

Chigwell Parish Council

Internal Audit Report 2020-21 (Interim)

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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 Annual Governance and Accountability Return (AGAR).

This report sets out the work undertaken in relation to the 2020-21 financial year, during our initial review of the Council's records for the year, which was undertaken remotely due to the ongoing Covid-19 situation and restrictions on 12th / 13th November 2020. We wish to thank the Responsible Finance Officer (RFO) in assisting the process, providing all necessary documentation in electronic format to facilitate commencement of our review for the year.

Internal Audit Approach

In commencing 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 'Internal Audit Report' in the Council's AGAR, which requires independent assurance over a series of internal control objectives.

We hope to be able to conduct the final review on site next spring / summer and will liaise with the Clerk and RFO to determine the approach to be taken nearer that time.

Overall Conclusions

We are pleased to acknowledge the positive responses and actions taken to address the recommendations set out in our 2019-20 report, with only a single residual recommendation arising at this stage of our review process.

We are also pleased to conclude that, based on the work undertaken to date, the Council is now operating in a more formalised manner with generally adequate and effective internal control arrangements in place.

Detailed Report

Review of Accounting Arrangements & Bank Reconciliations

Our objective here is to ensure that the Council's accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. We also aim to ensure the integrity of the data and that appropriate arrangements are in place for its security. The Council's RFO maintains the accounting records using the Rialtas Omega software with support from the software supplier as and when required. Four bank accounts are in operation this year, each in a separate cashbook in the software. Three accounts are in place with Barclays – Current, Savings & Clerks, the last being used for staff salary related payments with a further account in place with the Cambridge & Counties Building Society.

We have: -

- Ensured the accurate roll-over of the prior year closing balances to the current year's accounting records
- Ensured that a comprehensive, meaningful and appropriate nominal coding and cost centre structure is in place
- Checked and agreed transactions in each account cashbook to the supporting bank statements for two months in the year to date (April & September 2020), and
- Verified reconciliations of all bank accounts between the cash book and the relevant bank statements as at 30th April and September 2020, with no long standing uncleared or other anomalous entries apparent.

Conclusions

We are pleased to record that no issues arise in this area currently warranting formal comment or recommendation: we are also pleased to note that members continue to review and sign-off the month-end bank reconciliations on each account.

We shall undertake further work in this area at our final review, extending our testing for the remainder of the financial year and ensuring the accurate disclosure of the combined account balances in the year's AGAR.

Review of Corporate Governance

Our objective here 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 (SOs) and that, as far as we may reasonably be expected to ascertain as we do not attend meetings, no actions of a potentially unlawful nature have been or are being considered for implementation.

We noted previously that both SOs and Financial Regulations (FRs) were reviewed and re-adopted during 2019-20, also noting from our examination of current year minutes the intent to further review and re-adopt the documents at a date in the near future.

As recorded in our final report for 2019-20, following the UK's exit from the EU, NALC were, prior to the current Covid-19 crisis, preparing a further revision to both SOs and FRs: this has

understandably been delayed and we will keep the Council advised as soon as we hear of any developments in this respect.

We are again pleased to note that payments are reviewed and approved at monthly meetings of the Council and / or Management Committee and full Council.

We have commenced our review of Council and standing committee minutes, excluding those related to Planning issues, reading those for the financial year to date as posted in the Council's website, to ensure that no issues affecting the Council's financial stability either in the short, medium or long term exist.

We also note that the external auditors have still to sign-off the 2019-20 AGAR and ask that, once received, we be provided with a copy of the certificate and any supplementary report issued.

Conclusions

We are pleased to record that no significant issues have been identified in this review area this year having appropriately addressed the issues highlighted in our 2019-20 report. We shall extend our review of minutes for the remainder of the year at our final visit, also continuing to assess the appropriateness of the Council's overall governance controls.

Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets:
- Suitable documentation supports the 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
- Members are effectively controlling the management of funds and demonstrating such by evidencing their review of documentation supporting payments processed
- The correct cost centre and nominal account code has been applied
- Where deemed appropriate, an official order has been raised
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount, and
- VAT is being identified and coded appropriately for recovery from HMRC.

We reviewed the control procedures in place over the approval of payments during our 2019-20 review, noting that all payments are made either online or by Direct Debit / Standing Order with online payments set up by the RFO and then released by the Clerk. A schedule of payments due for release is also prepared, presented to Council each month and signed-off by members.

We are pleased to note that, following our recommendation last year a suitably designed rubber certification stamp has been acquired and is now affixed to all invoices.

We have selected a sample of payments processed in the year to 31st October 2020 for compliance with the criteria set out at the start of this section of the report: our test sample

included all payments in excess of £2,000 plus a more random selection of every 25th payment as recorded in the accounts. In all 28 individual payments have been examined, together with the three annual NNDR payments paid monthly during the year: the test sample totals £86,000 and equates to 57% by value of non-pay related payments in the financial year.

In examining the above sample of invoices, we noted that only 9 had been initialled / signed-off by two councillors, that 12 were only initialled / signed-off by one councillor, the residual 10 bearing no councillor initials or signatures. Whilst we appreciate the undoubted impact of the Covid situation, all invoices should be the subject of independent councillor scrutiny and sign-off.

We have also examined the VAT control account for the year noting that reclaims have been prepared, submitted to HMRC for the final 2019-20 and first 2020-21 quarters with repayment made accordingly. If not yet prepared, we urge that the second 2020-21 quarter reclaim (i.e. to 30th September 2020) be prepared and submitted as soon as practicable.

Conclusions and recommendation

Whilst we consider that generally effective controls over the approval and release of payments are in place, it is important that all invoices are subjected to independent scrutiny and evidenced payment approval with members initialling or signing off all documents.

R1. All invoices should be subjected to independent member scrutiny and evidenced sign-off: where this has not proved practicable to date due to the Covid situation, arrangements should be made for all documents to be subjected to appropriate scrutiny and sign-off, albeit retrospectively.

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 were pleased to note last year the comprehensive risk registers in place: we note that they are subject to routine review and update and considered their format and content appropriate for the Council's present needs.

We have examined the year's Zurich Municipal insurance schedule for 2020-21 and consider the level of cover in place appropriate for the Council's present requirements with Employer's and Public Liability in place at £10 million and £15 million respectively, together with Fidelity Guarantee cover at £500,000. We are also pleased to note that, following last year's recommendation, cover for "Business Interruption – Loss of Revenue" has been established at £100,000.

We also noted last year that parks and play areas under the Council's management were visited routinely each week by officers, who have received the appropriate inspection training to ensure that the grounds and equipment are adequately maintained from a health / safety viewpoint: these reviews are supplemented by further professional reviews by external contractors during the year. We believe that position to still be in operation.

Conclusions

We are pleased to record that no concerns have been identified in this area at present warranting formal comment or recommendation: we shall continue to monitor the Council's approach to the management of risk at future visits and remind the Clerk and Council that the over-arching financial risk register must be subjected to review and formal re-adoption at least once in each financial year – the Governance and Accountability Manual refers.

Budgetary Control & Reserves

In considering the Council's approach to budget determination and precept setting, we aim to ensure that decisions are made based on sound information and that an appropriate level of precept is determined to meet the Council's future planned expenditure.

This review occurred in advance of any formal consideration or decision on the budgetary and precept requirement for 2021-22: consequently, we shall review the outcome at our final review visit for the year.

We have reviewed the current budget position (as at 31st October 2020), as set out in the detailed report generated by the Omega accounting software, with no unanticipated or unexplained variances apparent, allowing for the impact of the Covid situation, warranting further enquiry or investigation.

Conclusions

No issues arise in this area currently: we shall undertake further work in this area at our final visit ensuring that the Council has given due consideration to its budgetary and precept requirements for 2021-22 formally minuting the approval of both. We shall also examine the final year-end budget outturn seeking explanations for any significant variances that may arise and consider the ongoing appropriateness of the level of retained reserves (both in the General and Earmarked funds).

Review of Income

In examining the Council's sources of income, we aim to establish that robust procedures are in place to ensure that income due to the Council is identified and invoiced accordingly; that arrangements for the secure handling of any cash income are in place and that income due to the Council is recovered within a reasonable time span.

We have, consequently, as part of this interim review, examined income arising from allotment rents and cemetery interments, noting that the former fall due for recovery on 1st April annually. We also note that fees are invoiced in each case using the Omega Sales Ledger software.

Burial income

The Council has previously and continues to maintain its burial records in bound ledgers: we noted last year the acquisition of the Scribe Burials software, implementation of which had been delayed. Due to the present Covid lockdown we have not had an opportunity to examine the software to ensure that it has been brought into use: consequently we requested provision of detail of a sample of 10 interments during the current financial year to date and have been provided with copies of the supporting undertaker applications and invoices raised.

We have verified the level of fees charged by reference to the current approved schedule of fees and charges also ensuring recovery within a reasonable time scale and are pleased to record that no issues arise in this area.

Allotment Rents & Key Deposits

A spreadsheet control record of allotments is held by the RFO identifying tenant detail for the 2 sites operated by the Council. We are pleased to note that, following last year's recommendation, the register now records detail of the fee due and key deposits received and retained, together with the payment dates. We note that only one tenant had still to pay their rent (plot LF 30) at the time of our review.

We also noted last year that allotment key deposits were being recorded as income in the nominal ledger and advised that, as these deposits are refundable, they should not be regarded or coded as income to the Council. We are pleased to note that these deposits are now identified appropriately as creditors on nominal account code 560 in the Omega ledger.

General income

We noted last year that the Council assumed responsibility, during 2019-20, for management of room hire bookings at the Victory Hall: this arose due to delays in completion of lease negotiations with the Charitable Trust that previously managed the hall, following expiry of the existing lease in April 2019.

Obviously the Covid situation has had an impact on the level of hall hire income receivable in the current financial year and, consequently, we have not examined that particular income stream at this review. We also note from examination of minutes the ongoing negotiations over the hall lease and will continue to monitor the position at future visits.

We have examined the nominal income transaction detail for the year to date as recorded in the accounts software to ensure that, as far as we are reasonably able, no significant miscodings have occurred and that all income due to the Council has been received.

Finally, in this area, we have examined the Omega Sales Ledger – "Unpaid Invoices by Date" report as at 31st October 2020 noting that 8 invoices remain unpaid (£8,509) as at that date. Of those, 5 date from 2019-20 with 5 of the 8 relating the Members Club (£7,369). We note that members are aware of the situation with regard to the Members Club debts, which has obviously been exacerbated by the Covid situation, also noting that the situation has been referred to the Council's solicitors for guidance: we shall monitor the position at our final review.

Conclusions

We are pleased to record that, other than the relatively significant value of long-standing debts, no issues of concern have been identified in this area currently: we shall undertake further work in relation to the Council's income streams at our final review visit.

Petty Cash Account

We note that, following a few internal control issues last year, the petty cash account has been closed with a NIL balance now recorded in the financial ledger.

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 Employee Rights Act 1998 and the requirements of HMRC legislation in relation to the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme in relation to employee contribution percentages. The monthly payroll is prepared in-house using bespoke software.

We have, at this interim review:

- Obtained detail of the staff in post; their NJC scale point or hourly pay rate, where not on the NJC scale, basic weekly hours, noting that Full time officers work a basic 36 hour week
- Noted that staff on NJC scales are being paid on the revised scales and salaries applying from 1st April 2020, with arrears backdated to 1st April 2020 duly paid with the October salaries
- Examined payslips for September and October 2020 to ensure that the correct gross salary payments and arrears calculations have been made and applied
- Ensured that the correct tax and NI deductions are being applied by reference to the applicable / relevant HMRC tax and NI tables
- Ensured that, where staff are contributing to the LG pension scheme, the appropriate percentage deductions are being applied, and
- Agreed the physical payments made to staff, HMRC and the LG Pension Fund for September 2020 as per individuals' payslips.

Conclusions

We are pleased to report that no matters have been identified in this area this year, although we have not had an opportunity to examine time records or travel claims supporting additional payments made in September and October 2020: we will, consequently, revisit this area at our final visit, ensuring such additions in the September and October 2020 salary payments are appropriately supported by certified records, as recommended in our 2019-20 report.

Investments and Loans

As indicated earlier in this report the Council holds surplus funds in both a Barclays Savers Account and also the Cambridge & Counties Building Society, both of which are earning interest for the Council, albeit significantly reduced due to the impact of the Covid pandemic.

We note that, following our 2019-20 recommendation, the Council has prepared and adopted an appropriate Investment Strategy / Policy.

However, we remain concerned that, with almost £700,000 held in the combined Barclays accounts, the Council is potentially at a high degree of risk should, albeit unlikely, the bank "fail" and again suggest that the Council should consider further diversification of its surplus funds than just with Cambridge & Counties bearing in mind that the Government's compensation scheme only affords cover up to £85,000 in any one banking institution.

We have previously advised that, whilst we cannot act as financial advisors, several of our clients have placed surplus funds with CCLA in their Deposit Fund Account which has been offering a better rate of interest than most High Street banks and suggested that consideration be given by members to this as one potential option for the future placement of a proportion of the Council's surplus funds. We understand that a further one year bond has been approved with the United Trust Bank, awaiting transfer of funds to the new account.

The Council has one outstanding loan repayable half-yearly to PWLB: we have verified the first repayment instalment for the current financial year by reference to the PWLB demand as part of our above referenced payment review sample.

Conclusions

The Council should continue to monitor the position with a view to maximising interest earning potential, whilst ensuring public funds are as safeguarded as is possible in the current uncertain times. We shall continue to monitor the position at future visits, also ensuring the accurate disclosure of the year-end loan liability in the Accounts and AGAR.

Rec. No.	Recommendation	Response
Review of Expenditure & VAT		
R1	All invoices should be subjected to independent member scrutiny and evidenced sign-off: where this has not proved practicable to date due to the Covid situation, arrangements should be made for all documents to be subjected to appropriate scrutiny and sign-off, albeit retrospectively.	