

Staplehurst Parish Council

Annual Report by the Internal Auditor for the year to 31st March 2021

Introduction

Regulation 6 of the Accounts and Audit (England) Regulations 2011 imposes a duty on local councils to 'maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'

Internal audit is a key component of the system of internal control established by the council. The purpose of internal audit is to review and report to the council whether its systems of financial and other internal controls over its activities and operating procedures are effective.

It would be incorrect to view internal audit as the detailed inspection of all records and transactions of a council to detect error or fraud. Internal audit is the periodic independent review of a council's internal controls resulting in an assurance report to members designed to improve effectiveness and efficiency of the activities and operating procedures under the council's control.

Managing the council's internal controls should be a day-to-day function of the council's staff and management, and not left for internal audit.

Any system of internal controls established by the council should have regard to the size of the organisation and the number of available staff members and officers.

The normal processes operated by the Council have been affected considerably by the Covid19 pandemic. Despite this, the processes have been adapted to maintain the normal level of control over the financial records of the Council.

Scope of work

Book-keeping

The basic record of receipts and payments is always the starting point of an accounting system; the majority of internal controls will always work back to that original record.

Internal audit, tests that the checking and verification within the system of internal control operated by the Council, has been undertaken.

The council utilises a computerised accounting system from a reputable supplier with a full audit trail facility. No significant recording errors were found during the internal audit process.

Financial Regulations

The financial regulations are reviewed each year.

During the internal audit process, no significant failures in the system of internal controls over authorisation of income and expenditure were found. In addition, the bank balances were reconciled on a regular basis via online banking. With the impact of Covid 19 various normal control procedures were necessarily altered. The actual bank statements were received in the Parish office, so it was impractical for the reconciliation to be evidenced on the actual bank statements at the time the reconciliation was done.

The actual statements were subsequently evidenced as being reconciled but this was done slightly longer after the receipt of the bank statement than normal.

The review of the bank reconciliation by a parish councillor was implemented several years ago. The effects of Covid 19 on the administrative processes has meant that this has not been done during the year.

This will be reviewed in future audits to ensure compliance.

Risk management

A risk assessment is maintained for all the council's activities and updated on a regular basis. Appropriate insurance cover is taken to mitigate certain of these risks where possible and this is reviewed annually.

For computer data, including accounting information, backups are taken on a regular basis. Before the Covid19 pandemic, this data was stored in a fire-proof safe installed on the premises.

To assist in managing the risk of data loss, it was recommended that these backups should be retained off site. This recommendation was to ensure a separation of back up data from the computer it was originally stored on. The backup is now being stored offsite, but as the staff members are currently using the office computers at home the data is effectively in the same place as the computer. This may be mitigated by the use the shared drive, which is located in the office premises.

Budgetary controls

Annual budgets are adequately prepared and are based on the proposed activities of the council for the forthcoming year. This proposed budget is used to calculate the annual precept and has regard to the levels of reserves to be reasonably held by the council.

Regular accounts are prepared comparing actual expenditure against budgeted expenditure. These are presented to the council on a regular basis.

Income controls

Income is received promptly, and VAT refund claims are done on a regular basis.

Petty cash

There is a small amount of petty cash used and a small petty cash balance at the end of the year.

Following our previous comments regarding the system of petty cash, it is now possible for the Clerk and the RFO to withdraw cash using cash cards. These cards should be locked in the safe when not in use and the Assistant Clerk has confirmed that this is done. The daily amount available for withdrawal should be kept to a minimum and reviewed on a regular basis.

There has been an increase in the amount of personal reimbursed expenditure, which by definition is often authorised after it has been incurred. Some of the expenditure is formally agreed before it is expended. Formal limits should be placed on this type of expenditure.

Electronic banking

The council has implemented an electronic banking system. This system has several internal control advantages over the old manual system and seems to be working well. Payments are authorised by Councillors in a timely manner.

The banking system utilises standard bank security features including passwords and payment security devices. All payments require authorisation by two Councillors.

Payments are authorised by Councillors using their own computers.

The implementation of this electronic payment system has significantly helped the Council to continue its activities, without significant disruption during the Covid19 pandemic.

It is also essential that Councillors ensure that their home computers have anti-virus and security software that is kept up to date, to maintain the highest levels of security. This may need to be paid for by the Council to ensure that it is done.

The impact of this will be reviewed in future internal audit checks.

Payroll controls

The council uses a computerised payroll system from a reputable supplier. This software is updated on a regular basis to ensure compliance with legislation. No members of staff are treated as self-employed.

The system for authorising payroll payments is adequate and follows the normal system for payments to suppliers.

Timesheets are prepared by each employee to record holiday and overtime. In recent years there has been a considerable amount of overtime accrued by the clerk and RFO. The staff contracts have now been amended so that overtime is now taken as time in lieu.

Asset control

The Council maintains an asset register for assets owned or in its care. This is updated on a regular basis. The adequacy of insurance cover for assets is reviewed on a regular basis.

Bank reconciliation

The bank accounts are reconciled on a regular basis. As mentioned above, an independent review of the bank reconciliation should be performed a councillor on a regular basis. This has recently been re-implemented and will be reviewed in future internal audit checks.

Year-end procedures

It is the duty of the council and the RFO to produce the year-end accounting statements.

The financial statements are in accordance with the underlying records and have been prepared on the correct basis.

General Data Protection Regulations (GDPR)

The implementation of the new Data Protection regulations has been undertaken by the Council.

Conclusion

It is again pleasing to note the clarity of information within the Council's accounts and supporting documentation for the financial year 2020/21. The Council's internal controls in place appear to be efficient and effective.

I am grateful to the RFO and the Clerk for their co-operation and responses to my requests for additional information during the Audit.

Iden Business Services Limited

19/05/2021