting documentation and ensuring the accurate disclosure of the residual loan liability balance as at 31st March 2019 in the year's AGAR.

R2. The Council must ensure that it complies with extant legislation as soon as practicable developing and adopting a formal Investment Strategy / Policy.

Rec. No.	Recommendation	Response
Budgetary Control & Reserves		
R1	To ensure that members are fully aware of the level of Earmarked and General Fund balances, separate EMR control accounts (in the 300 series) should be established in the Alpha accounts with funds for each transferred by journal from the General Reserve Fund balance.	
Investments & Loans		
R2	The Council must ensure that it complies with extant legislation as soon as practicable developing and adopting a formal Investment Strategy / Policy.	