

Adderbury Parish Council

Internal Audit Report (Final update) 2021-22

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Background and Scope

Statute requires all town and parish councils 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 2021-22 financial year, during our interim and final reviews of the Council's records, which were again both undertaken remotely and respectively in early December 2021 and April 2022. We again thank the Clerk in assisting the process, providing the requested documentation in electronic format to facilitate completion of our review for the year.

Internal Audit Approach

In undertaking 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 "IA Certificate" in the Council's AGAR, which requires independent assurance over a series of internal control objectives.

Overall Conclusions

We are pleased to record that, based on the work undertaken this year, the Clerk has continued to maintain adequate and effective controls over the Council's finances: we acknowledge the actions taken to address the issues identified in our 2020-21 final and 2021-22 interim reports, although a few remain requiring attention: we have recorded our understanding of the present situation in relation to each recommendation both in the body of the following detailed report and appended Action Plan.

Based on the overall satisfactory conclusions drawn from our review programme for the year and testing applied, we have signed off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area.

We take this opportunity to draw the Clerk's attention to 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 together with the need to ensure compliance with the timing requirements for publication of the Notice of Public Rights to examine the Council's documentation for the financial year.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Clerk has continued to use the Scribe software to maintain the accounting records during 2021-22. Two bank accounts are in place with Unity Bank, together with a deposit account with the Cambridgeshire Building Society.

Our objective in this review area is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. We have accordingly: -

- Ensured the accurate carry forward of the closing 2020-21 balances as opening balances in the Scribe accounts for 2021-22;
- Ensured that an appropriate coding structure is in place to facilitate effective budget monitoring / performance management;
- Checked detail in the receipts and payments “cashbooks” generated by Scribe, examining all transactions recorded for the full financial year agreeing detail to the relevant supporting bank statements;
- Checked and agreed detail on the combined accounts bank reconciliation prepared as of 6th December 2021 and 31st March 2022; and
- Ensured the accurate disclosure of the combined account balances in the AGAR at Section 2, Box 8.

Conclusions and recommendation

The Council’s Financial Regulations (FRs), re-adopted in May 2021 are in line with the latest NALC model documents, referring at Para 2.2 to the requirement, in line with best practice, for a member who is neither the Chairman nor a cheque signatory at least once a quarter and at the financial year-end to verify bank reconciliations and sign-off both the reconciliations and bank statements as evidence of their review. We understand that, whilst reconciliations are routinely presented to the Council and adopted, neither they nor the bank statements are being signed-off as evidence of formal review by a nominated member.

An integral part of the Scribe generated bank reconciliation statement is the value of any uncleared payments (or receipts) at the time of reconciliation. The Scribe software will generate reports providing full detail of any such uncleared payments or receipts and we are pleased to note that the Clerk has identified the source of these “uncleared transaction reports” in the Scribe software: these should also be printed off routinely as and when each reconciliation is prepared and be provided to the reviewing member(s) for examination and sign-off.

R1. The Council should ensure compliance with the adopted Financial Regulations (Para 2.2) with a nominated councillor formally reviewing at least quarterly the content of bank reconciliations, supporting bank statements and uncleared cheque / receipt lists signing off all supporting documentation as evidence of their review. This is for discussion and is included on the agenda of the May 2022 Council meeting.

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 and that, as far as we are able to ascertain as we do not attend meetings, no actions of a potentially unlawful nature have been or are being considered for implementation.

We are pleased to note that the Council has Standing Orders (SOs) and Financial Regulations (FRs) in place, both of which were reviewed and re-adopted in May 2020 and are broadly in line with the latest NALC model documents. We do, however, note that the SOs imply a financial limit of £25,000 for formal tender action (Para 18.a.v refers) whilst the FRs specify a tender limit of £10,000 (Para 11.1.b refers). A consistent value should be recorded in both documents, ideally at the lower value, as currently recorded in the FRs.

We have reviewed the Council and Committee minutes examining those for the financial year to date to determine whether any issues exist that may have an adverse effect, through litigation or other causes, on the Council's future financial stability and are pleased to record that no such matters have been identified.

We are pleased to note that the external auditors signed-off the 2020-21 AGAR referring to a potential issue relating to the timing of publication of the Notice of Public Rights and remind the Council to ensure full compliance with the Regulations when adopting the 2021-22 AGAR and publishing the Public Rights Notice: specific detail of the reporting requirements is set out in the preface to the AGAR.

Conclusions and recommendation

We are pleased to report that no significant issues or concerns arise in this area currently: we will continue to review minutes and the Council's approach to governance issues at future visits.

R2. The Standing Orders and Financial Regulations should be re-examined and amended to ensure they record a consistent value for formal tender action. The Financial Regulations have been reviewed and re-adopted in May 2021: the Standing Orders have been revised accordingly and will be presented to the May 2022 Council meeting for formal adoption.

Review of Expenditure & VAT

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Appropriate documentation supports 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;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct expense codes have been applied to invoices when processed, and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

Last year, we discussed with the Clerk the Council's control procedures in relation to the scrutiny and approval of traders' and other invoices for payment and considered them generally effective, although we suggested that they could and should be further strengthened by the provision of clear evidence of members' approval and involvement in the authorisation process, particularly in the light of a relatively recent fraud perpetrated by a Town Clerk on the South coast.

We are pleased to note that the Clerk is uploading invoices to the Scribe accounts with a suitably designed rubber certification stamp affixed to each indicating confirmation of receipt of goods and services, etc., together with provision for the signatures / initials of members approving the payments. However, we note that the uploaded documents do not afford evidence of member approval for release of the payments, although we understand that a monthly payment list is now prepared and presented to members who sign-off the list confirming review and approval of the individual payments.

To ensure compliance with the above criteria, we have selected a sample of 38 individual non-pay related payments in the financial year totalling £59,950 equating to 70% by value of such payments processed. In examining the test sample, we noted one invoice (Prosser Carpentry paid in June 2021 in relation to cemetery gate repairs) with VAT of £508.80 identified in the Scribe accounts for recovery. As the invoice is not made out in the name of the Council, the VAT should not be reclaimed unless the Council can obtain a new invoice made out specifically to the Council.

We note that VAT reclaims are prepared and submitted to HMRC annually, with that for 2020-21 repaid on 11th May 2021: we shall examine and ensure the accuracy of the 2021-22 reclaim at our 2022-23 interim review.

Conclusions and recommendations

As indicated above, we consider that controls over the authorisation and release of payment could and should be further strengthened with members evidencing their involvement in the process initialling all payment documentation prior to its upload to the Scribe software.

- R3. Members approving and releasing payments should, in line with best practice, examine all invoices initialling the acquired rubber stamp to indicate effective and full discharge of their fiduciary responsibilities in checking and releasing the payments. **Invoices are now retained electronically with members signing off a schedule of payments confirming examination of the invoices.***
- R4. The supplier of the gate repairs should be asked to provide a new invoice made out in the name of the Council to facilitate appropriate VAT recovery. **This is being pursued accordingly.***

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 risks are monitored and managed appropriately to minimise the opportunity for their coming to fruition.

We have examined the Council's insurance policy noting that cover continues to be provided by Hiscox with both Employer's and Public Liability cover standing at £10 million and Fidelity Guarantee cover at £0.5 million, all of which we consider appropriate for the Council's present needs.

We are pleased to record that the Council has a comprehensive Risk Management document in place noting that, following our previous recommendation, a more comprehensive document has been prepared and adopted by the Council at the May 2021 full Council meeting: we consider the revised document appropriate for the Council's ongoing requirements.

We also note that an external provider undertakes period reviews of the Council's play areas reporting their conclusions accordingly with detail presented to the Council for determination of any remedial action considered necessary. This review is supplemented by "in-house" reviews undertaken by members who advise the Clerk of any issues requiring attention. As claims could potentially be made against the Council for injuries sustained by children up to the age of 21, the review documentation should be retained accordingly.

Conclusions

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

Budgetary Control & Reserves

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and 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 the Council retains appropriate funds in general and earmarked reserves to finance its ongoing spending plans and cover any unplanned expenditure that might arise.

We note that, after due deliberation, the Council formally approved and adopted its 2022-23 budget and precept at the full Council meeting held on 30th November 2021 with the latter set at £50,914.

We are also pleased to note that the Clerk continues to provide members with detail of the Council's budgetary position during the year and have reviewed the year-end Scribe generated budget report with no issues identified warranting further enquiry or comment.

We have, however, seen no indication in the Scribe accounts that the Council has formally approved the establishment of any specific reserves to be set aside for any future potential development aspirations or periodically recurring expenditure such as election costs or equipment replacement. Consequently, we urge that consideration be given to the formal establishment of such reserves and their recording in the relevant section of the Scribe accounts. Total funds (£72,500) at 31st March 2022 equate to approximately 8 months' spending at the 2021-22 level and sit comfortably within the generally recognised level of between 3 and 12 months' spending.

Conclusions and recommendation

We are pleased to record that no significant concerns arise in this area, although we urge that the establishment and detail of approved earmarked reserves is both minuted formally and recorded in the relevant "Reserves" section of the Scribe accounts software.

R5. The existence of any formal earmarked reserves should be subject to formal annual approval of their value to be carried over into the next financial year, with appropriate detail recorded in the Scribe accounts in the relevant "Reserves" section.

Review of Income

The Council receives income from a variety of sources primarily by way of the annual precept, together with burial and associated cemetery fees, allotment rents, recoverable VAT and limited amounts of bank interest.

We are pleased to note that the Council has complied with its FRs reviewing and adopting a schedule of fees and charges in relation to both burials, with no change agreed over the 2021-22 fees, and allotment rents as recorded in the minutes of the October 2021 Council meeting.

Our objective in this area is to ensure that all income due to the Council is identified and recovered within an appropriate period and is also banked promptly. We have, at our interim review, examined income arising from allotment rents ensuring that all have been paid accordingly.

We note that the Clerk maintains a Word format register of allotment tenants and suggest that a more appropriate format might be to maintain detail in a spreadsheet with detail recorded of the actual rent due from each tenant, the amount received and actual date of receipt, which would afford a simple means of identifying any stragglers in terms of paying their annual rental. We also note that allotment rents have been coded to two separate codes in Scribe 51 and 57 and suggest that a single code be applied to record allotment income.

The Clerk also kindly provided correspondence relating to interments occurring to the date of our interim review in 2021-22 which we have examined with no issues arising.

Conclusions and recommendations

We are pleased to record that no significant issues or concerns arise in this area currently, although, as indicated above, we consider that a more effective control over allotment rent recovery would be in place with an appropriately designed spreadsheet register of tenants and fees due and received.

R6. Consideration should be given to maintaining the allotment register in spreadsheet format, including detail of fees due, received and the date of receipt to simplify identification of any stragglers. Noted and will be applied in 2022-23.

R7. A single code should be used in Scribe to record the receipt of allotment rental income. Noted and will be applied in 2022-23.

Petty Cash Account

The Council operates a small petty cash account with a balance of £50 recorded in the Scribe accounts. The account is currently being “topped-up” with periodic round sum amounts of £50 giving rise to varying levels of physical cash holding, which do not accord with the £50 imprest level recorded as held in the Scribe accounts at the financial year-end.

Consequently, as indicated in last year’s report, we suggest that any expenses incurred are reclaimed at face value monthly and repaid through the normal invoice process and recorded as such in the Scribe accounts thereby keeping the physical cash holding at £50. A suitable adjustment may be required initially to bring the actual cash holding back to the £50 imprest level.

Conclusions and recommendation

As indicated above, we suggest that to simplify accounting, any petty cash expended is reimbursed in full as and when appropriate and recorded directly in the Scribe accounts as a normal payment thereby keeping the account balance at the £50 level recorded currently in Scribe.

*R8. All petty cash expenditure should be reimbursed periodically at “cost” and recorded accordingly in the Scribe accounts thereby retaining a consistent float of £50. **Agreed and will be actioned appropriately in 2022-23.***

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 as regards the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme.

The Clerk is the only employee of the Council: we examined the content of her employment contract as part of last year’s review noting that she is paid in accordance with the nationally agreed NJC salary scales. The Council continues to outsource preparation of the monthly payroll to “Tax Assist”, with all necessary monthly documentation provided to the Clerk to facilitate payment of her net salary, tax and NI contributions to HMRC and also to the Pension Fund Administrators.

To meet the above objective, we have: -

- Checked and agreed detail of the Clerk’s gross salary payment during the year and specifically in November 2021 to the Council agreed spinal point and contracted hours;
- Noted that the national 2021-22 pay award has been applied with the March 2022 salary, together with arrears due from 1st April 2021 and have verified the accurate application of the pay award and arrears paid in that month’s salary;
- Checked the calculation of tax and NI deductions / employer contributions based on the gross salary paid in November 2021 and March 2022 in accordance with the tax code recorded on the pay slips and appropriate NI Table; and
- Ensured that the appropriate employee and employer contributions to the pension scheme have been applied.

Conclusions

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

Fixed Asset Registers

The Practitioner’s Guide requires all councils to develop and maintain an appropriate register of the Council’s land, property and equipment in a formal register, with the cost of assets duly recorded, the total value of which should be recorded in the AGAR at Section 2, Box 9. These values should not be subject to changes year-on-year other than to reflect the cost of any new acquisitions (net of VAT) and any disposals / deletions.

We note that the Scribe accounting software provides for an asset register, detail of which we have reviewed and agreed as far as we are able, noting the accurate recording of new additions in the year.

Several of our clients have also developed photographic records of assets such as street furniture, etc., which they have found to be of assistance in progressing insurance claims in the event of any accidental or malicious damage occurring.

Conclusions and recommendation

No concerns have been identified in this area, although, as indicated above and in last year's report, we suggest that consideration be given to the development of a photographic register of street furniture, etc.

R9. The Council should consider the development of a photographic register of its assets, which may be of assistance in the event of any accidental or wilful damage to property and equipment requiring an insurance reclaim.

Investments and Loans

We aim in this area of our review process to ensure that the Council is taking appropriate action to ensure interest earning capabilities are maximised whilst safeguarding the Council's resources. Given the current economic situation and the level of retained resources, the Council is unlikely to be able to improve its interest earning potential at the present time. We suggest that the Council monitors available interest earning opportunities periodically and, as and when the "market" improves, it should consider the placement of surplus funds in appropriate banking institutions where earned interest could be maximised.

No loans are in existence either payable by or to the Council.

Conclusions

No issues arise in this area warranting formal comment or recommendation currently.

Statement of Accounts / AGAR

The AGAR now forms the statutory accounts of the Council in accordance with the Accounts and Audit Regulations 2015. The Accounts and financial detail at Section 2 of the year's AGAR are generated automatically by the Scribe accounts and we have consequently agreed the AGAR Section 2 detail to the underlying Scribe records.

Conclusions

We are pleased to record that no issues arise in this area warranting formal comment or recommendation and 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 and Banking Arrangements		
R1	The Council should ensure compliance with the adopted Financial Regulations (Para 2.2) with a nominated councillor formally reviewing at least quarterly the content of bank reconciliations, supporting bank statements and uncleared cheque / receipt lists signing off all supporting documentation as evidence of their review.	<i>This is for discussion and included on the agenda of the May 2022 Council meeting.</i>
Review of Corporate Governance		
R2	The Standing Orders and Financial Regulations should be re-examined and amended to ensure they record a consistent value for formal tender action.	<i>The Financial Regulations have been reviewed and re-adopted in May 2021: the Standing Orders have been revised and will be presented to the May 2022 Council meeting for formal adoption.</i>
Review of Expenditure & VAT		
R3	Members approving and releasing payments should, in line with best practice, examine all invoices initialling the acquired rubber stamp to indicate effective and full discharge of their fiduciary responsibilities in checking and releasing the payments.	<i>Invoices are now retained electronically with members signing off a schedule of payments confirming examination of the invoices.</i>
R4	The supplier of the gate repairs should be asked to provide a new invoice made out in the name of the Council to facilitate appropriate VAT recovery.	<i>This is being pursued accordingly.</i>
Review of Budgetary Control & Reserves		
R5	The existence of any formal earmarked reserves should be subject to formal annual approval of their value to be carried over into the next financial year, with appropriate detail recorded in the Scribe accounts in the relevant "Reserves" section.	
Review of Income		
R6	Consideration should be given to maintaining the allotment register in spreadsheet format, including detail of fees due, received and the date of receipt to simplify identification of any stragglers.	<i>Noted and will be applied in 2022-23.</i>
R7	A single code should be used in Scribe to record the receipt of allotment rental income.	<i>Noted and will be applied in 2022-23.</i>
Petty Cash Account		
R8	All petty cash expenditure should be reimbursed periodically at "cost" and recorded accordingly in the Scribe accounts thereby retaining a consistent float of £50.	<i>Agreed and will be actioned appropriately in 2022-23.</i>

Rec. No.	Recommendation	Response
Fixed Asset Register		
R9	The Council should consider the development of a photographic register of its assets, which may be of assistance in the event of any accidental or wilful damage to property and equipment requiring an insurance reclaim.	