

Collier Street Parish Council

Internal Audit Report: 2022-23 Final update

Stuart J Pollard

*Director
Auditing Solutions Ltd*

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 Annual Governance and Accountability Return (AGAR).

We have agreed with the Clerk that, as we were working close to her home, we would undertake our review of transactions at the Marden PC offices in October 2022 and March 2023, with a remote review of the final year-end transactions, etc once the account had been closed down for the year. We thank the Clerk for her assistance with this year's review providing all required documentation in either electronic or hard copy format.

Internal Audit Approach

In undertaking our review for the year, we have, as previously, had regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts / AGAR. Our programme of cover has been designed to afford appropriate assurance that the Council's financial systems and governance controls 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' as part of the Council's AGAR process, which requires independent assurance over several internal control objectives.

Overall Conclusion

We are pleased to again conclude that, based on the programme of work undertaken this year, the Clerk & Council have continued to maintain generally adequate and effective internal control arrangements throughout the year with a few areas identified at our interim review in October 2022 where we considered that the Council needed to ensure compliance with best working practice and its own regulatory framework. Detail of the identified issues arising are set out in the following report with resultant recommendations further summarised in the appended Action Plan for ease of councillors' reference.

Based on the generally satisfactory conclusions drawn from our work this year, we have duly signed-off the IA Certificate in the AGAR assigning positive assurances in each relevant area. We take this opportunity to remind the Clerk that she will need to ensure that all appropriate documentation is posted on the Council's website, the requirements of which are set out in the preface to the AGAR.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in the Alpha accounts maintained by the Clerk with two bank accounts in use with HSBC Bank. We have: -

- Checked and agreed the opening balances in Alpha for 2022-23 to the closing Trial Balance and certified AGAR for 2021-22;
- Verified that an appropriate cost centre and nominal ledger structure remains in place;
- Checked and agreed all transactions for the financial year, due to their relative low volume, to the supporting HSBC Bank statements on both accounts;
- Ensured that the accounts remain “in balance” at 31st March 2023;
- Verified the accuracy of detail in the bank reconciliations as of 30th September 2022 and 31st March 2023 on both accounts ensuring that no long-standing uncleared cheques or other anomalous entries exist; and
- Ensured the accurate disclosure of the combined accounts balances in the year’s AGAR at Section 2, Box 8.

Conclusions and recommendation

We are pleased to record that no significant issues have been identified in this review area, although we have discussed with the Clerk a suggested enhancement to the exiting bank reconciliation review process whereby the Trial Balance should be printed off at each month-end when the bank reconciliation is completed. The reviewing member should then not only sign-off the reconciliation evidencing completion of their review, but should also sign-off the Trial Balance print and month-end bank statements in accordance with the requirements of the adopted Financial Regulations (FRs – para 2.2 refers) thereby confirming their review and agreement of values recorded in the reconciliation statement detail.

R1. As indicated in the body of the report, when completing the month-end bank reconciliations, the Alpha Trial Balance at that time should be printed-off and, together with the month-end bank statement, be signed-off by the reviewing councillor as evidence of their review and agreement of detail to the reconciliation: all documents should be retained for audit examination.

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 Council meetings, no actions of a potentially unlawful nature have been or are being considered for implementation.

We were pleased to note previously that, following a prior year recommendation, both SOs and Financial Regulations (FRs) were reviewed, updated in line with the latest legislative changes both being re-adopted by Council at the February 2021 meeting with a consistent value of £10,000 recorded for formal tender action. We also take this opportunity to advise the Clerk and Council of

a further recent revision to the Public Contract Regulations clarifying the value at which contracts must be published on the Government's Contract Finder website: the value is now clarified as £30,000 including VAT, which should now be identified accordingly in the Council's SOs and FRs.

We have examined the Council meeting minutes for the financial year to ensure that no issues either exist currently or are developing that may have an adverse effect on the Council's financial standing: we have also sought to ensure that, as far as we are reasonably able to ascertain, no actions are planned or have taken place that may be of an ultra vires nature and place the Council at risk of criticism or possible financial penalty.

We also note that, as the Council's total receipts in 2022-23 exceed the £25,000 threshold, due to the receipt of over £10,000 in CIL Moneys, the Council will consequently be subject to an external audit review for the 2022-23 financial year and will need to complete the appropriate AGAR Form 3.

Conclusions

We are pleased to record that no matters arise in this area warranting formal comment or recommendation, although, as above, the Council will need to update its SOs and FRs to reflect the change in value for formal tender action through the Government's Contract Finder website. We shall continue to monitor the Council's approach to corporate governance at future reviews.

Review of Expenditure & VAT

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Appropriate procedures are in place to ensure compliance with the Council's Standing Orders and Financial Regulations with regard to tendering and quotation action;
- 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 coding and cost centre has been applied to invoices when processed; and
- VAT has been appropriately identified for periodic recovery.

We have, due to their relatively low volume, examined all payments for the year as recorded in the Alpha accounts for compliance with the above criteria.

We have also discussed with the Clerk the Council's control procedures in relation to the scrutiny and approval of traders' and other invoices for payment and consider them generally effective, although we suggest that they could and should be further strengthened to afford clear evidence of members' involvement in the authorisation process, particularly in the light of a relatively recent fraud perpetrated by a Town Clerk on the South coast. That fraud arose due to members not effectively scrutinising invoices and evidencing their review of the documents, allowing the Clerk to present invoices on more than one occasion: cheques drawn on the Council's bank account were

prepared using erasable ink and once signed by members, the Clerk was able to change the payees name to her own.

We do not wish to imply that any fraudulent or other malicious activity has taken place by the Council's new or former Clerk, but suggest that to further strengthen controls, members should physically scrutinise and sign-off invoices approved for payment: whilst we accept that such action may not be fool-proof, it adds a further level of control and affords clear evidence that members have actively been involved in the payment approval process and the effective discharge of their fiduciary responsibilities. A suitable certification stamp is in use and we urge that reviewing councillors sign-off the invoices accordingly.

We note that the recoverable VAT for 2021-22 was reclaimed and repaid by HMRC on 6th June 2022, also noting that it had been coded to a/c code 515. As the Council's accounts are prepared on a receipts and payments basis, it should be coded to a/c code 115 – "VAT Receipts". We are pleased to note that this has been corrected prior to the year-end closedown.

Conclusions and recommendations

As above, we consider that councillors should evidence their review and approval of purchase invoices for payment by signing / initialling the documents.

- R2. *As indicated in the body of the report, councillors should sign or initial purchase invoices thereby evidencing their review of the documents and indicating their approval for payment. Use of the previously in place certification stamp should be reimplemented.*
- R3. *A journal should be raised correcting the mis-posting of the 2021-22 VAT reclaim recording it as a receipt rather than as an offset to the 2022-23 expended VAT. **This has been actioned 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 to minimise the opportunity for their coming to fruition.

We are pleased to note that the financial risk register was reviewed, approved and re-adopted by the Council at the November 2022 Council meeting, also noting the intent for a further review in April 2023. We consider the adopted document appropriate for the Council's current requirements.

We have examined the Council's insurance policy for 2022-23, cover being provided to 31st May 2023, and consider that appropriate cover is in place with Public and Employer's Liability standing at £10 million and Fidelity Guarantee at £250,000.

We note that the Council's play area has historically been inspected monthly by TMBC who have provided the Council with written reports, which are considered and acted on accordingly. Additionally, an annual inspection is undertaken by Playsafety Ltd. We understand that the role previously provided by TMBC will be brought "in-house" and suggest that, if not already actioned, the officer(s) / councillor(s) undertaking the role be provided with appropriate RoSPA training and accreditation.

Conclusions and recommendation

We are pleased to report that there are no significant issues arising in this review area, although, as indicated above, we urge that those appointed to undertake future “in-house” reviews of play areas receive the appropriate RoSPA training. We will continue to monitor the Council’s approach to risk management at our final review reporting our conclusions accordingly.

R4. The officer / councillor undertaking future play area inspections should be provided with the appropriate RoSPA training and accreditation.

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 TMBC; 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. To meet this objective, we have: -

- Noted from our review of the minutes that members continue to be provided with regular management accounting information;
- Noted that following due deliberation at the January 2023 Council meeting, the 2023-24 budget and precept were approved and adopted, the latter being set at £20,798.40;
- Reviewed the 2022-23 year-end budget outturn with no significant variances existing warranting further comment or enquiry; and
- Considered the appropriateness of the level of general reserves to meet the Council’s ongoing revenue spending requirements noting that the year-end balance of £98,401 (£81,155 at 31st March 2022) includes £78,665 of received CIL moneys that are held in a specific earmarked reserve pending application on appropriate projects. The residual General Reserve balance of £19,401 (£12,783 at 31st March 2022) equates to approximately twelve months’ revenue expenditure at the 2022-23 level and is considered more than appropriate for the Council’s present requirements.

Conclusions

We are pleased to record that no matters have been identified in this area warranting formal comment or recommendation this year.

Review of Income

The Council has limited sources of income, primarily the annual precept, occasional CIL moneys and other grants, bank interest and recoverable VAT. As indicated earlier in this report, we have checked and agreed the detail of such receipts during 2022-23 to the Council’s bank statements and other supporting documentation, where available.

Conclusions

No issues arise in this area this year 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 in connection with her work for the council being reimbursed with her monthly salary payment.

Review of Staff Salaries

In examining the Council's payroll function, we aim to verify that staff salaries are paid in accordance with their Contracts of Employment and that legislation is being appropriately observed as regards adherence to the requirements of HMRC with regard to the 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 the Clerk utilises HMRC's "PAYE Tools" software;
- Noted that the Council appointed a new Clerk from 1st April 2022 following the retirement of her predecessor and have ensured that her gross salary has been applied appropriately by reference to her September 2022 payslip detail;
- Ensured that the PAYE deduction for that month has been calculated accurately by reference to the HMRC PAYE Tools software; and
- Ensured that each month's deductions have been paid over to HMRC in a timely manner.

Conclusions

No issues have been identified in the management of the Council staff's pay for the year.

Asset Registers

The Practitioner's Guide requires all councils to maintain a record of all assets owned. We have checked and agreed the detail recorded in the Council's Asset Register, noting that it has been prepared using purchase cost values or, where that value is unknown, at the previous year's recorded AGAR value uplifted or decreased to reflect the acquisition or disposal of assets during the financial year.

Conclusions and recommendation

We are pleased to report that there are no issues of concern arising in this area of our review process: however, in line with best practice and to potentially assist any insurance reclaim or police enquiry in the event of the theft of or accidental / wilful damage to street furniture / equipment, we suggest that consideration be given to the development of a photographic register of the Council's assets – several of our clients have found that such a record has eased the process of insurance reclaims, etc.

R5. *Consideration should be given to the development of a photographic register of the Council's asset stock to assist any potential insurance reclaims or police investigations in the event of theft or damage to Council property.*

Investments and Loans

The Council neither owns any investments, not has any outstanding loans repayable either by or to it.

Statement of Accounts and Annual Return

The AGAR now serves as the statutory accounts of the Council which, for 2022-23, will require external audit scrutiny and certification as the year's turnover exceeded the £25,000 threshold. The Section 2 financial information detail is generated automatically by the Rialtas Alpha software for disclosure in the year's AGAR and we have duly ensured its accurate transfer to the year's AGAR.

Conclusions

We are pleased to record that no additional issues arise in this area: we have duly signed off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area.

Re c. No.	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	As indicated in the body of the report, when completing the month-end bank reconciliations, the Alpha Trial Balance at that time should be printed-off and, together with the month-end bank statement, be signed-off by the reviewing councillor as evidence of their review and agreement of detail to the reconciliation: all documents should be retained for audit examination.	
Review of Payments and VAT		
R2	As indicated in the body of the report, councillors should sign or initial purchase invoices thereby evidencing their review of the documents and indicating their approval for payment. Use of the previously in place certification stamp should be reimplemented.	
R3	A journal should be raised correcting the mis-posting of the 2021-22 VAT reclaim recording it as a receipt rather than as an offset to the 2022-23 expended VAT.	<i>This has been actioned accordingly.</i>
Assessment and Management of Risk		
R4	The officer / councillor undertaking future play area inspections should be provided with the appropriate RoSPA training and accreditation.	
Asset Registers		
R5	Consideration should be given to the development of a photographic register of the Council's asset stock to assist any potential insurance reclaims or police investigations in the event of theft or damage to Council property.	