

Sunninghill & Ascot Parish Council

Internal Audit Report 2021-22 (Interim)

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Background and Scope

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).

This report sets out the work undertaken in relation to the 2021-22 financial year, during our interim review of the Council's records for the year, which has been undertaken both at our offices and subsequently on site on 7th December 2021. We thank the Clerk for assisting the process, providing all necessary documentation in either hard copy or electronic format to facilitate commencement of our review for the year.

Internal Audit Approach

In undertaking our review, we have again 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 is designed to afford 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 series of internal control objectives.

We will update this report following our final review visit for the year, the date of which has yet to be agreed but will be timed to follow closure of the accounts for the year.

Overall Conclusions

We are pleased to record that, based on the work undertaken to date, the Council continues to maintain generally adequate and effective internal control arrangements with a few issues identified requiring attention prior to the financial year-end. We have also followed up progress in implementing the recommendations set out in our 2020-21 final report: where action remains to be taken, we have restated the recommendation(s) in this report so that they are not overlooked.

We ask that the report be presented to members and a formal response be provided in advance of our final visit / review to those recommendations indicating the actions taken and / or in hand at that time.

Detailed Report

Review of Accounting Arrangements & Bank Reconciliations

The Council uses the Omega accounting software to record accounting transactions through its principal bank account at Lloyds, together with periodic activity on other accounts (Blythewood, Victorian Fayre, Instant Access and CIL) with occasional fixed term deposits at Lloyds and the Yorkshire Bank. Our objective in this area is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. To meet that objective, we have:

- Ensured that the opening balances recorded on the Omega accounting system for 2021-22 reflect those in the certified 2020-21 Accounts and AGAR;
- Ensured that an appropriate cost and nominal coding structure remains in place;
- Ensured that the Omega accounts remain in balance as of 31st October 2021;
- Checked and agreed all Current account transactions for April and October 2021 by reference to the supporting bank statements;
- Checked and agreed all recorded transactions in the other account cashbooks to the relevant bank statements for the year to 31st October 2021; and
- Checked and agreed the bank reconciliations on all accounts as of 30th April and 31st October 2021.

Conclusions and recommendations

We are pleased to report that no significant issues arise in this area this year following implementation of appropriate action to address some of the issues identified in 2020-21.

The latest NALC model Financial Regulations (FRs) require that an independent councillor, who is neither the Council Chairman nor a cheque signatory should, at least once quarterly, review and verify the content of bank reconciliations, signing-off the reconciliations and supporting documents as evidence of their review and are pleased to note that a councillor is now routinely signing-off the reconciliations. In reviewing the FRs re-adopted earlier in 2021 this element of the NALC model documents has not been included: consequently, we urge that an appropriate amendment is made to the FRs to bring them into line with best and actual working practice.

We have discussed the approach to members' review of bank reconciliations with the Clerk advising and demonstrating that the Omega software can generate a combined account reconciliation in the Management Accounts suite of programmes under "Annual Return" and suggesting that this be printed off and provided to members together with the first page of the month-end Trial Balance, the letter providing evidence of the month-end cashbook balance on each account which can then be used to verify that detail on the combined account reconciliation.

We will undertake further work in this area at our final review including checking at least one further month's transactions and ensuring the accurate disclosure in the year's AGAR at Section 2, Box 8 of the combined cash and bank balances as at 31st March 2022.

R1. In line with best practice, not only should the bank reconciliations be signed-off and ideally be dated by a nominated councillor, the supporting bank statements and month-end Trial Balance

should also be signed-off as evidence that the member has verified detail of bank and cashbook balances on the reconciliation statement.

Review of Corporate Governance

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

We note that SOs & Financial Regulations (FRs) are in place, both having been reviewed and re-adopted by the Council in May 2021: as above, we urge that the FRs are subjected to further scrutiny and closer alignment to the NALC model document in line with best practice.

We have examined minutes of the Full Council and Standing Committees' meetings (excluding Planning) for the year to date as posted on the Council's website and provided in hard copy format during our visit. Our review aims to identify whether or not any issues exist that may have an adverse effect, through litigation or other causes, on the Council's future financial stability and to also ensure that the Council has not taken, nor is planning, any actions that might result in ultra vires expenditure. We are pleased to record that no issues arise in this respect currently.

In reviewing the minutes, we note that the Council has approved various grants during the course of the financial year to date: due to Council not meeting the qualifying criteria to adopt the General Power of Competence the minutes should, ideally, record the powers relied on for approval of these grants.

We note that the external auditors (PKF Littlejohn) have issued their final report on the 2020-21 AGAR with a few issues raised primarily in relation to publication of the 2019-20 Notice of Public Rights with additional reference to our 2020-21 final report recommendations. Care should be taken to ensure compliance with the advertising criteria of the Public Rights Notice and completion of the Governance Statement in the AGAR when preparing the 2021-22 document.

Conclusions and recommendations

Whilst no major concerns arise in this area, we urge that the Council undertakes a further review of its governance documentation leading to the formal adoption of revised FRs, which should be aligned more closely to the latest NALC model document.

We shall continue to monitor the Council's governance arrangements at future visits reporting our conclusions accordingly.

R2. When approving grants and donations to local bodies, the approving minutes should identify the powers relied on for granting approval of all such payments.

R3. The Council should review and update its extant Financial Regulations bringing them more closely into line with the latest NALC model document.

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;
- 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 nominal codes have been applied in entering detail in the cashbooks; and
- VAT has been appropriately identified and been the subject of periodic recovery.

We are pleased to note that members continue to examine and sign-off trade invoices confirming their review and authorisation for payments to be released, their initials being recorded on the rubber certification stamp affixed to every invoice: the stamp also identifies the payment date, cheque number, amount paid and nominal account code being charged with the expense.

We have selected a sample of payments individually in excess of £1,500, together with a further selection of every 20th cashbook transaction (irrespective of value) for examination and confirmation of compliance with the above criteria for the year to mid-November 2021. Our test sample includes 29 individual payments totalling £113,120 and equating to 76% by value of all non-pay related payments for the year to that date.

We are pleased to note that VAT returns continue to be submitted quarterly throughout the year, electronically as required by extant legislation and have ensured appropriate recovery of the final 2020-21 quarterly reclaim and those to 30th September 2021 by reference to the Omega control account.

Conclusions

We are pleased to record that no issues arise in this area warranting formal comment or recommendation currently. We shall undertake further work in this area at our final review extending the payment sample and examining the final two reclaims for 2021-22.

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; to monitor and manage those risks identified in order to minimise the opportunity for their coming to fruition.

We note that the Council's generic Risk Management Strategy has been reviewed and re-adopted by the Council at the May 2021 meeting. We have reviewed the document and consider it appropriate for the Council's requirements at the high level. However, as referred to in our final report for 2020-21, "The Governance and Accountability Manual – The Practitioner's Guide" requires all councils to review, update if appropriate and formally re-adopt a more detailed financial risk register(s) at least once annually. Whilst we appreciated the impact of the Covid situation during 2020-21 the Council will need to ensure that an appropriate financial risk register is, if not already in place, developed and formally adopted prior to the financial year-end (i.e., 31st March 2022). To assist the Council, we have provided an example of such a document in use at a number of our other clients and urge that a similar document is prepared and adopted accordingly, being adapted appropriately to the Council's specific requirements.

The Council's insurance cover continues to be provided by Axa: we have examined the current year's policy schedule noting that both Public and Employer's Liability cover stand at £10 million, together with Fidelity Guarantee cover at £150,000 and Business Interruption - Loss of Revenue cover also in place at £20,000, all of which we consider appropriate for the Council's present needs.

Conclusions and recommendation

Whilst the Council has appropriate insurance cover in place, it needs to ensure compliance with the requirements of the Governance and Accountability Manual – The Practitioner's Guide developing and formally adopting a detailed register of assessed risks.

R4. The Council must ensure that an appropriately detailed register of assessed risks is developed and is subjected to annual review and formal adoption at least once annually.

Budgetary Control & 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 the Royal Borough Council; those appropriate 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.

This interim review took place in advance of the Council's formal consideration and determination of its budgetary and precept requirements for 2022-23.

We are pleased to note that periodic budget monitoring reports and accompanying variance analyses are prepared and submitted to members for consideration. We have examined the detailed Omega budget report as of 31st October 2021 noting one or two apparent anomalies. Firstly, we note that the SSE electricity payments in July and October 2021 have been miscoded to 4019 "Office cleaning". We also question the content of a few journals seemingly raised in error in the current financial year relating to accruals for, inter alia, external and internal audit fees. Consequently, we suggest that the detailed posting entries for the year to date be reviewed and, where appropriate, corrective entries be made.

Conclusions and recommendation

No significant issues arise in this area currently, although as above, we urge that the postings to various nominal account codes be examined and, where appropriate, correcting journals be raised.

We shall undertake further work in this area at our final visit, including ensuring the formal approval and adoption of the 2022-23 budget and precept, reviewing the year-end budget outturn following up and obtaining explanations for any significant variances that might exist and assessing the ongoing appropriateness of the Council's retained reserves at 31st March 2022 to meet ongoing revenue spending and any planned developments.

R5. The apparent anomalous postings in the current year, as reflected in the latest available Omega budget detail should be examined and appropriate correcting postings be made by journal.

Review of Income

In considering the Council's income streams, we aim to ensure that robust systems are in place to ensure the identification of all income due to the Council from its various sources, to ensure that income

is invoiced in a timely manner and that effective procedures are in place to pursue recovery of any outstanding monies due to the Council.

We are again pleased to note that the scales of fees and charges applicable for activities such as burials, pitch hires and allotment lettings in 2021-22 were formally discussed by the Council with agreement that no increases should be applied in 2021-22.

We have examined a sample of 10 burials during the current financial year (those occurring on or after 1st September 2021) ensuring that the appropriate fees have been charged for each and that each is supported by an appropriate undertaker's application form and either a burial or cremation certificate, with no issues arising in that respect. Whilst such income is generally entered in the Omega cashbook individually, the cashbook entries do not indicate which interment they refer to: we have discussed this with the Clerk suggesting that to ensure a full and transparent audit trail exists, the cashbook should record the Burial Register entry number. We have also reviewed the Register of Memorials ensuring that each stonemason's application from 1st July 2021 (11 in all) has been paid at the appropriate fee rate: we similarly suggest that the cashbook detail includes an appropriate cross-reference to the Memorials Register to similarly provide a clear audit trail between the Omega accounts and register.

Allotment rents fall due on 1st April annually. We have examined the spreadsheet record of tenants' details, noting that most rents were paid in advance of 31st March and were, consequently, accounted for in 2020-21: we do, however, note that one tenant (Plot 6A) appears to have not yet paid their annual rent for 2021-22.

We have reviewed the detailed Omega transaction reports for each nominal account code in Omega ensuring, as far as we have been able to establish, in the light of the above observations, that all income due to the Council to 31st October 2021 has been brought to account and is coded appropriately.

Conclusions and recommendations

Whilst we have no significant concerns in this area, we reiterate our prior year recommendation that some improvement in the cross-referencing of income in the Omega cashbooks is required to ensure that a clear audit trail is in existence.

R6. The apparent non-payment of one allotment tenant's rent should be actively pursued to ensure recovery is achieved as soon as practicable, with any continued failure to pay resulting in termination of the tenant's licence to occupy the plot.

R7. Improved cross-referencing from the various sources of income should be implemented as suggested in the body of the report.

Petty Cash Account

We are required, as part of the AGAR IA certification process, to review and verify the soundness of controls over the operation of the Council's petty cash account. We have, as last year, noted the existence of separate nominal account code (# 210) to record petty cash account transactions in the Omega accounts, with no formal Omega cashbook in place.

We have checked detail of the three recorded transactions in Omega on the 210 control account to 31st October 2021 ensuring that each, together with the £50.00 expense in November 2021 is supported by an appropriate trade invoice or till receipt with no issues arising in that respect.

The Omega control account currently identifies a petty cash holding of £81.96 as at 31st October 2021, which, after adjustment for the further expense of £50.00 on 9th November, results in an anticipated reduced balance of £31.86. We have checked the physical cash held at the time of this interim visit, which totals £30.20, a shortfall of £1.78: this appears to date back to the previous financial year. We have discussed this with the Clerk suggesting that, in view of the small amount involved, the shortfall be “written-off” as a miscellaneous expense in the Omega control account ensuring that the physical cash holding is then in synch with the Omega record.

Finally in this area, as last year, we suggest that a nominated member should undertake a check of the physical petty cash held ensuring that it agrees to the detail in the Omega accounts.

To maintain effective control of petty cash account transactions and accurate reporting of expenditure, detail of any expenses incurred should ideally be recorded in the Omega nominal ledger account at the close of each quarter in the light of limited use now made of the cash holding.

Conclusions and recommendations

As indicated above, an appropriate £1.78 adjustment is required to ensure that the physical cash holding matches the value recorded in the petty cash nominal control account, together with ensuring all petty cash expenditure is recorded in a timely manner in the Omega control account.

R8. The identified physical petty cash holding shortfall should be amended by journal charging the amount as a miscellaneous expense in the Omega control account.

R9. Any petty cash expense incurred should be accounted for at least at quarterly intervals in the Omega accounts.

R10. The physical petty cash holding should be checked and agreed to the Omega control account balance at regular intervals by a nominated councillor.

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 with regard to the deduction and payment over of income tax and national insurance contributions, together with meeting the requirements of the local government pension scheme, as amended periodically.

The Council employs three members of staff for which a formal PAYE scheme is operated by third party contractors (Safeguard World) using appropriate, bespoke payroll software. The Clerk has provided us with detail of her and her assistants contracted weekly hours and also the NJC Spinal pay point for each, where applicable.

To satisfy the criteria above we have, by reference to the October 2021 payslips: -

- Verified the gross salaries paid to the two employees in post in October 2021;
- Checked to ensure that appropriate tax and NI has been calculated and deducted by reference to the tax code recorded on the payslips and relevant HMRC tables;
- Checked that the correct superannuation deduction banding has been applied to the one employee contributing to the LG Pension Scheme; and
- Ensured that the correct net payment has been made to both staff members, also ensuring the correct payments to the relevant agencies.

Conclusions

We are pleased to record that no issues arise in this area warranting formal comment or recommendation.

Investments and Loans

The Council holds no specific investments, although, as noted earlier in this report, “excess” funds are periodically placed in Fixed-term deposits, two being held currently at Lloyds Bank and Yorkshire Bank.

We have noted previously report that the Clerk prepared an appropriate Investment Strategy / Policy, as required by the revised Local Government legislation in this respect. The Council does not have any loans either repayable by, or to, it.

Conclusions

No issues arise in this area currently warranting formal comment or recommendation: we will continue to monitor the Council’s decisions with regard to the placement of surplus funds which have increased this year with receipt of a further £100,000 plus of CIL moneys.

Rec. No.	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	In line with best practice, not only should the bank reconciliations be signed-off and ideally be dated by a nominated councillor, the supporting bank statements and month-end Trial Balance should also be signed-off as evidence that the member has verified detail of bank and cashbook balances on the reconciliation statement.	
Review of Corporate Governance		
R2	When approving grants and donations to local bodies, the approving minutes should identify the powers relied on for granting approval of all such payments.	
R3	The Council should review and update its extant Financial Regulations bringing them more closely into line with the latest NALC model document.	
Assessment and Management of Risk		
R4	The Council must ensure that an appropriately detailed register of assessed risks is developed and is subjected to annual review and formal adoption at least once annually.	
Budgetary Control & Reserves		
R5	The apparent anomalous postings in the current year, as reflected in the latest available Omega budget detail should be examined and appropriate correcting postings be made by journal.	
Review of Income		
R6	The apparent non-payment of one allotment tenant's rent should be actively pursued to ensure recovery is achieved as soon as practicable, with any continued failure to pay resulting in termination of the tenant's licence to occupy the plot.	
R7	Improved cross-referencing from the various sources of income should be implemented as suggested in the body of the report.	

Rec. No.	Recommendation	Response
Petty Cash Account		
R8	The identified physical petty cash holding shortfall should be amended by journal charging that amount as a miscellaneous expense in the Omega control account.	
R9	Any petty cash expense incurred should be accounted for at least at quarterly intervals in the Omega accounts.	
R10	The physical petty cash holding should be checked and agreed to the Omega control account balance at regular intervals by a nominated councillor.	