

Pucklechurch 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 Annual Governance and Accountability Return (AGAR).

This report sets out the work undertaken in relation to the 2021-22 financial year. We undertook an initial and this final update review for 2021-22 remotely having collected the hard copy records from the Clerk for our interim work, receiving the necessary residual year-end documentation electronically: we thank the Clerk for her assistance in this respect.

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 / AGAR. Our programme of cover is designed to afford appropriate assurance that the Council has 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 "IA Certificate" as part of the Council's AGAR process, which requires independent assurance over several control objectives.

Overall Conclusion

We are pleased to conclude that, based on the quality of records maintained by the Clerk and the satisfactory conclusions drawn from our review programme for the year, the Clerk and Council have again maintained adequate and effective internal control arrangements. Whilst there are no significant concerns arising, we have identified one or two areas where we consider a degree of action is required as detailed in the body of the following report with resultant recommendations further summarised in the appended Action Plan.

Based on the satisfactory conclusions drawn from our review, we have duly signed-off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area.

We take this opportunity to draw the Clerk and Council's attention to 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 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.

Detailed Report

Review of Accounting Arrangements & 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 cashbooks or financial ledgers. The Clerk records financial transactions in a spreadsheet cashbook with two bank accounts in use with NatWest plc. We have to date: -

- Ensured that an appropriate analysis of receipts and payments exists in the spreadsheet cashbook;
- Ensured the accurate carry forward of the 2020-21 closing balances to the 2021-22 spreadsheet cashbook detail;
- Ensured that the cashbook remains in balance to the financial year-end;
- Checked and agreed the full year's transactions on the Current and Deposit accounts to the supporting bank statements;
- Verified the accurate recording of detail on the combined bank reconciliations as at 30th September 2021, 31st January and March 2022 noting that a few long-standing cheques remain uncleared at the bank at the financial year-end; and
- Ensured the accurate disclosure of the combined account balances as at 31st March 2022 in the year's AGAR at Section 2 Box 8.

We noted at our interim review that no statements had been received in the year in relation to the NatWest Deposit account with, consequently, no updated information in relation to any movement on that account in the cashbook for the year to that date. A statement covering the year has been obtained subsequently with the only transactions being the addition of monthly interest which has been recorded as a single entry for the year in the cashbook in March 2022.

We are also pleased to note that bank reconciliations are subjected to independent scrutiny and sign-off.

Conclusions and recommendation

We are pleased to record that no significant concerns arise in this area, although we have, as indicated above, noted the existence of a number of uncleared cheques dating back to the early months of the financial year. Consequently, we urge that the recipients of these cheques be contacted to establish whether they intend to bank them or require replacements. Should these cheques be no longer required, they should be recorded in the 2022-23 cashbook spreadsheets as negative entries effectively reversing / cancelling the original entries: if necessary, replacement cheques should then be issued and recorded accordingly as new payments.

We also noted that the opening total balance in the January to March 2022 cashbook spreadsheets (Cell AX6 in each case) was incorrectly linked to the wrong prior month's (November 2021) carry forward value: each month's opening (AX6) cell should be linked appropriately to the prior month's spreadsheet cumulative spending value (i.e., cell AZ32).

Whilst acknowledging that in finalising the year's Accounts and AGAR detail, the Clerk has made appropriate adjustments to the final payment value to be reported at Boxes 4 to 6 of the AGAR, we urge that when creating the 2022-23 cashbook spreadsheets, care is taken to ensure that the appropriate linkings are in place.

- R1. Where cheques remain uncleared at bank for 6 months or longer, the recipients should be contacted to establish whether they intend to bank the cheques. If not and replacements are required, the original payments should be reversed in the cashbooks, recording them as negative payments with appropriate analysis.*
- R2. Care should be taken to ensure that the correct linking of one month's values to the next month's worksheet are established and populated appropriately.*

Review of Corporate Governance

Our objective is to ensure that the Council has robust corporate governance documentation and procedures 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 examined the Council's minutes for the full financial year to determine whether any issues exist that may have an adverse effect, through litigation or other causes, on the Council's future financial stability and are pleased to report that no such matters appear to exist currently.

We note that both the SOs and Financial Regulations (FRs) were again reviewed and re-adopted at the Council meeting in May 2021, both including appropriate reference to the requirements relating to tendering and compliance with the Public Contract Regulations 2015.

We are again pleased to note that payment detail is submitted to the Council and formally incorporated in the minutes, including detail of payees' names, cheque numbers and the payments due to each.

We are also pleased to note that the external auditors signed-off the 2020-21 AGAR without comment or recommendation.

Conclusions

No issues arise requiring formal comment or recommendation in this area this year: we shall continue to monitor the Council's approach to governance at future visits, also reviewing minutes.

Review of Expenditure & VAT

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and approved 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 payments are being reported to Council;
- VAT has been calculated correctly for periodic recovery; and
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount.

We have again reviewed the procedures for the approval and processing of trader and other payments and consider them sound with two members examining and initialling / signing-off individual invoices, etc. when signing cheques, detail of payments also being presented to Council meetings on a schedule, with each entry also duly initialled.

We have examined all the individual invoices and other supporting payment documentation for the year to 31st January 2022, together with a further 7 payments during February and March 2022 with all payments appropriately supported excepting the two monthly standing order payments of £9.00 each to EDF: we also note that no VAT has been identified in respect of these payments in the cashbook. We anticipate that this would have been chargeable at 5% equating to VAT of approximately £10.00 for the year, which is reclaimable.

We have also noted that the purchase of CCTV equipment for the allotments paid on two invoices totalling £431.98 in July 2021 included VAT of £72.00. Whilst we acknowledge that the invoices are both made out to an individual, they come under the auspices of the Parish Council and, as such, the VAT should be reclaimable: we do however suggest that the supplier be asked to provide appropriate invoices made out in the name of the Council to satisfy any potential, although unlikely, query from HMRC.

We note that a single VAT reclaim was prepared and submitted to HMRC for 2020-21, repayment being received in June 2021.

Conclusions and recommendations

Whilst no significant issues have been identified in this area, the clerk should acquire appropriate invoices or a year summary in relation to the monthly EDF standing order payments to support the recovery of the associated VAT, although not a significant amount is involved (1/21st of the total payments made in the year). Similarly, the allotment CCTV equipment supplier should be asked to provide amended invoices in the name of the Council to ensure ease of recovery of the VAT incurred on the purchases.

R3. The clerk should ensure that periodic invoices identifying the VAT incurred on the two monthly EDF standing order payments. This has been adjusted appropriately with the recoverable VAT included in the 2021-22 reclaim submitted to HMRC.

R4. Where any purchases are made on behalf of the Council, care should be taken to ensure that invoices are addressed to the Council to ensure ease of recovery of any VAT incurred. The supplier of the allotment CCTV equipment should also consequently be asked to provide amended invoices in the name of the Council. The Council considered it unrealistic to pursue acquisition of a VAT invoice in the Council's name and determined not to pursue this further.

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 identified in order to minimise the opportunity for their coming to fruition.

We are pleased to note that a formal Risk Register remains in place and that it was reviewed and formally re-adopted by the Council at its meeting on 5th May 2021.

The Council's insurance cover has again been provided through the Local Council's scheme: we have examined the year's schedule and consider that appropriate cover is in place with Employer's and Public Liability both set at £10 million, together with Fidelity Guarantee cover at £250,000.

Conclusions

No issues arise in this area. We shall continue to monitor the Council's approach to governance at future reviews.

Precept Determination and Budgetary Control

We aim in this review area 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 parent Council; 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.

We again note that the Council has considered its budgetary and precept requirements for 2022-23 agreeing the precept at the full Council meeting held on 19th January 2022 with the value minuted appropriately as £87,026.

We are again pleased to note that the Clerk provides members with detail of the Council's budgetary performance during the year and have examined the year-end outturn with no areas of concern identified warranting further enquiry.

We have reviewed the level of reserves retained by the Council, which have increased to approximately £122,040 (£109,000 as at 31st March 2021) including earmarked reserves (EMRs) of £118,770 (£86,000 at the prior year-end) leaving a residual General Fund reserve balance of only £3,270 (£23,000: at 31st March 2020): this equates to less than 3 months' revenue spending at the 2021-22 level and is below the generally accepted holding of between 3 and 12 months in the General Reserve. Whilst we appreciate that the EMRs could if the need arose be reverted back to the General Fund, the Council should consider taking appropriate action to make such a transfer and ensure that a more appropriate level of General Reserve is maintained.

Conclusions and recommendation

We are pleased to record that no issues of significant concern arise in this area this year, but urge members to consider the reduction of the value of funds held in EMRs thereby increasing the General Fund to a level of between 3 and 12 months' annual revenue spending.

R5. The Council should ensure that the level of funds held in the General Reserve are increased to a level between 3 and 12 months' annual revenue spending, reducing one or more Earmarked Reserves accordingly.

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

To gain assurance that appropriate controls are in place, we have examined income arising from allotment rents, noting that a formal register of tenants is in place with all rents for 2021-22 received and banked appropriately, 6 having been paid in advance in March 2021 and accounted for in that year's AGAR as Receipts in Advance: Similarly, 6 allotment rents relating to 2022-23 have been received in advance in March 2022 and have consequently been accounted for as a liability in the detailed accounts and AGAR.

We noted at our interim review that 8 interments had occurred to date during 2021-22 and ensured that the appropriate fees were charged and recovered in accordance with the approved scale of fees and charges. We also reviewed the underlying undertaker applications, ensuring that the legally required burial / cremation certificates were held for each interment. In doing so, we noted that one interment did not proceed with the previously received fees of £200 refunded in October 2021. Whilst acknowledging that this is a separate payment and has been recorded as such in the cashbook, as it is effectively a straightforward refund of overpaid fees it should strictly be shown as a negative receipt thereby ensuring that, in the AGAR, neither receipts nor payments (Boxes 3 & 6) are overstated by £200.

Finally in this review area, we note that cemetery fees were last formally reviewed in August 2019. The adopted Financial Regulations (Para 9.3 refers) require that fees and charges be reviewed annually.

Conclusions and recommendation

No significant issues arise in this area although we suggest that the cashbook be amended to record the £200 burial fee refund as a negative receipt rather than as a miscellaneous payment.

R6. The £200 burial fee refund should be recorded as a negative receipt in the cashbook, thereby ensuring that neither receipts nor payments are overstated in the year's AGAR. This has been corrected in the cashbook as recommended prior to the financial year-end.

R7. To comply with the adopted Financial Regulations (Para 9.3 refers), fees and charges must be reviewed annually: where no changes are agreed, that decision should be minuted formally. This was discussed at the April 2022 meeting with agreement that the fees remain unchanged for 2022-23.

Petty Cash Account

No petty cash account is in operation for 2021-22, following application of the residual cash sum during 2020-21 held at the start of that financial year.

Review of Staff Salaries

We note that the Council continues to outsource production of its monthly payroll and have examined the Clerk's employment contract previously.

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 deduction and payment over of income tax and NI contributions. We note that the Council approved an uplift in the clerk's NJC spinal point with effect from 1st October 2021 and have consequently examined the Clerk's September 2021 and January 2022 payslips. Following final agreement of the 2021-22 national pay award in early March 2022, the Clerk's salary for that month has been amended accordingly and paid, together with the backdated arrears from 1st April 2021.

We have: -

- Ensured that the Clerk's monthly gross pay has been calculated in accordance with the approved spinal points, as uplifted from 1st October 2021 on the 2021-22 pay scale and for the contracted hours;
- Checked and agreed the correct monthly salary for March 2022 based on the national pay award for 2021-22, together with arrears;
- Ensured that Income Tax codes and National Insurance Tables are being applied correctly;
- Noted that the Clerk contributes to a pension scheme through NEST; and
- Ensured that payments to HMRC and NEST are made appropriately each month.

Conclusions

We are pleased to record that the procedures in place for the determination and physical payment of the Clerk's salary continue to operate soundly.

Fixed Asset Register

The Practitioner's Guide requires all Councils to maintain a comprehensive register of all assets owned and leased by the Council. We are pleased to note the continued existence of an appropriate register with the new play area signage acquired during 2021-22 duly added to the register at net cost. Consequently, the asset value to be reported in the year's AGAR at Section 2, Box 9 has been increased appropriately.

Conclusions

No matters of concern have been identified in this review area this year.

Investments and Loans

The Council has no "investments" in place currently, all funds being held in the two NatWest bank accounts. Similarly, there are no loans in place either repayable by, or to the Council. We were pleased to record in last year's report, the development and adoption of a formal Investment Policy, which was duly adopted in April 2021.

Statement of Accounts and AGAR

The Accounts and Audit Arrangements require councils to submit their annual Accounts in the form of a summarised financial statement in the AGAR. We are again pleased to note that the Clerk has prepared a more detailed Statement of Accounts for the year adjusting the cashbook values accordingly to reflect the few debtors and creditors existing at the financial year-end, full detail of which is reported in the detailed Statement of accounts prepared. We have agreed the entries recorded in the detailed Statement of Accounts to the cashbook values as adjusted by the disclosed year-end debtors and creditors and then transferred to the AGAR at Section 2.

Conclusions

On the basis of the satisfactory conclusions drawn from our review programme for the year, we have signed off the Internal Audit Certificate in the year's AGAR assigning positive assurances in each relevant area.

Rec. No.	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	Where cheques remain uncleared at bank for 6 months or longer, the recipients should be contacted to establish whether they intend to bank the cheques. If not and replacements are required, the original payments should be reversed in the cashbooks, recording them as negative payments with appropriate analysis.	
R2	Care should be taken to ensure that the correct linking of one month's values to the next month's worksheet are established and populated appropriately.	
Review of Payments & VAT		
R3	The clerk should ensure that periodic invoices identifying the VAT incurred on the two monthly EDF standing order payments.	<i>This has been adjusted appropriately with the recoverable VAT included in the 2021-22 reclaim submitted to HMRC.</i>
R4	Where any purchases are made on behalf of the Council, care should be taken to ensure that invoices are addressed to the Council to ensure ease of recovery of any VAT incurred. The supplier of the allotment CCTV equipment should also consequently be asked to provide amended invoices in the name of the Council.	<i>Care should be taken to ensure that the correct linking of one month's values to the next month's worksheet are established and populated appropriately.</i>
Budgetary Control and Reserves		
R5	The Council should ensure that the level of funds held in the General Reserve are increased to a level between 3 and 12 months' annual revenue spending, reducing one or more Earmarked Reserves accordingly.	
Review of Income		
R6	The £200 burial fee refund should be recorded as a negative receipt in the cashbook, thereby ensuring that neither receipts nor payments are overstated in the year's AGAR.	<i>This has been corrected in the cashbook as recommended prior to the financial year-end.</i>
R7	To comply with the adopted Financial Regulations (Para 9.3 refers), fees and charges must be reviewed annually: where no changes are agreed, that decision should be minuted formally.	<i>This was discussed at the April 2022 meeting with agreement that the fees remain unchanged for 2022-23.</i>