

Internal Audit Report for Stanway Parish Council for the year ending 31st March 2021

Clerk: Donna Tristram	RFO: David Lines	Chairperson: Cllr Spademan
2020/21 Precept: £270,000 2021/22 Precept: £270,146	Income: Budget: £5,295, Actual: £10,226	Expenditure: Annual Budget £275,295, Actual: £208,604
General reserves: £55,850 as at 31/3/2021	Earmarked reserves: £139,350 as at 31/3/2021	Auditor: Gordon Mussett
Audit type: Year End		

Introduction

The primary objective of internal audit is to review, appraise and report upon the adequacy of internal control systems operating throughout the council. To achieve this I adopt a predominantly systems-based approach to audit.

The council's internal control system comprises the whole network of systems established within the council to provide reasonable assurance that the council's objectives will be achieved, with reference to:

- the effectiveness of operations
- the economic and efficient use of resources
- compliance with applicable policies, procedures, laws and regulations
- the safeguarding of assets and interests from losses of all kinds, including those arising from fraud, irregularity and corruption
- the integrity and reliability of information, accounts and data

Methodology

When conducting the audit, the internal auditor may:

- carry out a selective assessment of compliance with relevant procedures and controls expected to be in operation during the financial year in order to be able to complete the Annual Internal Audit Report 2020/21 of the Annual Governance and Accountability Return (AGAR)
- review the reliability and integrity of financial information and the means used to identify, measure, classify and report such information
- review the means of safeguarding assets and, as appropriate, verify the existence of such assets
- appraise the economy and efficiency with which resources are employed, identify opportunities to improve performance and recommend solutions to problems
- review the established systems to ensure compliance with those policies, procedures, laws and regulations which could have a significant impact on operations, and determine whether the council complies
- review the operations and activities to ascertain whether results are consistent with objectives and whether they are being carried out as planned

Section 1 – Proper Bookkeeping		
I will look at the methods and processes used to manage the Council's accounts and in particular that it provides clear data for reporting and monitoring purposes. This includes checking information is accurate, up to date, referenced and verified.		
Evidence		Internal Auditor Commentary
Is the Ledger maintained and up to date ?	Yes	The Council uses the Scribe accounting package which produces reports on an income and expenditure basis.
Is the Cash Book up to date and regularly verified ?	Yes	Cash books are reconciled on a monthly basis and the Parish Council is registered for VAT. Reports including bank reconciliations go to the Corporate Governance Committee.
Is the arithmetic correct ?	Yes	A number of transactions were checked and found to be correct.

Section 2 – Financial Regulations & Standing Orders		
I checked the date the Council carried out its annual review of Standing Orders and Financial Regulations and, in particular, check if these are based on NALC's latest model which includes legislative changes.		
Evidence		Internal Auditor Comment
Have Standing Orders been adopted, are they up to date and reviewed annually ?	Yes	An interim review took place at the meeting held 7 th January 2021 having been deferred from the Annual Meeting of the Council but there is no evidence that the more detailed review agreed at that meeting has occurred. This review should be concluded promptly.
Are Financial Regulations up to date and reviewed annually ?	Yes	An interim review took place at the meeting held 7 th January 2021 having been deferred from the Annual Meeting of the Council but there is no evidence that the more detailed review agreed at that meeting has occurred. This review should be concluded promptly.
Has the Council properly tailored the Financial Regulations ?	Yes	
Has the Council appointed a Responsible Financial Officer ?	Yes	At Full Council meeting held 4 th June 2020 David Lines was appointed RFO

Section 3 – Payment Controls

I have specifically checked bank reconciliation including credit/debit cards and management approval processes and evidence that internal Financial Regulations (FO) are being followed. I examined how regular payments are managed and specifically seek evidence that these have been brought back to the Council for verification purposes especially where the actual payment made differs from the amount previously agreed. VAT should be clearly identified including evidence that claims have been correctly managed. I checked if the Council had a clear understanding on eligibility in relation to the General Power of Competence and that s.137 has been correctly applied and managed.

Evidence		Internal Auditor Comment
Is there supporting paperwork for payments with appropriate authorisation ?		
Where applicable are internet banking transactions properly recorded and approved ?	Yes	The current bank mandate for Unity Bank includes the late Councillor Manning
Is VAT properly identified, recorded and claimed within the limits ?	Yes	
Has the Council adopted the General Power of Competence and is there evidence this is being applied correctly ?	No	
Are payments under S137 of the LGA 1972 separately recorded, minuted, and is there evidence of direct benefit to the electorate ?	No	S137 payments are all identified as grant payments, and not all of them may be payable under S137, as this section of the 1972 LGA may only be used where the Council does not already hold a power to undertake the thing being financed.
Where applicable are payments of interest and capital sums in respect of loans paid in accordance with agreements ?	Yes	

Section 4 – Risk Management		
I would expect to find evidence of the management of risks from identification of what those are for the Council through to how these will be managed and the controls in place to mitigate these, and that these have been approved by the Council.		
Evidence		Internal Auditor Comment
Is there evidence of risk assessment documentation ?	Limited	There is limited evidence of risk assessments being prepared or completed. It is understood that the Council has purchased the Local Council Risk System and time needs to be invested in both using it and managing the significant risks identified.
Is there evidence that risks are being identified and managed ?	Limited	See above.
Does the Council have appropriate and adequate insurance cover in place for employment, public liability and fidelity guarantee and has it been reviewed on an annual basis ?	Yes	
Evidence that internal controls are documented and regularly reviewed ?	Yes	The Council commissioned an independent review which identified areas to improve upon and which was considered by Full Council on 28 th January 2021 with a recommendation to implement measures in May/June 2021.
Evidence that a review of the effectiveness of internal audit has been carried out during the year ?	Yes	Independent review conducted and reported

Section 5 – Budgetary Controls		
I have sought verification that budgets are properly prepared, agreed and monitored. In particular I have looked for evidence of good practice in that the key stages of the budgetary process have been followed.		
Evidence		Internal Auditor Comment
Has the budget been properly prepared and agreed ?	Yes	

Has the precept amount been agreed by Full Council and clearly minuted ?	No	Agreed at 28 th January 2021. The minutes report the Band D Council Tax level (without denoting it as Band D) but not the Precept
Regular reporting of expenditure and variances from budget ?	Yes	At each Full Council meeting
Reserves held – general and earmarked ?	Yes	As at 31 st March 2021:- General £55,850.01 Earmarked £139,350.00

Section 6 – Income Controls		
I have looked for evidence that income is correctly managed – recorded, banked and reported and I have checked mechanisms used to achieve this.		
Evidence		Internal Auditor Comment
Is income properly recorded and promptly banked ?	Yes	Most payments are now by way of bank transfer
Is income reported to Full Council ?	Yes	Reported to each Full Council meeting
Does the precept recorded agree to the Council Tax authority's notification ?	Yes	
If appropriate, are CIL reporting schedules in accordance with the Regulations ?	N/A	
Is CIL income reported to Full Council ?	N/A	
Does unspent CIL income form part of earmarked reserves ?	N/A	
Has an annual report been produced ?	No	
Has it been published on the authority's website ?	No	

Section 7 – Petty Cash
Has the Council followed its own procedures and verification processes and are these up to date.

Evidence		Internal Auditor Comment
Is Petty Cash in operation ?	No	
If appropriate is there an adequate control system in place ?	N/A	

Section 8 – Payroll Controls		
I have checked salaries are approved in accordance with PAYE, NI, Pension and that there is a clear understanding that the clerk is not self-employed. If the Clerk has been recruited during the year evidence will be required to show compliance with the new requirements for the statement of employment, induction, probation and training requirements. I have also reviewed how payroll is managed including evidence of approval of Payslips.		
Evidence		Internal Auditor Comment
Do all employees have a contract of employment ?	Yes	
Has the Council approved the salary paid ?	Yes	In view of the fact that staff costs account for 25%+ of the Council's expenditure a separate staffing budget review is recommended, setting out in detail for Councillors the grades and agreed hours of work for each member of staff, together with their current actual salary.
Minimum wage paid ?	Yes	
Are arrangements in place for authorisation of Payroll and payments by the Council ?	In part	There appears to be no documented procedure for approving overtime or additional hours. Members should assure themselves that overtime and additional hours are properly approved
Do salary payments deduct PAYE/NI ? Is PAYE/NIC paid promptly to HMRC ?	Yes	
Is there evidence the Council is aware of its pension responsibilities ? Are pension payments in operation ?	Yes	Member of Essex Pension Scheme
Are there any other payments (e.g. expenses) and are these reasonable and approved by the Council ?	Yes	Homeworking allowance and travel expenses

Section 9 – Asset Control		
I have checked that there is a list of assets in accordance with proper practices including the date of acquisition, location and value. This extends to checking policies (with evidence of review) and that the Council has applied a documented approach in practice. I have checked not only valuation processes but the existence of reserve budgets for depreciation and adequacy of insurance. A clear audit trail should be available when items are purchased including minutes to evidence approval.		
Evidence		Internal Auditor Comment
Does the Council manage a register of material assets and manage them in accordance with proper practices ?	Yes	Not all new acquisitions during the year have been included (bus shelter and store)
Are the value of the assets included (N.B. values for insurance purposes may differ) ?	Not all	Not all assets have a value assigned to them, and I can find no note on the asset register as to the definition of an asset (which in 2021 should perhaps be any single item with a purchase price in excess of £500 – this figure equates to the Transparency Code publishing requirement). In addition there is no explanation given as to why some items are assigned a nominal value of £1; whilst this is permitted under the Regulations an explanation should be provided.
Are records of deed, land registry title number available ?	Yes	
Is the asset register up to date and reviewed annually ?	Unclear	The asset register was dated 31 st March 2021. The asset register was not reviewed at the Annual Meeting of the Council and I can find no record of it being reviewed by Council or Committee during the year.
Cross-checking of insurance cover	No	There are entries in the asset register that the insurance of benches is included in seats but no mention of seats or their insured values.

Section 10 – Bank reconciliations		
Does the Council understand and evidence good practice and internal control mechanisms in relation to bank reconciliation.		
Evidence		Internal Auditor Comment

Is bank reconciliation regularly completed and reconciled with the cash book and cover every account ?	Yes	Reported to every regular Full Council meeting
Do bank balances agree with bank statements ?	Yes	Bank balances stated in the cash book as at 31/03/21 agree with the bank statements:- Nationwide 419-95 £31,054.86 Nationwide 427-45 £31,027.43 Unity Trust £28,276.14 Barclays Premium £66,142.60 Barclays £22,543.50
Is there regular reporting of bank balances at Council meetings ?	Yes	Very full reports are presented to each regular Full Council meeting.

Section 11 – Year End Procedures		
Evidence		Internal Auditor Comment
Are appropriate accounting procedures used ?	Yes	
Financial trail from records to presented accounts ?	Yes	
Has the appropriate year end AGAR document been completed ?	No	To be completed at future Council meeting
During the period in question did the Council correctly provide for the exercise of public rights as required by the Accounts and Audit Regulations ?	Yes	
Have the publication requirements been met in accordance with the Regulations ?	Yes	

Section 12 – Internal Audit

Have previously identified weaknesses been addressed and recommendations considered. Are any further changes required to ensure effectiveness.		
Evidence		Internal Auditor Comment
Has the previous Internal Audit Report been considered by Council ?	Yes	These are considered by the Internal Audit Committee with recommendations being referred to Full Council.
Has appropriate action been taken regarding any recommendations raised ?	Yes	Considered and agreed at January 2021 meeting
Has the Council confirmed the appointment of the Internal Auditor	Yes	Gordon Mussett was appointed as Internal Auditor for 2020/2021 on 4 th June 2020
Has the Council considered the effectiveness of Internal Audit ?	Yes	This was considered at the Council's January 2021 meeting but deferred to May 2021

Section 13 – External Audit for the Period Under Review		
Evidence		Internal Auditor Comment
Has the previous External Audit Report been considered by the Council ?	Yes	Full Council 29 th October 2020
Has appropriate action been taken regarding the comments raised ?	N/A	There were no matters raised

Section 14 – Additional Information		
Evidence		Internal Auditor Comment
Was the annual meeting held in accordance with legislation ?	No	The Emergency Powers gave Councils the right not to hold an Annual Meeting in 2020. However, having chosen to do so Stanway Parish failed to hold their meeting within the prescribed timescale of May.
Is there evidence Minutes are administered in accordance with legislation ?	Yes	Minutes are available on the Council's website.
Is there a list of Members' Interests held ?	Yes	

Does the Council have any Trustee responsibilities and are these clearly identified on a Trust Document ?	No	The Parish Council is corporate Trustee of a number of premises.
Has the Transparency Code been correctly applied and information published in accordance with the current legislation ?	Yes	Although the schedule of payments over £500 is now out of date being more than 3 months old.
Has the Council registered with the Information Commissioner ?	Yes	Z2785850 on 26 th July 2020
Is the Council compliant with the General Data Protection Regulations ?	Yes	Privacy and Cookies Stanway Parish Council (stanwaypc.org.uk)
Has the Council published a website accessibility statement on their website in line with the Regulations ?	Yes	Accessibility Stanway Parish Council (stanwaypc.org.uk)
Is there evidence that electronic files are backed up ?	Yes	
Do terms of reference exist for all Committees and is there evidence these are regularly reviewed ?	In part	These should be reviewed at each Annual Meeting but would appear not to have been reviewed in 2020. If Standing Orders are followed the business of the Annual Meeting will include this and a number of other important items.
Do the following policies exist, have they been formally adopted and are they regularly reviewed ? Health & Safety Equal Opportunities	No	Neither can be found on the website and there is no evidence of them having been reviewed at the Annual Meeting of the Council.

Summary of Issues to be Addressed during 2021/2022

- Section 2 Standing Orders to be reviewed
 Financial Regulations to be reviewed
- Section 3 Review use of S137 Powers – cannot be used if a power already exists
- Section 4 Risk Assessments need reviewing
- Section 8 Introduce a system for approving additional hours and overtime
- Section 9 Review Asset Register
- Other Ensure adequate personnel policies are in place

G N Mussett

21/5/21