

## **Stanford Rivers Parish Council**

*Internal Audit Report: Final update 2021-22*

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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 AGAR.

This report sets out the work undertaken during our two reviews for the 2021-22 financial year, which were undertaken at the offices of North Weald Bassett PC on 12<sup>th</sup> November 2021 and 18<sup>th</sup> May 2022, together with preliminary work at our own offices. We thank the Clerk in assisting the process, providing all necessary documentation in either hard copy or electronic format to facilitate the review process.

## **Internal Audit Approach**

In undertaking 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 'IA Certificate in the Council's AGAR, which requires independent assurance over a number of internal control objectives.

## **Overall Conclusion**

We are again pleased to conclude that, based on the work undertaken this year, the Council continues to operate adequate and effective internal control over its finances. We have, however, identified one or two areas where we consider further action is required to ensure that the Council complies with extant legislation and best working practice. Detail of the work undertaken this year is set out in the body of the following detailed report with the few resultant recommendations further summarised in the appended Action Plan.

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

We have duly signed off the IA Certificate in the year's AGAR providing a copy for the Clerk's necessary further action. We also take this opportunity to remind the Clerk and Councillors 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.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

The Clerk uses an Excel spread sheet to maintain the accounting records on a receipts and payments basis for each financial year with two accounts in use at Unity Trust Bank. 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 2020-21 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 year's 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 31<sup>st</sup> October 2021 and March 2022; and
- Ensured the accurate disclosure of the combined account balances in the AGAR at Section 2, Box 8.

We noted at our interim review the Clerk's identification of a hitherto unknown (by her) Barclays bank account, which has now been closed and the balance transferred to the Unity Trust Current account.

### *Conclusions and recommendation*

*We have made previous reference to the requirement for bank reconciliations to be subjected to periodic independent review and sign-off during the year [the adopted May 2020 Financial Regulations [FRs] para 2.2 refer]: we appreciate the impact of Covid but urge that the formal periodic review and sign-off of month-end bank reconciliations is reintroduced as soon as practicable with reviewing member(s) signing-off printed copies of reconciliations and the underlying bank statements.*

*R1. Formal bank reconciliations should be prepared at least once quarterly and be subjected to independent member scrutiny and sign-off, as required by the Council's adopted Financial Regulations (Para 2.2 refers).*

## 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 reasonably able to ascertain as we do not attend meetings, no actions of a potentially unlawful nature have been or are being considered for implementation.

We noted in our 2020-21 final report that, following our previous recommendation, both SOs and FRs were reviewed and re-adopted at the March 2021 meeting with a tender limit of £10,000 recorded in both.

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

We note that the external auditors signed-off the 2020-21 AGAR drawing attention to the incorrect value of residual loan liability being reported in the year's AGAR at Section 2, Box 10 and the need to ensure compliance with the Accounts and Audit Regulations 2015 in relation to the extent of detail to be posted on the Council's website: we take this opportunity to remind members that the Accounts and Audit Regulations require financial detail to be posted for a minimum of five years.

### **Conclusions**

*We are pleased to report that no issues or concerns arise in this area of our review process, although we remind the Clerk and Council that they will need to ensure compliance with the Accounts and Audit Regulations publishing information on the website for the requisite time. Whilst not strictly required to comply with the Transparency Code, the Council should reconsider its decision to remove information from the web site as quickly as it is doing currently, also ensuring that it complies with the requirements of the principles of "Openness" in the public sector.*

## **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 have discussed the payment authorisation and release processes with the Clerk and consider them sound and appropriate for the Council's present requirements, subject to the absence of any confirmatory signatures / initials on paid purchase invoices. Obviously the Covid situation necessitated some changes to working practice with designated members being provided with copy invoices electronically for review and agreement by e-mail prior to their releasing the payments online. We urge that the previous practice of formal member sign-off of invoices be reintroduced as soon as is practicable.

We have examined all payments processed and recorded in the cashbook for the financial year confirming compliance with the above criteria with no additional issues arising.

We also note that the 2021-22 VAT reclaim has been prepared and submitted to HMRC.

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

***We are pleased to report that no significant issues have arisen in this area of our review process although, as above, we urge that the formal member sign-off of original invoices be re-implemented going forward to afford evidence of the effective discharge of their fiduciary responsibilities.***

*R2. The formal process of member sign-off of purchase invoices should be re-implemented as it affords increased control and reduces the risk of potential duplicated payments occurring.*

## **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 noted in last year's report that the Financial Risk Register prepared and approved / adopted by the Council at the March 2020 meeting had not been subjected to further scrutiny and re-adoption during that financial year. We now understand that, whilst the Clerk has reviewed the register, it has again not been subjected to formal consideration and adoption by the Council during 2021-22. As advised previously, the Governance and Accountability Manual – "The Practitioner's Guide" requires all councils to review and formally adopt a financial risk register at least once annually.

We understand that the document is due for consideration at the May 2022 Council meeting and will ensure its formal adoption at our interim review for that year. However, the lack of adoption during 2021-22 will require us to issue record a negative response in the AGAR IA Certificate for 2021-22 at Box C: the council will similarly need to give a negative assertion at Box 5 of the Governance Statement (AGAR Section 1).

We have reviewed the current year's insurance schedule with Zurich Municipal noting that Public and Employers Liability are both in place at £10 million, together with Fidelity Guarantee (FG) cover standing at £50,000 all of which we consider appropriate for the Council's present requirements.

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

***We remind the Clerk and Council of the requirement for risk assessments to be subjected to formal review and re-adoption at least once annually.***

*R3. In accordance with the requirements of the Governance and Accountability Manual – "The Practitioner's Guide", the Council must ensure that the risk register(s) are subjected to formal annual review and adoption. The absence of such formal action again in 2021-22 will require a negative assurance at Box 5 of the year's AGAR Governance statement.*

## 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. 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 2022-23, the Council approved and adopted the latter at the January 2022 Council meeting with the latter set at £21,087.

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 £61,988 as at 31<sup>st</sup> March 2022, comprising EMRs of £23,422 leaving a General Reserve balance of £38,566, which equates to approximately 2 years' spending at the 2021-22 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 the transfer of the Toot Hill Village Hall to the Council may well have an ongoing cost impact for the Council.*

## 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 only limited income sources currently, primarily the annual precept, recoverable VAT and quarterly interest on the Unity Bank Deposit account, together with occasional grants and now hire fees for the Toot Hill Village Hall.

Obviously, the Covid situation has impacted adversely on the Council's ability to raise income from hire of the Toot Hill Village Hall, although the hall re-opened for hire late last summer: consequently, we have examined the booking diary and other supporting documentation for September 2021 ensuring that bookings are accompanied with a signed acknowledgement of the Terms of Hire, that appropriate fees and charges have been levied in accordance with the Council's approved scale of fees and charges and that payment has been received in an appropriate time scale.

### *Conclusions*

*We are pleased to report that no issues have arisen in this area of our review process warranting formal comment or recommendation. We shall continue to monitor the Council's income controls at future visits.*

## Petty Cash Account

*The Council does not operate a petty cash account, any out-of-pocket expenses incurred by the Clerk 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 and the calculation, deduction and payment over of income tax and NI contributions. To meet this objective, we have:

- Reviewed the Council's payroll preparation procedures noting that salaries are calculated by the Clerk using the HMRC PAYE Tools software;
- Previously checked to ensure that a formal employment contract is in place for the Clerk: we note Council's approval of a pay increase to the Clerk effective from 1<sup>st</sup> March 2022 and have verified the accuracy of that month's payment;
- Ensured that the monthly salary payments are in accordance with the Clerk's 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; and
- Verified the amounts paid to the Clerk and HMRC each month in the year.

### *Conclusions*

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

## Asset Registers

The Practitioner's Guide requires all councils to maintain a record of the assets owned. We note that the 2021-22 AGAR value remains unchanged from that reported in the 2020-21 AGAR with no new assets acquired in year, also noting that no disposals occurred.

### *Conclusions*

*No matters have been identified in this area this year warranting formal comment or recommendation.*

## 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 promptly and accurately 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.

The Council has one outstanding loan with PWLB, which is being repaid twice yearly. We have checked the two loan repayments to the UK Debt Agency demands as part of our above payment testing. We have also, at this final review, verified the year-end residual loan liability by reference to the UK Debt Agency advice ensuring its accurate disclosure in the AGAR at Section 2, Box 10.

### *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 asset register and UK Debt Agency year-end statement.

### *Conclusions*

*No concerns have been identified from our work in this area and, based on the satisfactory conclusions drawn from our overall programme of work during the year, we have duly signed off the IA Certificate in the Council's AGAR assigning positive assurances in all relevant areas excepting that in relation to the review and formal adoption of the Council's risk register and publication of all appropriate information on the Council's website.*



Rec. No	Recommendation	Response
<b>Maintenance of Accounting Arrangements and Bank Reconciliations</b>		
R1	Formal bank reconciliations should be prepared at least once quarterly and be subjected to independent member scrutiny and sign-off, as required by the Council's adopted Financial Regulations (Para 2.2 refers).	
<b>Review of Payments and VAT</b>		
R2	The formal process of member sign-off of purchase invoices should be re-implemented as it affords increased control and reduces the risk of potential duplicated payments occurring.	
<b>Assessment and Management of Risk</b>		
R3	In accordance with the requirements of the Governance and Accountability Manual – “The Practitioner’s Guide”, the Council must ensure that the risk register(s) are subjected to formal annual review and adoption. The absence of such formal action again in 2021-22 will require a negative assurance at Box 5 of the year’s AGAR Governance statement.	