



Medstead Parish Council

Internal Audit Report: 2020-21 (Final Update)

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For and on behalf of
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 Annual Return.

This report sets out the work undertaken in relation to the Internal Audit process for the 2020-21 financial year; the Interim review which took place on the 28th October 2020, and the Final Update review which took place on the 17th May 2021.

Internal Audit Approach

In undertaking our review for the year, 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 / Annual Return. Our programme of cover is designed to afford appropriate assurance that the Council has appropriate and robust financial systems in place that 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' as part of the Council's Annual Governance and Accountability Return (AGAR) process, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

We have followed up the recommendations made in our 2019-20 reports and acknowledge that the members have noted and considered these in their deliberations and enacted the recommendations and that the council continues to make great progress in its processes and performance. We also report that, on the basis of the work undertaken to date in the current year, that the Council continues to operate adequate and effective internal controls in all areas of our review to date. Accordingly, no recommendations for consideration by the Clerk/RFO and Members have been made in this report.

We have taken into account the Council's response to the Covid-19 situation and its actions to comply with the Government directives whilst maintain a high quality service provision to the Council's constituents. We acknowledge the Clerk/RFO's continued professional management and administration of the Council's finance and governance functions in these most challenging of times. The logical manner in which this information is stored and presented both for the purposes of the day to day running of the council, and for external scrutiny has made the interim Internal Audit review process straightforward.

Finally, we take this opportunity to commend the Clerk/RFO, and Members for delivering a high level of service throughout the 2020-21 financial year. There is clear evidence that the Council modified its working practices and services, with due reference to public-health directives and prudent risk mitigation measures, whilst protecting the democratic process openly and transparently.

We ask that members consider the content of this report and acknowledge that the report has been formally reviewed and adopted by Council.

Detailed Report

Review of Accounting Records & Bank Reconciliations

Our objective in this area is to ensure that accounting records are being maintained accurately and currently and that no anomalous entries appear in the spreadsheet cashbooks maintained by the Clerk. Four bank accounts are in operation with NatWest, two relating directly to the Council with the third maintained for the Wakes Trust “Capital in Perpetuity” fund the fourth for the Council’s CIL income, together with a further Nationwide account for the Trust. A Nat West Credit Card is also in use which is settled on a monthly basis.

Additionally, we note that Members Resolved to establish an additional Nationwide deposit account for CIL funds, thereby gaining an improved interest rate whilst ensuring that the funds were protected under the Financial Services Compensation Scheme. The Account’s opening was formally recorded at the October 2020 meeting of the Full Council, under Minute reference 118. iv.

We have: -

- Checked and agreed the opening balance recorded in the April 2020 cashbook to that recorded in the closing Accounts and certified Annual Return for 2019-20;
- Ensured that appropriate analysis of receipts and payments exists to facilitate budget performance reporting and management throughout the year;
- Checked and agreed detail of the full year’s transactions on the combined Current & Reserve Account cashbook detail, plus that for the Wakes Trust to supporting bank statements for the financial year to the 31st March 2021;
- Noted the balance of the new Nationwide CIL funds account as at the 31st March 2021, confirming that the balance remained at zero during the financial year;
- Similarly checked all inter-account transfers on the accounts for the year;
- Verified bank reconciliation detail on the combined Council’s Current, Reserve and Wakes Trust accounts cashbook detail for the months of April, May & June 2020, and March 2021; and,
- Checked and verified the disclosure of the combined balances in the 2020-21 financial year Annual Return.

Conclusion

There are no issues arising in this area of our review warranting formal comment or recommendation.

Review of Corporate Governance

Our objective is to ensure that the Council has a robust regulatory framework in place; that Council and Committee meetings are conducted in accordance with the adopted Standing Orders and that, as far as we are reasonably able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation.

We note that the Council has implemented modified working practices to manage the Covid-19 situation, as far as it is possible to do so and in compliance with the Governments directives, the Council's Standing Orders and Financial Regulations.

We also note that the Council received qualified External Auditors report pertaining once again to the FY2018-19 Annual Governance and Accountability Return, (not the period under audit) which reported that the notice of Exercise of Public Rights had been given for 29 rather than the statutorily required 30 days.

For the avoidance of doubt, the Final Update Internal Audit report issued by this auditor for the FY2019-20 period commented on that period only. We confirm our finding that the Council had properly noted the FY2018-19 External Auditor's report and comments concerning the error in the declaration of the FY2018-19 notice for the Exercise of Public Rights, and had declared the period for the notice of Exercise of Public Rights for the FY 2019-20 Accounts correctly. We are therefore at a loss to understand the comment made by the External Auditor in this regard.

We note that the Council has implemented all recommendations and suggestions made in our prior year Internal Audit Report.

We have concluded our review of Minutes, for the financial year to the 31st March 2021, for the Full Council and its Standing Committee meetings (excluding Planning) with no issues arising take this opportunity to note the high quality of the Council's Minutes, and those of its standing committees.

All Councils meetings during the financial year, with the exception of the April meeting, which was cancelled had been undertaken remotely, via Zoom, due to the Government directives concerning Covid-19 which have been amended from time to time throughout the year. We note that certain decisions were delegated to the Finance & General Purpose Committee in accordance with the Council's Standing Orders and Financial Regulations. The Parish Clerk continued to work from home during the financial year as was the usual practice.

Looking to the future, The Clerk and Members have given serious consideration as to what Council business can be conducted prior to the AGM in May 2021, so that the Council can dedicate time to those matters in remote meetings, thereby reducing the amount of time in future face-to-face meetings. Resultantly, some Council meetings post May 2021 have been rescheduled to allow the threat of Covid-19 to reduce as much as possible. At all times, the Clerk/RFO and Members have taken the public-health advice published by the Government and council specific advice published by NALC.

We note that Members continue to be provided with a detailed Financial Status report each month, containing detail of account transactions, budget performance metrics and bank reconciliations, all of which we consider afford an appropriate and effective control over governance.

We also note that both the Council's Financial Regulations and Standing Orders have been reviewed again during this financial year, based on NALC model documents. The Financial Regulations (FRs) were adopted in the Full Council meeting of May 2020 under minute reference 20.065, whilst the Standing Orders were adopted in the Full Council meeting of August 2020 under minute reference 20.095 vi)

Conclusion

There are no issues arising in this area of our review warranting formal comment or recommendation.

Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Appropriate documentation supports payments, 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 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 again reviewed the procedures in place for receiving, checking for authenticity and accurate detail, processing by officers and formal approval for payment by members and wish to commend the Council for the effectiveness of the procedures in place and clarity of documentary evidence supporting the process.

To ensure compliance with the above criteria and due to the remote nature of the audit due to the Covid-19 directives we have examined all financial transactions payments processed in the financial year to 31st March 2021 by reference to the Council's spreadsheet/cashbooks and prime documentation

Additionally, we have tested a sample of non-pay related payment documents with the criteria for selection being every tenth payment, irrespective of value, and every payment in excess of £500. A total of twenty-two payments were examined for the financial year with a total value of £29,800, equating to 59% of the Council's total expenditure.

We have checked and verified a sample of the Clerk's and Members' claims for reimbursement of expenses incurred on behalf of the Council, ensuring that, in all cases, VAT is being properly recorded for reclaim where till receipts identify the trader's VAT registration number.

Finally, in this area of our review, we note that the Council's VAT reclaims continue to be made on a quarterly basis. The final reclaim for the 2020-21 financial year was submitted on the 26th April 2021 in the amount of £1,966.83 .

Conclusion

There are no issues arising in this area of our review warranting formal comment or recommendation.

Review of 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 have: -

- Examined the Council's current year insurance policy with Axa, ensuring that appropriate cover is in place: with Public, Employer's and Products Liability (including Business Interruption) set at £10 million, Officers Liability, Data Protection Act liability, Libel & Slander & Libel at £500 thousand and Fidelity Guarantee at £150 thousand. We consider this level of cover appropriate for the Council's present requirements;
- Noted that during the financial year, the Council has undertaken specialist Health & Safety Risk Management surveys of its ponds: The corresponding Risk Reports were Received and Adopted, with a remedial works action plan Approved at the November 2020 meeting of the Finance & General Purpose Committee under Minute reference 20.60. The Council's general Health & Safety Risk Registers were Reviewed and Approved at the March 2021 meeting of the Finance and General Purpose Committee under Minute reference 21.27, with a Recommendation for Approval and Adoption at the Full Council;
- Noted that the Council has revised its Playground Policy to incorporate adjustments for Covid-19. We also note that in line with Government Directives the Council's Play area was closed for a significant periods of time during the financial year; and,
- We further note that the Council's Playground inspection and associated Health & Safety management remains robust and that the Council appears to have taken all reasonable steps to implement appropriate Covid-19 bio-security measures.

Conclusion

There are no issues arising in this area of our review warranting formal comment or recommendation.

Budgetary Control & 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. Also, that an effective reporting and monitoring process is in place. Additionally, we 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.

As in previous years, we note that the Council has undertaken a robust and detailed Budget setting and Precept determination process that is formally recorded in the Minutes of the Finance & General Purposes Committee. At the conclusion of this process the Committee made a formal recommendation to the Full council for the Approval and Adoption of the Budget and the Approval and Establishment of the Precept.

The Recommendation of the Finance & General Purposes Committee was Approved by Members at the 11th November 2020 meeting of the Full Council: The Budget is formally recorded as having been Approved and Adopted under Minute reference 135.i of that date, and the Precept Approved and Established under Minute reference 135.ii.

The Minutes of the Full Council confirm that Members continue to receive budget monitoring reports, generated from the spreadsheet cashbook records, at each Ordinary meeting.

The Council has twelve recorded Earmarked reserves as at the 31st March 2021, totalling £15,750 (£59,250 prior year). The Funds set aside in the Cemetery improvement plan and future Parish Office plan Earmarked reserves having been mostly expended during the financial year.

The Council's total managed funds as at the 31st March 2021 stand at £125,960 (£128,637 prior year). It must be noted that £32,269 (£32,249 prior year) is ring-fenced as part of the Wake Trust's "Capital in Perpetuity" fund managed by the Council, with further funds totalling £15,750 (£59,250 prior year) held in Earmarked reserves designated for specific purposes as described above.

The residual General Reserve balance of approximately £74,619 (£37,138 prior year) equating to approximately fourteen months' revenue spending at prior year levels. This level of retained General Reserve is significantly higher than the recognised current Chartered Institute of Public Financial Accountants (CIPFA) guidance to retain between three and six months' revenue spending based on the average prior year level.

However, It should be noted that the increase in General Reserve, as witnessed in many Councils in England and Wales can be partially explained by the delay in project expenditure, due to the public-health lock down periods during the 2020-21 financial year, where a large number of businesses were unable to open for business. The Council has quite correctly rolled forward the delayed expenditure into the new financial year.

Finally, in this area of our review we have checked and verified the variance reports provided by the Clerk/RFO with no requirement for further examination or explanation by the Clerk/RFO

Conclusion

There are no matters arising in this area of our review warranting formal comment or recommendation.

Review of Income

In addition to the precept, the Council receives limited income, primarily from burial and associated fees, together with Sports Association fees, limited interest, S106 funds, VAT recovered and occasional hire fees for the Village Green.

We have noted that the Council has had three interments, three transfers of Grants of Rights of Burial and two secondary memorial inscriptions during the period to the 31st March 2021. These items have properly been recorded in the Council's Minutes and were supported by the correct prime documentation which, due to the remote nature of this audit, has been reviewed in the form of scanned documentation provided by the Clerk/RFO.

We noted that the Council's interment and associated fees have been reviewed during the financial year as required.

Finally, in this area of our review we have noted the Clerk/RFO's Covid-19 impact statement which states that there had been minimal impact to the Parish's Council's income. Some Village Green bookings during 2020 did not take place leading to minimal revenue loss.

Conclusion

There are no matters arising in this area of our review warranting formal comment or recommendation.

Review of the Petty Cash Account

Medstead Parish Council does not operate a Petty Cash System and has no cash holding for which it is responsible for.

There are no matters arising in this area of our review warranting formal comment or recommendation.

Review of Payroll

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 HM Revenue and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions, noting that the clerk is currently not contributing to the pension fund.

We note from the Council's minutes that the Clerk, was awarded an uplift of 1 SCP point on the harmonised NJC scale to SCP 17 from the 1st April 2020, whilst his basic working hours remaining set at twenty per week.

The Clerk prepares the Council's payroll using the HMRC Basic PAYE Tools on-line software: we have consequently checked detail of his gross monthly salary paid to the 30th September 2020, also verifying the tax and NI deductions applied to each.

Finally, in this area of our review we note that Members, during the October meeting of the Full Council, recognised the NJC SCP point grade increase, and Resolved to Approve the increase retrospectively, and to make payment of the 2020-21 financial year arrears of pay to the Clerk in the October 2020 payroll.

Conclusion

There are no matters arising in this area of our review warranting formal comment or recommendation. However, we remind the Clerk/RFO and Members that it is considered 'Best Practice' to review the NJC SCP pay award's for the forthcoming financial year during the Budget setting and Precept determination process, agreeing any increase to the SCP grade to be made effective from the 1st April in the next financial year.

Review of Fixed Asset Registers

The Governance and Accountability Manual (G&AM) requires all councils to develop and maintain a register of their asset stock. The Clerk has provided an electronic copy of the updated asset register which identifies the make-up of the value recorded in the Annual Return for our examination, which we have undertaken subsequent to our visit.

The Clerk maintains a detailed and robust Asset Register, recording assets at a consistent year on year level, as required by the Governance and Accountability Manual.

We are pleased to note that the register has been updated to reflect the cost of new acquisitions in the year and that the revised total value of £417,177 (£415,893 prior year) has been correctly reflected in the value reported in the year's Annual Return at Box 9 of Section 2.

Conclusions

There are no matters arising in this area of our review warranting formal comment or recommendation.

Review of Investments and Loans

The Council holds no long-term investments, surplus funds for the Council and Wake's Trust being held in the NatWest and Nationwide interest-bearing accounts. Similarly, we note that no loans are in place either repayable to or by the Council.

We note that the Council has now developed an Investment Strategy which is reviewed on an annual basis.

Conclusions

There are no matters arising in this area of our review warranting formal comment or recommendation.

Statement of Accounts and Annual Governance and Accountability Return

The Accounts and Audit Regulations, as amended periodically, require all councils to prepare annually a Statement of Accounts, which is now in the form of the Annual Governance and Accountability Return at Section 2, which is, together with the Annual Governance Statement at Section 1, subject to independent external audit examination and certification.

As part of our review process, we have examined the Council's procedures in relation to the identification of detail for inclusion in Section 2 of the Return, which is produced using Microsoft Excel spreadsheets, and used by the Clerk/RFO to provide a detailed set of accounting statements. We have agreed detail therein to Section 2 of the 2020-21 financial year Annual Governance and Accountability Return.

Conclusion

We are pleased to record that no issues arise in this area and, on the basis of the work undertaken during the course of our review for the year, we have "signed off" the Internal Audit Certificate in the Annual Governance and Accountability Return assigning positive assurances in all areas.

Finally, we take this opportunity to remind the Clerk/RFO of the requirements in relation to the documentation that should be displayed on the Council's website, together with the need to ensure compliance with the timing requirements for publication of the Notice of Public Rights to examine the Council's documentation for the financial year.