



Stirchley and Brookside Parish Council

Internal Audit 2021/22

JDH BUSINESS SERVICES LTD

Registered to carry on audit work by the Institute of Chartered Accountants in England and Wales

INTERNAL AUDIT REPORT

The internal audit of Stirchley and Brookside Parish Council is carried out by undertaking the following tests as specified in the AGAR Annual Return for Local Councils in England:

- Checking that books of account have been properly kept throughout the year
- Checking a sample of payments to ensure that the Council's financial regulations have been met, payments are supported by invoices, expenditure is approved, and VAT is correctly accounted for
- Reviewing the Council's risk assessment and ensuring that adequate arrangements are in place to manage all identified risks
- Verifying that the annual precept request is the result of a proper budgetary process; that budget progress has been regularly monitored and that the council's reserves are appropriate
- Checking income records to ensure that the correct price has been charged, income has been received, recorded and promptly banked and VAT is correctly accounted for
- Checking that salaries to employees have been paid in accordance with Council approvals and that PAYE and NI requirements have been properly applied
- Reviewing the asset and investments registers
- Testing the accuracy and timeliness of bank account reconciliations.
- Petty cash payments were supported by receipts, petty cash expenditure was approved and VAT appropriately accounted for
- Year end testing on the accuracy and completeness of the financial statements
- Checking that during the previous year , the council correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations. Reviewing whether the council has complied with the publication requirements for the prior year AGAR.

The interim internal audit provides evidence to support the internal audit conclusion in the AGAR Annual Return for local councils.

Conclusion

On the basis of the internal audit work carried out, which was limited to the tests indicated above, in our view the council's system of internal controls NOT is in place, adequate for the purpose intended and effective. The recommendations reported in the action plan overleaf need to be implemented promptly. As part of the internal audit work for the next financial year we will follow up all recommendations included in the action plan.

JDH Business Services Limited

	ISSUE	RECOMMENDATION	FOLLOW UP
2021/22 Year End Internal Audit			
1	<p>The analysis of the ‘unpresented payments’ of £11927.47 in the year end bank reconciliation contains a number of items that indicate there were errors in the ledger at the year end:</p> <p>A.)The following ‘unpresented’ items were actually duplicates or reissued invoices:</p> <p>Voucher 475 10/08/2021 Boiler Filters £28.49 Voucher 671 23/11/2021 Coaches for Pensioner's Party £185.00 Voucher 670 25/11/2021 Coaches for Pensioner's Party -£310.00 Voucher 698 17/12/2021 Salary £1,305.54</p> <p>B.)The following items totalling £5,470.57 had been duplicated in unpresented payments and creditors and adjustments are needed to ensure the income and expenditure accounts are correct as these should have just been recorded as creditors:</p> <p>Photocopier lease document fee £100.00 Website hosting Office Support £35.99 Photocopying £46.71</p>	<p><i>A comprehensive review is needed of all ‘unpresented payments’ and ‘unpresented receipts’ in the year end bank reconciliation and correcting entries posted to the SCRIBE ledger to correct the errors in the ledger and year end accounts.</i></p> <p><i>The RFO is currently working with support from SCRIBE to finalise the adjustments required to correct the 2021/22 accounts.</i></p>	

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	ISSUE	RECOMMENDATION	FOLLOW UP
	<p>VOIP Telephone calls Office Support £49.30 Bank Charge Office Support £7.00 Office rent BBL £2,000.00 Hire external facilities £60 .00 Utility charges Service Charge £1,261.56 Utility charges Service Charge £1,810.01</p> <p>C.) A total of £3774.19 payroll net expenditure posted as payments and showing in the unrepresented payments list in the year end bank reconciliations should have been recorded as creditors as the payments were made post year end.</p> <p>D.) Six direct debits totalling £577.20 for hygiene services were included as unrepresented payments in the bank reconciliation but these payments had not actually been made and in any event they related to the 2022/23 financial year. This expenditure should not form part of the 2021/22 accounts.</p> <p>E.)The list of ‘unrepresented receipts’ of £89.14 net in the bank reconciliation does not represent lodgments awaiting clearance at the bank at the year end, and three of the four items relate to hall hire and one refund. This list should be reviewed and any ledger corrections required should be posted.</p>		

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3	<p>VAT issues:</p> <ul style="list-style-type: none"> - The VAT control account debtor of £6,089.83 per the Scribe balance sheet does not agree to the total of the outstanding VAT reclaims submitted prior to the year end. - We were informed the quarter three VAT return was not submitted until March 29th 2022 - Input VAT of £858.26 was incorrectly claimed on Big Local expenditure. 	<p><i>The SCRIBE balance sheet debtor should be reconciled with the VAT 126 claims submitted and any under/over reclaims of VAT corrected in the next VAT reclaim. Year end procedures must include a full reconciliation of the VAT debtor per the balance sheet with outstanding VAT returns.</i></p> <p><i>VAT returns must be submitted within HMRC deadlines.</i></p> <p><i>The next VAT return should be corrected for the overclaim of VAT and procedures should ensure that VAT is not reclaimed for this category of spend.</i></p>	
4	<p>The petty cash balance at the year end was £52.56 per the ledger but this was not matched with the physical petty cash and certified by a nominated councillor or the Audit subcommittee. We note that the Audit subcommittee met on 15 February at which point the petty cash did not balance.</p> <p>No evidence was provided to support the year end till balance of £418.02 and due to Covid absences the till was not balanced at the year end.</p>	<p><i>The petty cash and till must be balanced with physical cash at the year end and regularly during the financial year. Evidence in the form of a dated signature should be retained to evidence the cashing up has occurred and balances verified.</i></p>	

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2021/22 Interim Internal Audit			
1	<p>As at the date of the interim internal audit, the transactional bank accounts (ie non-deposit accounts) had not been balanced to the ledger as part of month end procedures since the council switched to the Scribe accounting software from the previous Rialtas software. The cumulative differences between the ledger and the bank accounts are currently highly material and need to be resolved as soon as possible. For instance the cumulative bank reconciliation to 30/11/21 showed an unreconciled difference of £84764,04 between the ledger and the bank statement balance, and the cumulative difference as at the October month end was £16126.99.</p> <p>No monthly bank reconciliations have been reported to council for the financial year to date. This is likely because they did not balance. However, even if a reconciliation does not balance it should be reported to council with explanations so council are fully briefed of the latest situation with regards to the bank reconciliations and any unreconciled differences.</p>	<p><i>The cumulative unreconciled differences between the Scribe ledger and the bank statement transactions need to be reconciled and resolved urgently and council should be kept appraised of the situation. If necessary, support should be secured from Scribe to help resolve the issues</i></p>	

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2	<p>RECURRING ISSUE</p> <p>For the financial year to date online payments were not pre-authorized by two councillors, as required by the Financial Regulations. Internal controls over online payments should be equivalent to the controls over cheque payments, with two councillors authorising a payment before it is made. We were informed that this internal control will be implemented from February 2022.</p>	<p><i>The council need to urgently implement effective authorisation controls over online banking payments, as required by the Financial Regulations, that ensure two councillors authorise payments before they are made.</i></p>	
3	<p>Petty cash internal controls were not sufficient during the financial year to date as the petty cash value per the Scribe ledger had not been reconciled to the physical petty cash with all differences followed up and resolved. The same issue applies to the new till account that has been established in the Scribe ledger as this has not been reconciled to the till income received.</p>	<p><i>Robust internal controls over petty cash and the till receipts need to be applied as soon as possible including reconciliation of Scribe ledger values to actual petty cash and till receipts. These reconciliations should be reported to council monthly along with monthly bank reconciliations, to provide assurance they have been completed and the accounts are reconciled.</i></p>	
4	<p>Budgetary control issues:</p> <ul style="list-style-type: none"> - Financial Regulations require budgetary control reporting to council at least quarterly. For the financial year to date only one 	<p><i>Budgetary control reports should be presented to council at least quarterly as required by the Financial Regulations.</i></p>	

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	<p>cumulative budgetary control report has been provided to both the Community and Environment and the Policy and Resources Committees for their respective budgets covering the period to November 2021.</p> <p>- The budgetary control information presented to the council is sourced from the Scribe ledger and the report shows the annual budget and the spend/income to date. However, the information does not contain projected spend/income to date so it does not allow council to review whether there is actual under or over spend compared to the budgeted spend/income to date. There are no written explanations provided to council of material variances as required by the Financial Regulations.</p>	<p><i>The accounting software provider should be consulted to ensure the software can produce a budgetary control report that includes budgeted spend or income to date compared to actual spend or income to date and projected outturn.</i></p> <p><i>Written explanations for material variances from budget as defined in the Financial Regulations should be provided with all budgetary control reports presented to council.</i></p>	
6	<p>The response to the prior year internal audit report regarding member checks on payments states that the audit sub-committee will undertake quarterly checks on a sample of payments. However, the</p>	<p><i>Quarterly checks on a sample of payments by agreeing payment details to the supplier bank account details should be carried out as previously recommended.</i></p>	

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	ISSUE	RECOMMENDATION	FOLLOW UP
	sub-committee has not met in 2021/22 so this internal control is not being applied as noted.		
7	The 'request for payment' forms and 'requests to purchase' from the Big Local do not always contain a signature.	<i>The Big Local should be asked to always submit signed requests for payment or purchases. Where the amount is significant, they should be contacted directly to confirm that the request is valid and approved.</i>	
2020/21 Internal Audit			
AGAR internal control objective A – Appropriate Accounting Records kept throughout financial year			
No issues identified in internal audit			
AGAR internal control objective B – Compliance with Financial Regulations, payments supported by invoices, all expenditure approved and VAT appropriately accounted for			
1	During the financial year online payments were not pre-authorised by two councillors, as required by the Financial Regulations. Internal controls over online payments should be equivalent to the controls over cheque payments, with two councillors authorising a payment before it is made.	<i>The council need to urgently implement effective authorisation controls over online banking payments, as required by the Financial Regulations, that ensure two councillors authorise payments before they are made.</i>	See 2021/22 interim internal audit issues.

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2	<p>The council Financial Regulations require the following with respect to medium term financial planning :</p> <p><i>3.1. Each committee shall review its three year forecast of revenue and capital receipts and payments.</i></p> <p><i>3.3. The council shall consider annual budget proposals in relation to the council's three year forecast of revenue and capital receipts and payments</i></p> <p>However, there is currently no three year rolling revenue and capital financial plan in place.</p>	<p><i>The council should either establish a rolling three year financial plan for revenue and capital as required by the current Financial Regulations (FRs) or update FRs to reflect the current annual budget procedure.</i></p>	<p>Evidence now received that medium term financial plan was in place in 2020/21.</p>
3	<p>The Financial Regulations refer in section 10.) to a Purchase Order (PO) system (which would also clearly evidence the authority to spend). However, no PO system is currently in place.</p> <p>Section 4.) of the Financial Regulations (FRs) for Authority to Spend require a Chair and the Clerk to certify expenditure up to £500 and a duly delegated committee of the council for items over £500 and the</p>	<p><i>If the Purchase Order section of the FRs is an accepted requirement by council, then the council should establish a sequential Purchase Order system as required by the Financial Regulations and ensure Purchase Orders for expenditure up to £500 are signed by a Chair and clerk, and POs for expenditure in excess of £500 include the minute reference on the PO evidencing the committee/council authority to spend.</i></p>	<p>Implemented - The Council utilises a sequential purchase order system in SCRIBE which requires authorisation by the required officer or committee and minute reference.</p>

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	council for items over £5000. However, it is not clear from our internal audit that the Authority to Spend requirements are applied to all expenditure, for instance via signed Purchase Orders.		
4	The council is party to a number of contracts and SLAs with varying lengths and conditions.	<i>The council should establish a contracts register which should be regularly reviewed to identify those contracts where the upcoming end date signifies that a tender or quotation process is required, or whether a decision is needed regarding an extension which is provided for in the contract terms.</i>	Recommendation Outstanding
AGAR internal control objective C – Adequate Risk Assessment			
5	<p>The risk assessment does not address the risks of supplier fraud. Most standard local council policies do not cover supplier fraud. The supplier fraud risks can be managed via appropriately robust policies and procedures. Examples of prevention actions include:</p> <ul style="list-style-type: none"> - training for staff to alert them to the potential risks of providing sensitive company information, by phone or other means, especially contract and account 	<i>The risk assessment should be updated to include supplier fraud including the adequacy of supplier onboarding controls.</i>	Recommendation Outstanding

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	<p>information.</p> <ul style="list-style-type: none"> - establish a rigorous change of supplier details procedure - where a supplier has purported to have changed their bank details always call the supplier to check the veracity of a request, using details in your system, rather than those on any associated letter or email. A person should be authorised to approve a supplier bank account change after having reviewed the process undertaken to verify the supplier details change - periodic review of supplier accounts should also be undertaken to remove any dormant accounts. This reduces the likelihood of any old supplier information being used to secure fraudulent payments. - checking address and financial health details with Companies House - every quarter the audit subcommittee should check a sample of online payments to supplier invoices to ensure the payment has been made to the supplier bank account 		
<p>AGAR internal control objective D – Precept request resulted from adequate budgetary process, regular budgetary control and appropriate levels of reserves held</p>			
<p>No issues identified in internal audit</p>			

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AGAR internal control objective E – Expected income fully received, correctly priced, recorded and promptly banked and VAT accounted for			
No issues identified in internal audit			
AGAR internal control objective F – Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.			
6	<p>Petty cash internal controls were not in place during the financial year. The balance on the RBS ledger did not agree to the amount of cash in the petty cash tin at the time of the interim internal audit visit as no expenditure had been posted to the petty cash account in the ledger. The petty cash book had not been updated with transactions and balanced with the RBS ledger.</p> <p>At the year end, a journal of £837.44 was posted to the RBS ledger petty cash account to bring the account to balance with the £2.56 of petty cash remaining in the petty cash tin. A comprehensive exercise had been undertaken after the interim internal audit to review all petty cash vouchers and a spreadsheet analysis of petty cash referenced to vouchers was</p>	<p><i>Robust internal controls over petty cash need to be implemented including:</i></p> <ul style="list-style-type: none"> • Maintaining an up to date record of petty cash expenditure in the petty cash book or spreadsheet. • Regular cashing up of petty cash in the petty cash tin by an officer not involved in the petty cash system • Reconciliation of the petty cash analysis with the RBS ledger monthly • Ensuring petty cash expenditure is reported to Council meetings • Ensuring VAT is reclaimed on standard rated petty cash expenditure 	<p>Recommendation Outstanding – see 2021/22 interim and year end internal audit issues.</p>

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	produced which totalled £945.87. Therefore, the petty cash expenditure journal posted to the RBS ledger did not agree to the petty cash spreadsheet analysis		
AGAR internal control objective G – Wages and salaries and members allowances paid in accordance with council approvals, and PAYE and NIC requirements properly applied			
7	There is currently no quarterly review of payroll and the underlying documentation by a nominated councillor. In addition, currently employees notify the payroll agency of salary changes.	<p><i>Review and authorisation controls over payroll should be improved to include the following:</i></p> <ul style="list-style-type: none"> - <i>A nominated councillor should review the payroll and underlying documentation quarterly and sign the payroll to evidence this check</i> - <i>Salary changes should be notified to the payroll agency via a letter from the Chair or a copy of the signed council minute that authorised the payroll increase</i> 	Implemented
AGAR internal control objective H – Asset and investment registers complete and accurate and properly maintained			
8	The fixed asset register is a basic listing of assets. A comprehensive asset register is a key management tool for managing fixed assets effectively and the current version used should be developed further.	<i>The council should establish a fixed asset register that includes the following key information:</i>	Recommendation Outstanding

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		<ul style="list-style-type: none"> • <i>Valuation for AGAR disclosure purposes</i> • <i>Insurance value</i> • <i>Dates of acquisition, upgrade and disposal (it is useful to keep a record of disposed assets as an asset management tool)</i> • <i>Costs of acquisition and any expenditure which increases the life of the asset</i> • <i>If proxy cost is used for first valuation, a note of the method used for valuation and details of any professional advice received</i> • <i>Useful life estimate</i> • <i>Location</i> • <i>Responsibility/custodian)</i> • <i>Any available indications of asset condition</i> • <i>Evidence assets have been matched with the insurance schedule to ensure all assets are appropriately insured</i> 	
AGAR internal control objective I – Periodic and year end bank reconciliations were properly carried out			
No issues identified in internal audit			

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AGAR internal control objective J – Accounting statements were prepared on correct accounting basis, agreed to cash book, and were supported by an adequate audit trail			
No issues identified in internal audit			
AGAR internal control objectives K and L			
Not applicable as gross income/expenditure exceeded £25000.			
AGAR internal control objective M - The authority, during the previous year (2019-20) correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations			
9	We were informed that the council published the public rights notice on July 1 st 2020, however, no dated image or other evidence was retained to demonstrate the date that the notice was published.	<i>The council should retain as audit evidence to demonstrate the date the public rights notice is published on the council website.</i>	Implemented
AGAR internal control objective N - The authority has complied with the publication requirements for 2019/20 AGAR			
No issues identified in internal audit.			
AGAR internal control objective O – The council met its responsibilities as sole trustee			
Not applicable as the council has not disclosed that is not the sole trustee of a trust.			