

## **Stanford Rivers Parish Council**

*Internal Audit Report 2020-21: 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 AGAR.

This report sets out the work undertaken in relation to the 2020-21 financial year, during our two reviews of the Council's records, which were again, due to the ongoing Covid-19 situation, both undertaken remotely at our offices in late November 2020 and on 2<sup>nd</sup> May 2021. We wish to again thank the Clerk in assisting the process, providing all necessary documentation in 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 'Internal Audit 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, on the basis of the work undertaken this year, the Council has adequate and effective internal control arrangements in place. 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 practice. Detail of the work undertaken to date 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, which should be posted for a minimum of one year or at least until the following year's documentation is posted.

# 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 the 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 2019-20 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’s financial transactions, as recorded in the spreadsheet, to the supporting bank account statements including inter-account transfers with no issues arising;
- Ensured that the cashbook balance reconciles with the combined bank statement balances as at 30<sup>th</sup> September 2020 and 31<sup>st</sup> March 2021; and
- Ensured the accurate disclosure of the combined account balances in the AGAR at Section 2, Box 8.

### *Conclusions and recommendation*

*We drew attention in last year’s report to the absence of any formal independent member (i.e., by a non-bank signatory) review of bank reconciliations periodically during the year (the adopted (Financial Regulations [FRs] para 2.2 refer): we understand that such a review has been implemented, albeit with bank reconciliations now presented to each Council meeting, although it appears that they are still not the subject of detailed scrutiny and sign-off by a non-signatory on the bank account.*

*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 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 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 issues arise in this respect currently.

We also noted from the November 2020 Agenda posted on the website that the Charity Commission have approved the winding up of the Toot Hill Village Hall Charity with the result that total management control of the hall will now pass to the Parish Council. We shall monitor progress in the transfer and control arrangements over bookings and recovery of hire fees at future visits and report accordingly.

We are pleased to note that, following our interim report recommendation, both SOs and Financial Regulations (FRs) have been reviewed, revised with a tender limit now set at £10,000 and re-adopted at the March 2021 meeting.

We note that the external auditors signed-off the 2019-20 AGAR issuing an unqualified certificate: in examining the website, we note that the external audit certificate is not posted thereon. In examining the minutes, we note that there has been much discussion on the detail to be reported on the website with some members expressing the view that posting of documentation serves little or no purpose. Consequently, we remind members that, as a Council with an annual turnover of below or occasionally marginally in excess of £25,000, the Council must comply with the disclosure requirements of the 2015 Transparency Code for Smaller Authorities publishing all documentation set out in that legislation.

The Council must also comply with the requirements of the 2015 Accounts and Audit Regulations posting a raft of financial information as summarised in the preface to each year's AGAR. Whilst we are not aware of any specific time limit for posting of the relevant information, best practice suggests that at least one year's financial detail should be posted and held on the website until, as a minimum, the following year's detail is available for posting, although we suggest that it should be posted for a minimum of two years. The absence of all required information on the website will require our assigning a negative assurance in Boxes L & N of the 2020-21 IA Certificate in the AGAR.

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

***We are pleased to report that no significant issues of concern arise in this area of our review process, although, as indicated above, we considered at our interim visit that a lower financial value for formal tender action should be considered and adopted in both the SOs and FRs. We are pleased to note the Council's compliance with that suggestion.***

***As reported last year, following the UK's exit from the EU, NALC were, prior to the Covid-19 crisis, preparing a further revision to both SOs and FRs which was due to be promulgated in the summer: this timescale has obviously slipped, and we will keep the Council advised as soon as we hear of any developments in this respect.***

***R2. The Council should consider a more realistic value above which formal tender action is required, ideally at around £10,000: if approved at a lower value, the Financial Regulations and Standing Orders should be amended appropriately to reflect the lower value. This has been amended accordingly to a consistent value of £10,000.***

***R3. The Council must ensure that all required information, as set out in the Transparency Code for Smaller Authorities and the Accounts and Audit Regulation.***

## **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 processes with the Clerk last year and considered them sound and appropriate for the Council's present requirements: obviously the Covid situation has necessarily resulted in some changes to working practice, detail of which we have discussed with the Clerk noting that designated members have been provided with copy invoices electronically for review and agreement by the Clerk by e-mail prior to their releasing the payments online. We wish to thank the Clerk for also providing us with scanned copies of the year's processed invoices, detail of which we have agreed to the spreadsheet cashbook with no issues arising.

We also note that the 2019-20 VAT reclaim was submitted to and repaid by HMRC early in 2020-21.

### ***Conclusions***

***We are pleased to report that no issues have arisen in this area of our review process warranting formal comment or recommendation, although, as indicated above, we urge that all original invoices are scrutinised and signed-off by an approving member as soon as is physically practicable.***

## **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 last year that, following internal and external audit comment in 2018-19, a Financial Risk Register was prepared and approved / adopted by the Council at the March 2020 meeting. We reviewed the content and considered it appropriate for a Council the size of Stanford Rivers. We have, however, seen no indication of any subsequent review or formal adoption of the document during 2020-21. Given the impact of the Covid situation, we appreciate that it may not have been feasible for the Council to undertake a further review in the year and will, consequently, take a pragmatic view on the absence of such a formal review during the financial year with the document having been adopted as recently as March 2020.

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 increased to £50,000 following our 2019-20 recommendation and Assets at £10,000 for 2020-21.

### **Conclusions**

*We are pleased to record that no issues arise in this area warranting formal comment or recommendation, although we again remind the Clerk and Council of the requirement (“The Practitioner’s Guide” refers) for risk assessments to be subjected to formal review and re-adoption at least once annually in each financial year.*

## **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 2021-22, the Council approved and adopted the latter at its January 2021 meeting at £20,977.

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 £40,587 as at 31<sup>st</sup> March 2021, comprising EMRs of £9,671 leaving a General Reserve balance of £30,916, which equates to approximately 20 months’ spending at the 2020-21 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 will undoubtedly have a cost impact once the Covid situation improves and the hall is open to the general public with the Council undoubtedly facing increased 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 only limited income sources currently, primarily the annual precept, recoverable VAT and 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 this year.*

## 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 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 utilising the HMRC PAYE Tools software;
- Previously checked to ensure that a formal employment contract is in place for the Clerk;
- Ensured that the monthly salary payments are in accordance with that 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.*

## Asset Registers

The Practitioner's Guide requires all councils to maintain a record of the assets owned. We note that the 2020-21 AGAR detail reflects a marginally increased asset value of £32,352 over the 2019-20 value, including the cost of additional assets acquired during the financial year at cost price, net of VAT.

### 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 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 Trust Bank deposit account being paid into the Council's bank account quarterly.

The Council has one outstanding loan with PWLB, which is being repaid twice yearly: we noted that consideration was given earlier in the financial year to paying the loan off early with the decision taken to retain it and pay it off over the existing term as no real financial benefit would arise from its early redemption.

We have checked the two PWLB loan repayment demands as part of our above payment testing, also now ensuring the accurate disclosure of the residual loan liability as at 31<sup>st</sup> March 2021 in the AGAR 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 PWLB website.

### ***Conclusions***

***No significant concerns have been identified 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 Certificate in the Council's AGAR assigning positive assurances in all relevant areas excepting that in relation to the publishing of all required information on the Council's website.***

***Consequently, we remind the Clerk and Council that it must ensure full compliance with the disclosure requirements of the 2015 Transparency Code for Smaller Authorities and the Accounts and Audit Regulations, as set out in the preface to each year's AGAR.***



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 adopted Financial Regulations (Para 2.2 refers).	<i>Bank reconciliations are now being presented to members for scrutiny at each full Council meeting.</i>
<b>Review of Corporate Governance</b>		
R2	The Council should consider a more realistic value above which formal tender action is required, ideally at around £10,000: if approved at a lower value, the Financial Regulations and Standing Orders should be amended appropriately to reflect the lower value.	<i>This has been amended accordingly to a consistent value of £10,000.</i>
R3	The Council must ensure that all required information, as set out in the Transparency Code for Smaller Authorities and the Accounts and Audit Regulation.	