

## **Stanford Rivers Parish Council**

*Internal Audit Report 2019-20*

---

*Stuart J Pollard*

*Director  
Auditing Solutions Ltd*

## **Background**

Statute requires all town and parish councils to arrange for an independent internal audit examination of their accounting records and system of internal control and for the conclusions to be reported each year in the AGAR.

This report sets out the work undertaken in relation to the 2019-20 financial year, during our initial visit to the Council, which took place on 29<sup>th</sup> November 2019. Due to the impact of the Covid-19 pandemic, we have undertaken our final review for the year remotely: we wish to thank the Clerk in assisting the process, providing all necessary additional (to that examined at our interim visit) documentation in electronic format to facilitate completion of our review for the year and sign off of the Internal Audit Certificate in the year's AGAR. We have, obviously in the circumstances, reduced the volume of transactions examined, whilst still ensuring governance and financial controls remain effective.

## **Internal Audit Approach**

In conducting our review, we have 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 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 a number of internal control objectives.

## **Overall Conclusion**

We have concluded that, on the basis of the work undertaken, the Council has adequate and effective internal control arrangements in place given the size of the Council. However, at our interim review we identified one or two areas where we considered action was required to ensure that the Council complies with extant legislation and best practice. Detail of the combined work during both reviews is set out in the body of the following detailed report with resultant recommendations further summarised in the appended Action Plan, together with a status report on the present position.

We are also pleased to acknowledge the quality of records maintained by the Clerk.

Based on the satisfactory conclusions drawn from our review programme for the year, we have duly signed off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

The Clerk has used an Excel spread sheet to maintain the accounting records on a receipts and payments basis for the financial year with two accounts now in use at Unity Trust, following closure of the Council's former bank account in April 2019. We consider this more than adequate given the low volume of annual transactions.

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in the spreadsheet cashbook. To that end, we have:

- Checked and agreed the opening balance with the 2018-19 closing Statement of Accounts and certified AGAR
- Ensured that transactions are appropriately analysed in the cashbook to facilitate production of the detailed year-end Accounts & AGAR
- Ensured that the accounts remain 'in balance' at the financial year-end
- Checked and agreed the full year financial transactions, as recorded in the Excel spreadsheet, to the supporting bank account statements with no issues arising
- Ensured that the cashbook balance reconciles with the combined bank statement balances as at 30<sup>th</sup> September 2019 and 31<sup>st</sup> March 2020, and
- Ensured the accurate disclosure of the combined balances in the year's AGAR.

### *Conclusions and recommendation*

*Whilst no significant concerns have been identified in this area, we consider that, in line with best practice as eschewed in the last two updates of the NALC model Financial Regulations (Para 2.2 refers), formal bank reconciliations should be produced at least once each quarter, the detail being reviewed by a nominated councillor who is neither the Council Chairman nor an account signatory.*

*R1. Formal bank reconciliations should be prepared at least once quarterly, be subjected to independent member scrutiny and sign-off. This has been actioned accordingly.*

## Review of Corporate Governance

Our objective here is to ensure that the Council has a robust regulatory framework in place; that Council meetings are conducted in accordance with the adopted Standing Orders (SOs) and that, as far as we are able to ascertain, as we do not attend Council or Committee meetings, no actions of a potentially unlawful nature have been or are being considered for implementation.

We noted at our interim review that the 2018 NALC model SOs were formally adopted by Council at their meeting in May 2019, whilst the Financial Regulations did not appear to have been reviewed or updated since March 2015. NALC has issued two revisions to these FRs in subsequent years, the most recent being in the summer of 2019. Examination of the Council's extant FRs indicates that they need review and update to reflect the revised Public Contracts Regulations 2015 also ensuring a consistent value is applied for formal tender action and in a number of other areas,

including, as detailed in the previous section of this report in relation to the periodic review and sign-off of bank reconciliations. We now note that, following presentation to members of a revised FR document in March 2020, members determined to defer formal consideration and adoption until the May meeting once they had more time to read and digest the content of the revised document.

We have also continued our examination of minutes of Council meetings for the financial year to determine whether any issues arise that may have an adverse effect on the Council's future financial stability and are pleased to record that no issues arise in this respect currently.

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

***We are pleased to report that no significant issues of concern arise in this area of our review process. However, as indicated above, the FRs require review and update to ensure consistency with the SOs and to reflect extant legislation as regards contracting.***

***We also understand that, following the UK's exit from the EU, NALC were, prior to the current Covid-19 crisis, preparing a further revision to both SOs and FRs which was due to be promulgated in the summer of 2020: this timescale will obviously now slip and we will keep the Council advised as soon as we hear of any developments in this respect.***

***R2. The Financial Regulations (FRs) should be revised bringing them into line with the latest NALC model document and ensuring consistency with the adopted (May 2019) Standing Orders. Revised FRs will be considered and approved at the next Council meeting.***

## **Review of Payments & 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
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount
- The correct expense analysis has been applied in the cashbook to invoices when processed, and
- VAT has been accurately and appropriately identified in the cashbook to facilitate recovery.

We reviewed the payment authorisation and release process with the Clerk at our interim visit and consider it sound with members evidencing their review of individual invoices appropriately in line with best practice and physically releasing the payments online once set-up by the Clerk.

Due to the relatively low number of payments, we examined all processed during the year to 30<sup>th</sup> September 2019 at our interim visit: we have, subsequently, thanks to the assistance of the Clerk in providing copies of payments for the remainder of the year in electronic format, ensured compliance with the above criteria with no issues arising in that respect: we are pleased to note that

invoices afford evidence of members' review being initialled / signed-off by the Councillors who are signing cheques.

We also note that the 2018-19 VAT reclaim has been repaid by HMRC early in 2019-20 and that an appropriate reclaim covering expenditure in 2019-20 has also been prepared for submission and repayment.

### **Conclusions**

*We are pleased to report that no issues have arisen in this area of our review process 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 are pleased to note that, following internal and external audit comment in 2018-19, a Financial Risk Register has been prepared and approved / adopted by the Council at the March 2020 meeting. We have reviewed the content and consider it appropriate for a Council the size of Stanford Rivers.

We also noted that the Council's insurance is provided by Zurich Municipal with Public and Employers Liability both in place at £10 million, together with Fidelity Guarantee (FG) cover at £25,000 and Assets at £10,000 for 2019-20. The former Audit Commission used to recommend that FG cover be set at the year-end balance plus a half-year's precept, which would indicate the need for increased cover to around £40,000. We are pleased to note that FG cover has been uplifted to £50,000 for 2020-21 and that the Toot Hill Village Hall premises have also been added to the Council's insurance schedule for the year. We note the Council is in the process of taking over ownership and management responsibility for the Hall following expiry of the lease and a public meeting where the charity was approved for formal winding-up: the Charity Commission's approval for the formal dissolution of the charity and transfer of responsibility to the Council is still awaited at the present time.

### **Conclusions and recommendation**

*Whilst no significant issues arise in this area, we suggested at our interim visit that consideration be given to increasing the level of Fidelity Guarantee cover as indicated above and are pleased to acknowledge the action now taken to increase cover accordingly.*

*R3. Consideration should be given to increasing the level of Fidelity Guarantee cover to at least equal the maximum cash holding in the Council's bank accounts. **Actioned accordingly.***

## **Budgetary Control and Reserves**

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and level of precept to be drawn down from the

District Council: also, that an effective reporting and monitoring process is in place. We also 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 on the budgetary and precept requirements for 2020-21, the Council approved and adopted the latter at its January 2020 meeting as £21,325.

We have reviewed the year-end budget outturn and are pleased to record that no significant or unexplained variances existed. We have also considered the level of reserves held by the Council noting that they total £35,873 as at 31<sup>st</sup> March 2020, comprising EMRs of £8,837 and the General Reserve balance of £27,035, which equates to 18 months' spending at the 2019-20 level.

### ***Conclusions***

***No issues have arisen in this area of our review process warranting formal comment or recommendation, although we consider the level of retained General Fund Reserve potentially higher than required given the level of annual revenue spending. However, we acknowledge that when the formal transfer and winding-up of the Toot Hill Village Hall charity occurs, the Council will undoubtedly face further expenditure.***

## **Review of Income**

Our objective in this area is to ensure that robust procedures are in place to ensure that all income due to the Council is identified and invoiced (where applicable) appropriately with recovery effected within a reasonable time span.

The Council has very limited income sources, primarily the annual precept, recoverable VAT and quarterly interest on the Unity Bank Deposit account, together with occasional grants.

### ***Conclusions***

***We are pleased to report that no issues have arisen in this area of our review process warranting formal comment or recommendation***

## **Petty Cash Account**

***The Council does not operate a petty cash account, any out-of-pocket expenses incurred by the Clerk or litter picker being reimbursed by separate cheque as and when required.***

## **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 requirements of HMRC legislation as regards the deduction and payment over of income tax and NI contributions, together with the revised LGPS contribution bandings. To meet this objective, we have:

- Reviewed the Council's payroll preparation procedures noting that salaries are calculated by the Clerk utilising the HMRC PAYE Tools software

- Checked to ensure that a formal employment contract is in place for the Clerk
- Ensured that the monthly salary payments are in accordance with the Clerk's employment contract
- Ensured that tax deductions are made in accordance with the Clerk's tax code (no NI contributions apply, as the monthly salary is below the contribution level)
- Noted that the Clerk is not contributing to a pension scheme currently, and
- Verified the amounts paid to the Clerk and HMRC each month in the year to date.

### **Conclusions**

*No issues arise in this area of our review process warranting formal comment or recommendation.*

*We wish to draw the Clerk's attention to the changed rules as regards recording of Staff Cost expenditure in Box 4 of the AGAR which come into effect from the 2020-21 financial year: the JPAG Practitioner's Guide 2020 refers at Page 17.*

## **Asset Registers**

The Governance and Accountability Manual requires all councils to maintain a record of the assets owned. We note that the 2019-20 AGAR indicates a virtually unchanged asset value of £31,668, whereas the asset register provided for our examination records assets with a value of only £3,300, with a comment regarding the addition of Toot Hill Village Hall w.e.f. 25 12 19. We understand that the hall's value is a "best guess" at present and that the Clerk will be seeking expert guidance on the formal value of the Hall which will then be included in the register for 2020-21: we will revisit this area at our next review visit.

### **Conclusions and recommendation**

*The position with regard to asset values as reported in the AGAR, the insurance schedule and as recorded on the Asset Register will be followed up at our next review visit.*

*R4. The position / value of assets as recorded currently in the 2018-19 AGAR; asset register and insurance schedule should be reviewed and adjusted to ensure that all assets are consistently recorded, accounted for and appropriately insured. This is under review currently and will be regularised during 2020-21.*

## **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 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.

We have confirmed that the Council holds no long-term investments requiring separate disclosure in the Statement of Accounts / AGAR, interest on the funds held in the Unity Bank deposit account being paid into the Council's bank account quarterly

The Council has an outstanding loan with PWLB, which is being repaid twice yearly: we have checked the PWLB loan repayment demands as part of our above payment testing with no issues arising and have now also verified the outstanding loan liability value as reported in the 2019-20 AGAR to the PWLB website detail.

### *Conclusions*

*No matters arise in this area warranting formal comment or recommendation.*

## **Statement of Accounts and AGAR**

The AGAR now forms the statutory Accounts of the Council, subject to external audit scrutiny and certification. We have reviewed and verified the content of the financial information in each of the Boxes by reference to the supporting spreadsheet cashbook and, as above, the PWLB website.

### *Conclusions*

*No matters arise from our work in this area and, based on the satisfactory conclusions drawn from our work programme during the year, we have duly signed off the Internal Audit Report in the Council's AGAR assigning positive assurances in all relevant areas.*



Rec. No	Recommendation	Response
<b>Maintenance of Accounting Arrangements and Bank Reconciliations</b>		
R1	Formal bank reconciliations should be prepared at least once quarterly, be subjected to independent member scrutiny and sign-off.	<i>This is now being completed, with the last report viewed and approved at the January 2020 Parish Council meeting.</i>
<b>Review of Corporate Governance</b>		
R2	The Financial Regulations should be revised bringing them into line with the latest NALC model document and ensuring consistency with the adopted (May 2019) Standing Orders.	<i>Financial regulations were reviewed at the March 2020 meeting, however Councillors asked for more time to review them. These are subsequently on the May 2020 Parish Council meeting agenda for approval.</i>
<b>Assessment and Management of Risk</b>		
R3	Consideration should be given to increasing the level of Fidelity Guarantee cover to at least equal the maximum cash holding in the Council's bank accounts.	<i>This has now been increased to £50,000.</i>
<b>Fixed Asset Register</b>		
R4	The position / value of assets as recorded currently in the 2018-19 AGAR; asset register and insurance schedule should be reviewed and adjusted to ensure that all assets are consistently recorded, accounted for and appropriately insured.	<i>This error has now been corrected; however, the Council will be undertaking a further review in 2020 to ensure the value of the Toot Hill Village Hall is accurately accounted for in terms of Assets. On 25<sup>th</sup> December 2019, the 50 year lease on the Toot Hill Village Hall expired, and the council is currently working with the Rural Community Council of Essex to transfer the management of the hall to the Parish Council. The Clerk will be seeking further advice as to how to correctly account for this.</i>