

Margate Charter Trustees

Internal Audit Report 2023-24 (Final update)

Stuart J Pollard

*Director
Auditing Solutions Ltd*

Background

Statute requires all town and parish councils and similar bodies 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 2023-24 financial year, during our onsite interim and update review visits on 24th October 2023 and our remote review on 26th April 2024 following closure of the year's accounts.

Internal Audit Approach

In undertaking our review for 2023-24, we have as previously 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 has again been designed to afford appropriate assurance that the Charter Trustees' 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 Charter Trustees' own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'IA Certificate' in year's AGAR, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

We are pleased to record that, based on the programme of work undertaken this year, the Charter Trustees have continued to maintain appropriate internal control arrangements. We are also pleased to again acknowledge the quality of records maintained by the Clerk and thank her for her continued assistance, which has ensured the smooth progress of our review process.

Based on the satisfactory conclusions drawn from our review programme for the year, 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 remind the Clerk of the requirements of 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.

Finally, following our advising the Clerk that this would be the last year for our undertaking the Trustees' internal audit review, we are pleased to note that a successor has been identified and appointed. We take this opportunity to wish the Trustees well for the future.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Clerk maintains the Trustees accounting records on spreadsheets with one operational bank account in place with HSBC Bank Plc, which we consider appropriate for the Trustees present requirements.

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. Consequently, we have: -

- Ensured that the opening balance as entered on the 2023-24 Excel spreadsheet agrees with that in the 2022-23 Statement of Accounts and certified AGAR;
- Ensured that the accounts are balanced and reconciled to the bank account at the close of each month;
- Ensured that an appropriate expenditure analysis remains in place;
- Checked and agreed detail of all transactions in the spreadsheet cashbook to the relevant HSBC bank statements for the year;
- Checked and agreed detail on the bank reconciliations prepared at each month-end throughout the year; and
- Ensured the accurate disclosure of the closing account balance in the AGAR for 2023-24 at Section 2, Box 8.

The Trustees' adopted Financial Regulations (FRs - paragraph 2.2 refers) require that *"On a regular basis, at least once each quarter, and at each financial year end, a member other than the Chairman or cheque signatory, shall be appointed to verify bank reconciliations (for all accounts) produced by the RFO. The member shall sign the reconciliations and the original bank statements (or similar document) as evidence of verification. This activity shall on conclusion be reported, including and exceptions, to and noted by the Charter Trustees Finance Committee."* We have seen, and understand from discussion with the Clerk, that no such action has taken place in the financial year.

We also understand from discussion with the Clerk during our interim review visit that she is setting up and releasing online payments herself. Given the increasing incidence of fraudulent activity on personal and company bank accounts by external agents, we consider that action to set up and physically release payments should be segregated with the Clerk undertaking the first role and a nominated councillor then going online to physical release the funds having ensured the appropriateness of the payments to be made by reference to the supporting documentation. We do not wish to imply that any impropriety exists on the part of the Clerk in this respect, but remind the Trustees that they have a duty of care to protect employees from any potential allegations of inappropriate activity.

Conclusions and recommendations

As indicated above and in line with the adopted FRs, we consider that the Trustees need to take a more pro-active role in the management of the Council's financial affairs, also ensuring compliance with the Trustees' formally adopted regulatory framework.

- R1. *In accordance with the adopted Financial Regulations (Para 2.2), bank reconciliations should be subjected to independent scrutiny and “sign-off”. **Two councillors have agreed to attend the office monthly to check bank reconciliations and purchase invoices.***
- R2. *To afford greater protection to the Clerk and ensure that the Trustees demonstrate effective discharge of their fiduciary responsibilities, the roles of setting up and physically releasing payments should be segregated with one or more nominated Trustees undertaking the latter role having ensured the appropriateness of payments being released.*

Review of Corporate Governance

Our objective here is to ensure that the Trustees have a robust regulatory framework in place; that Charter Trustee meetings are conducted in accordance with the adopted Standing Orders (SOs) and that, as far as we can reasonably ascertain as we do not attend meetings, no actions of a potentially unlawful nature have been or are being considered for implementation.

We have reviewed the minutes of the Trustee meetings for the year to identify whether any issues exist that may have an adverse effect on the Trustees’ future financial stability either in the short, medium or longer term.

We have recorded previously that the Financial Regulations (FRs) were last reviewed and adopted with no change at the meeting of the Charter Trustees held on 24th April 2020: whilst not a concern warranting a formal recommendation, we suggest that the FRs, and SOs, should be subjected to periodic review and formal re-adoption, ideally in alternate years.

We have previously referred to the fact that best practice suggests that all public bodies should develop detailed financial procedures. Whilst we realise that the Charter Trustee accounts and procedures are relatively straightforward, we remind the Trustees that such documentation would assist the assimilation and familiarisation with the Trustees’ procedures by any new or locum Clerk following the Clerk’s retirement or should the Clerk be unavailable for any lengthy period of time.

We are pleased to note that the external auditors signed-off the 2022-23 AGAR with one comment relating to the need to record the “Blessing of the Seas” receipts and payments in the AGAR at gross value rather than net: this change arises following clarification of the treatment of such income, which would also apply to any insurance reclaims, by the Joint Practitioner’s Accounting Group (JPAG) and as now set out in “The Practitioner’s Guide”. We are also pleased to note compliance with the requirement to advertise public accessibility to the Council’s 2022-23 financial records for the requisite 30 working days.

No significant issues have been identified in this area other than to remind the Clerk and Trustees that, in line with best practice, the SOs and FRs should be reviewed and updated periodically.

- R3. *Care will need to be taken when preparing the 2023-24 AGAR to ensure that the receipts and payments arising from the “Blessing of the Seas” event are recorded gross in Boxes 3 & 6, rather than be netted off: the 2022-23 AGAR values in these Boxes will also need revision to reflect the same treatment. **This has been actioned accordingly.***

Review of Expenditure & VAT

Our aim here is to ensure that: -

- Trustee resources are released in accordance with the Trustee approved procedures and relevant statutory powers;
- Funds are expended in accordance with 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 discounts due on goods and services supplied are identified and appropriate action taken to secure the discount; and
- VAT has been appropriately identified for periodic recovery.

We have again examined the procedures in place for the control of expenditure, noting that, as recorded above, physical payments are being set up and processed online by the Clerk. We also note that listings of payments are provided to the sporadic Trustee meetings held during the year. We noted at our interim visit that the Trustees were no longer reviewing and signing-off the individual invoice certification slips attached to each. We consider that the Trustees should also, to demonstrate the effective discharge of their fiduciary responsibilities, nominate one or more of their number to physically review and sign-off the certification slips attached to each invoice, ideally prior to the physical release of the payments.

We have selected a sample of 54 payments for review in the year to ensure compliance with the above criteria with no additional issues arising to those detailed above.

We note that a VAT reclaim for 2022-23 was prepared and submitted to HMRC with repayment received in May 2023.

Conclusions and recommendation

We are pleased to report that no issues arise in this area of our review process other than urging that the formerly in place review and sign-off of invoices by one or more nominated Trustees should be reinstated to also help ensure the effective discharge of Trustees' fiduciary responsibilities in verifying and approving purchase invoices for payment.

R4. The formerly in place Trustees' evidenced review and sign-off of invoices as approved for payment should be re-implemented urgently. Two councillors have agreed to attend the office monthly to check bank reconciliations and purchase invoices.

Assessment and Management of Risk

Our aim here is to ensure that the Trustees have 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 and to minimise the opportunity for their coming to fruition.

We have examined the Trustees' insurance policy for the current year, noting that cover continues with Zurich Insurance with Employer's Liability and Public Liability cover in place at £10 million

and £15 million respectively, together with Fidelity Guarantee cover at £250,000, all of which we consider appropriate for the Trustees present requirements.

We noted in our final 2022-23 report that the Trustees reviewed and approved the updated LCRS Financial Risk Register at the January 2023 meeting: we have seen no indication of any subsequent review and remind the Clerk and Trustees that, in line with best practice, the Register(s) should be subjected to annual review and re-adoption.

Conclusions and recommendation

We take this opportunity to remind the Clerk and Trustees of the requirement to review and adopt the Risk Assessment at least once annually and will ensure compliance at our final review.

R5. In line with best practice, the Financial Risk Register should be subjected to annual review and formal re-adoption.

Budgetary Control & Reserves

Our objective here is to ensure that the Trustees have a robust process in place for identifying and approving its future budgetary requirements and the level of precept to be drawn down from the District Council: also, that an effective reporting and monitoring process is in place; We also aim to ensure that appropriate funds are retained in reserves to finance the Trustees' ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

We note from our review of minutes that members continue to be presented with budget variance reports periodically during the year and have reviewed the year-end outturn with no significant or unanticipated variances apparent.

We are pleased to note that the Trustees discussed and agreed their budgetary and precept requirements for 2024-25 at the January 2024 meeting resulting in an approved precept of £152,045.

We have, as in prior years, considered the appropriateness of the level of retained reserves to meet the Trustees' ongoing revenue spending requirements noting that reserves at the year-end have increased to £149,000 (£138,430 at 31st March 2023).

Conclusions

We are pleased to report that no issues arise in this area of our review process warranting formal comment or recommendation at the present time.

Review of Income

The Trustees receive only limited income annually, primarily through the annual precept; occasional grants and contributions towards Trustees' sponsored events and reclaimable VAT. The Trustees also receive income from the "Blessing of the Seas" although this results in a net expense to the Trustees. As referenced earlier in this report, the external auditors have drawn attention to "The Practitioner's Guide" requirement that receipts and payments in respect of the

“Blessing of the Seas” event should, as recorded earlier in this report, be recorded gross in the AGAR at Boxes 3 & 6.

We have checked detail of income received in the year to date to available supporting documentation with no issues arising.

Conclusions

We are pleased to report that no additional issues arise in this area of our review process warranting formal comment or recommendation. We will check to ensure that all other income receivable in the financial year is duly and accurately accounted for.

Petty Cash Account

No formal petty cash account is in place currently with the Clerk and Trustees reclaiming any incurred expenses periodically during the year through the usual payment process. Consequently, a “Not applicable” assertion will be given in the year’s AGAR IA Certificate, unless any account is established in the second half of the year.

Review of Staff Salaries

We aim, in this area of our review process, to ensure that the Clerk is paid in accordance with the salary rate approved by the Trustees and in line with the terms of her employment contract, that tax / NI and any pension contributions payable are calculated in accordance with current legislation and appropriate deduction rates and that they are paid over to the relevant agencies accurately and in a timely manner. To achieve this objective, we have, by reference to the Clerk’s September 2023 payslip, together with those relating to the Mayor and Deputy Mayor’s approved civic allowances: -

- Reviewed the Trustees’ payroll preparation procedures, noting that the payroll is processed “in house” using bespoke Sage payroll software;
- Ensured that the Mayor and the Deputy Mayor have received the correct allowances in line with the Trustees’ approved rate;
- Agreed the Clerk’s gross salary payments for the year to the adopted formal employment contract;
- Checked to ensure that, where appropriate, any overtime hours are paid in accordance with appropriately prepared time records;
- Checked to ensure that Income Tax and NIC deductions have been made applying the appropriate PAYE codes and NIC Tables;
- Ensured that the appropriate deductions and contributions have been paid over to HMRC in a timely manner;
- Checked to ensure that the appropriate percentage deduction rate has been applied in respect of the Clerk’s pension contributions; and
- Verified that the appropriate net pay has been paid to the Clerk, Mayor and Deputy Mayor for September 2023.

Conclusions

We are pleased to record that no issues arise in this area this year warranting formal comment or recommendation.

Fixed Asset Registers

The Governance and Accountability Manual requires all local government bodies to maintain a detailed register of their assets. We aim in examining this aspect of the Trustees' documentation, to ensure that the Trustees have complied with that legislation; that an appropriate and comprehensive register is being maintained and that it is subject to periodic review and update.

We have previously noted that the current valuation continues to be in relation to the civic regalia only and is based on a professional valuation provided in 2016 and have previously noted that the external auditors accepted this basis of valuation.

No new acquisitions or disposals have occurred during the year with the asset value recorded in the year's AGAR at Section 2, Box 9 remaining as in the prior year's Return.

Conclusions

We are pleased to report that no issues arise in this area of our review process warranting formal comment or recommendation.

Investments and Loans

Our objectives here are to ensure that the Council is "investing" surplus funds, be they held temporarily or on a longer term basis in appropriate banking and investment accounts; that an appropriate investment policy is in place; that the Trustees are obtaining the best rate of return on any such investments made; that interest earned is brought to account correctly and appropriately in the accounting records and that any loan repayments due to or payable by the Trustees are transacted in accordance with appropriate loan agreements.

We noted previously that the Trustees approved an Investment Policy at their meeting on 30th November 2020 and reviewed the content considering it appropriate for present requirements. The Trustees hold no long-term investments requiring disclosure in the Statement of Accounts / AGAR, nor are there any loans with external bodies in existence repayable by or to it.

Conclusions

We are pleased to report that no issues arise in this area of our review process warranting formal comment or recommendation.

Statement of Accounts and AGAR

The AGAR now forms the Trustees formal Statement of Accounts subject to external audit review and certification. We have reviewed and agreed the AGAR detail prepared by the Clerk, as generated from the Excel cashbook spreadsheets with no issues arising.

Conclusions

No issues arise in this area this year and we have duly signed-off the IA 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	In accordance with the adopted Financial Regulations (Para 2.2), bank reconciliations should be subjected to independent scrutiny and “sign-off”.	<i>Two councillors have agreed to attend the office monthly to check bank reconciliations and purchase invoices.</i>
R2	To afford greater protection to the Clerk and ensure that the Trustees demonstrate effective discharge of their fiduciary responsibilities, the roles of setting up and physically releasing payments should be segregated with one or more nominated Trustees undertaking the latter role having ensured the appropriateness of payments being released.	
Review of Corporate Governance		
R3	Care will need to be taken when preparing the 2023-24 AGAR to ensure that the receipts and payments arising from the “Blessing of the Seas” event are recorded gross in Boxes 3 & 6, rather than be netted off: the 2022-23 AGAR values in these Boxes will also need revision to reflect the same treatment.	<i>This has been actioned accordingly.</i>
Review of Expenditure & VAT		
R4	The formerly in place Trustees’ evidenced review and sign-off of invoices as approved for payment should be re-implemented urgently.	<i>Two councillors have agreed to attend the office monthly to check bank reconciliations and purchase invoices.</i>
Assessment and Management of Risk		
R5	In line with best practice, the Financial Risk Register should be subjected to annual review and formal re-adoption.	