

Adderbury Parish Council

Internal Audit Report (Interim) 2024-25

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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 initial work undertaken in relation to the 2024-25 financial year, during our first review of the Council's records, which has been undertaken remotely on 29th December 2024 following agreement of that approach with the Clerk. We again thank her for assisting the process, providing the requested documentation in electronic format to facilitate commencement of our review for the year.

Internal Audit Approach

In undertaking our review, we have 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 AGAR, which requires independent assurance over a series of internal control objectives.

This report will be updated following completion of our final review for the year, the date of which has yet to be agreed, but will be timed to follow closure of the year's Accounts in the Scribe software.

Overall Conclusions

We are pleased to record that, based on the work undertaken to date, the Clerk has continued to maintain generally adequate and effective controls over the Council's finances, although we have again identified a few issues during the course of this interim review, a number of which we have raised previously, that will necessitate action by the Clerk and payroll service provider to address. The latter relates to the continuing over-deduction of the Clerk's tax during the year due to the non-deduction of her monthly pension contributions prior to calculating the monthly tax due to be paid to HMRC. Full detail of this and other less important issues are set out in the following detailed report with resultant recommendations further summarised in the appended Action Plan for ease of reference.

This report should be presented to members in accordance with the statutory requirement and we ask that a formal response to the recommendations, as summarised in the appended Action Plan, be provided in advance of our final review setting out the actions taken or pending to address the matters identified.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Clerk has continued to use the Scribe software to maintain the accounting records during 2024-25. 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: -

- Checked to ensure that the closing 2023-24 balance has been brought forward correctly as the opening balance for 2024-25;
- Ensured that an appropriate coding structure remains 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 financial year to 30th November 2024 to the relevant supporting bank statements.
- Examined detail on the bank reconciliation as of 30th November 2024 with no issues arising. We are pleased to note that no long-standing uncleared receipts or payments exist at that date.

Conclusions

We are again pleased to note that reconciliations are routinely presented to the Council and adopted, also being signed-off by the Clerk and a nominated councillor. Copies of signed bank statements and reconciliations are duly uploaded to the Scribe accounts software,

We will extend our review of the bank account transactions, including the addition of annual interest on the Cambridge Building Society account, covering the remainder of the year at our final review, also ensuring the accurate disclosure of the combined account balances in the AGAR at Section 2 Box 8.

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 (SOs) and that, as far as we are reasonably 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 re-adopted both its extant SOs and Financial Regulations (FRs) at the May 2024 Council meeting, also noting the subsequent adoption of the recently updated NALC model FRs at the July 2024 Council meeting. We have made previous reference to the level at which formal tender action is required suggesting that a more appropriate level for a Council the size of Adderbury would be set at between £10,000 and £15,000. Whilst we acknowledge that the latest NALC model FRs suggest a level of £60,000, we remain of the opinion that the above suggested value would be more appropriate for Adderbury. Care should also be taken to ensure that the SOs and FRs record a consistent value for formal tender action.

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 note that the external auditors signed-off the 2023-24 AGAR, again referring, inter alia, to various issues relating to the publication date of the Notice of Public Rights for the previous year, also commenting on the Council's submission of the incorrect AGAR document for 2023-24. Consequently, we remind the Council to ensure that, when completing the 2024-25 AGAR and Public Notice, it ensures full compliance with the requisite Accounts and Audit Regulations.

Conclusions and recommendations

We are pleased to report that no serious issues or concerns arise in this area currently, although we again urge that the SOs and FRs are amended to record a lower and consistent value for formal tender action. We will continue to review minutes and the Council's approach to governance issues at future reviews.

- R1. *The Standing Orders and Financial Regulations should record a consistent value for formal tender action, ideally in the range of £10,000 to £15,000.*
- R2. *Care should be taken to ensure that, when completing the formal adoption of the 2024-25 AGAR and publishing the year's Notice of Public Rights, the legislative timing and disclosure requirements are observed and adhered to, as highlighted in the external auditor's certificate on the 2023-24 AGAR.*

Review of Expenditure

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.

We have previously discussed with the Clerk, the Council's control procedures in relation to the scrutiny and approval of traders' and other invoices / payment supporting documentation and considered them generally effective, although we have suggested previously that they could and should be further strengthened to afford clear evidence of members' approval and involvement in the authorisation process. Whilst we acknowledge that members are reviewing and signing off the monthly schedules of payments to be made, ideally, the reviewing and authorising member(s) should initial on the certification stamp now being affixed to individual invoices / payment documentation prior to their being uploaded to the Scribe accounting records. We are pleased to note that, following our previous recommendation, the invoices saved thereon now correctly record the appropriate Scribe transaction posting reference and cost centre numbers.

To ensure compliance with the above test criteria, we have selected a sample of 27 individual payments made in the year to Mid-December 2024 totalling £41,800 and equating to 81% by value of non-pay related payments processed in the Scribe accounts to that date. In examining the detailed transaction report by cost centre, we have noted 2 potential mis-postings: firstly, the external audit fees have been coded to cost centre 16; cost centre 17 would appear to be the correct code to be applied and, secondly, the Unity Bank charges have mostly been coded to cost centre 22, with one to centre 116, the latter would appear to be more appropriate. We ask that the Clerk reviews and makes any necessary changes to the postings as they currently stand to ensure consistency.

We referred in last year's report to the absence of documentation on the Scribe accounts supporting the Clerk's regular monthly expenses on phone / broadband, Zoom subscriptions and mileage, etc., other than the detail recorded on the payslips. As suggested last year, copies of the relevant supporting documents / till receipts should also have the certification stamp affixed to each accordingly with copies also posted on the website with the payslips. Some of these items will, most probably, also include elements of VAT, which we note is not being identified for recovery: provided a valid VAT registration number is recorded on the supporting documentation, the VAT can and should be identified for recovery when posted to the Scribe accounts. We are, however, pleased to now note that, following our prior year suggestion, VAT is being identified and recorded for recovery on the monthly "Web hosting" payment of £5.99.

Finally, we again note that VAT reclaims are prepared and submitted to HMRC annually, with that for 2023-24 repaid in May 2024: we have agreed the reclaimed amount for 2023-24 to that year's Scribe detail and will examine the 2024-25 reclaim at our final review.

Conclusions and recommendations

As indicated previously, and above, we consider that controls over the authorisation and release of payments should be further strengthened with members actually evidencing their involvement in the process by initialling all documents supporting the payments made prior to their upload to the Scribe software. We also urge that every payment processed in the year, be it individual elements of the Clerk's expenses, grants and donations, etc., should also be supported by a relevant document that should also be uploaded to Scribe.

- R3. Members approving and releasing payments should, in line with best practice, ideally evidence their examination of individual invoices, till receipts, etc signing-off / initialling all invoices / payment documentation using the rubber stamp affixed to the invoices to indicate effective and full discharge of their fiduciary responsibilities in checking and approving the release of the payments prior to the documents being uploaded to Scribe.*
- R4. To ensure the existence of a clear audit trail, all payment transactions, including the detail behind the Clerk's miscellaneous expenses paid with her monthly salary, as recorded in Scribe, should be supported by formal documentary evidence, which should also be uploaded to Scribe routinely following member scrutiny, approval and sign-off.*
- R5. The Clerk should review the detailed postings in the Scribe "Detailed transaction reports by cost centre" made in the year to date making appropriate amendments in relation to the highlighted mis-postings and any others that might exist.*

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 appropriate arrangements exist to monitor and manage those risks to minimise the opportunity for their coming to fruition.

We are pleased to again record that the Council has a comprehensive Risk Management document in place noting that it was reviewed and re-adopted by the Council at the May 2024 full Council meeting: we have reviewed the document and consider that it remains appropriate for the Council's present and ongoing requirements.

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 also note that "Business Interruption – Loss of Revenue" cover remains in place at £10,000.

We 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.

Conclusions

We are pleased to record that no issues have been identified in this area 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 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 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 are pleased to note that the Council has completed its formal deliberations on the budgetary and precept requirements for 2025-26 approving both and adopting the latter at £86,350 at the November 2024 Council meeting following due debate.

We are 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 latest Scribe generated budget report with no issues identified warranting further enquiry or comment. We also note that, following our previous recommendation, the Council has now established and earmarked various reserves in the Scribe accounts and will continue to monitor the position in this respect at future reviews.

Conclusions

We are pleased to record that no concerns arise in this area currently. We shall undertake further work at our final review examining the year-end budget outturn, seeking explanations for any significant variances that may have arisen subsequent to this review and also consider the ongoing

appropriateness of the level of retained reserves to meet the Council's ongoing revenue spending requirements and potential development aspirations.

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, various events, recoverable VAT, and relatively limited amounts of bank interest.

We are pleased to note that the Council has complied with its FRs reviewing and adopting a revised schedule of fees and charges in relation to both burials and allotment rents for 2024-25, as minuted appropriately.

Our objective in this area is to ensure that all income due to the Council is identified and recovered within an appropriate time period and is also banked promptly. We have, as part of this interim review, examined income arising from allotment rents and are pleased to again note that the Clerk has prepared a formal register of allotment tenants in spreadsheet format with detail recorded of the actual rent received from each tenant: we note that, as at mid-December 2024, only one tenant's rent remained unpaid and will check to ensure recovery at our final review for the year.

The Clerk has also kindly provided detail of burial ground interments occurring this financial year, of which there have only been two to date, also providing copies of undertakers' correspondence and the legally required burial / cremation certificates relating to those interments. We have examined the Clerk's spreadsheet record of those interments ensuring that the appropriate fees have been charged and received detail being recorded appropriately in the relevant Scribe Cost Centre, also ensuring that recoverable fees in respect of headstones and additional inscriptions have been correctly charged in accordance with the revised 2024-25 fees applying.

Conclusions

We are pleased to record that no issues or concerns arise in this area currently. We will undertake further work in relation to the Council's income at our final review.

Petty Cash Account

The Council has not operated a petty cash account during the current financial year, the residual £0.15 cash holding being expended during 2023-24.

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.

The Clerk is the only employee of the Council: we have examined the content of her employment contract previously noting that she is now paid in accordance with the nationally agreed NJC salary scale on point 32 for a contracted 87 hours per month, as approved by the Council. The Council has again outsourced preparation of the monthly payroll to Tax Assist, with all necessary monthly documentation provided to the Clerk to facilitate payment of her net salary and tax / NI contributions to HMRC and pension contributions to the Pension Fund Administrators.

To meet the above objective, we have: -

- Checked the Clerk's gross salary paid in September and November 2024, noting that the Council has formally approved payment of the nationally agreed 2024-25 pay award backdated to 1st April 2024, which has duly been paid with the November 2024 salary;
- Checked the calculation of the Clerk's tax be applied to the tax code as recorded on the pay slip and NI to the appropriate NI Table: in doing so, and as highlighted previously, it remains apparent that Tax Assist has continued to calculate the Clerk's tax liability on the total gross salary payable each month. Employees' contributions to the Local Government Pension Scheme (LGPS) are exempt from tax and, as such and as advised previously, the monthly Clerk's pension contribution should be deducted from the gross salary payable prior to calculating the tax due. (We note that Tax Assist also prepares the payroll for the other three councils for which the Clerk acts as Clerk with that for one (Bloxham), where the Clerk also contributes to the LGPS, the correct method of calculating the Clerk's tax liability each month is being applied. We have provided the Clerk with a working paper showing (for the September 2024 payslips for both councils, the effect of the correct and incorrect (for Adderbury) calculations; and
- Ensured that the Clerk's pension contributions are being calculated at the appropriate percentage rate.

Conclusions and recommendation

We are again disappointed to note that, despite our previous advice and the Clerk's own efforts to advise the payroll bureau accordingly, they (Tax Assist) continue to treat the Clerk's monthly calculated pension contribution as taxable for Adderbury, but not for her Bloxham salary, and has consequently overcharged her monthly tax liability in the current and previous years.

R5. The Clerk should consult further with Tax Assist to ensure that the appropriate adjustments are made to her next monthly pay together with appropriate recovery and repayment to her of overpaid tax in this and prior years. Tax Assist should, if deemed necessary, seek appropriate confirmation from HMRC on the treatment of employees' LG Pension fund contributions and calculate the appropriate refund due to the Clerk for the current and prior year over-deducted tax.

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. The Council should continue to monitor the interest earning opportunities ensuring that an appropriate rate of interest return can be maximised by the placement of surplus funds in appropriate and secure banking institutions.

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.

Rec. No.	Recommendation	Response
Review of Corporate Governance		
R1	The Standing Orders and Financial Regulations should record a consistent value for formal tender action, ideally in the range of £10,000 to £15,000.	
R2	Care should be taken to ensure that, when completing the formal adoption of the 2024-25 AGAR and publishing the year's Notice of Public Rights, the legislative timing and disclosure requirements are observed and adhered to, as highlighted in the external auditor's certificate on the 2023-24 AGAR.	
Review of Expenditure and VAT		
R3	Members approving and releasing payments should, in line with best practice, ideally evidence their examination of individual invoices, till receipts, etc signing-off / initialling all invoices / payment documentation using the rubber stamp affixed to the invoices to indicate effective and full discharge of their fiduciary responsibilities in checking and approving the release of the payments prior to the documents being uploaded to Scribe.	
R4	To ensure the existence of a clear audit trail, <u>all</u> payment transactions, including the detail behind the clerk's miscellaneous expenses paid with her monthly salary, recorded in Scribe should be supported by formal documentary evidence, which should also be uploaded to Scribe routinely following member scrutiny, approval and sign-off.	
R5	The Clerk should review the detailed postings in the Scribe "Detailed transaction reports by cost centre" made in the year to date making appropriate amendments in relation to the highlighted mis-postings and any others that might exist.	
Review of Staff Salaries		
R6	The Clerk should consult further with Tax Assist to ensure that the appropriate adjustments are made to her next monthly pay together with appropriate recovery and repayment to her of overpaid tax in this and prior years. Tax Assist should, if deemed necessary, seek appropriate confirmation from HMRC on the treatment of employees' LG Pension fund contributions and calculate the appropriate refund due to the Clerk for the current and prior year over-deducted tax.	