

Adderbury Parish Council

Internal Audit Report (Interim) 2022-23

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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 2022-23 financial year, during our first review of the Council's records, which has been undertaken remotely following agreement of that approach with the Clerk in early December 2022. We again thank the Clerk in 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 Report' in the Council's 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 to be agreed, but will be timed to follow closure of the year's Accounts in the Scribe software

Overall Conclusions

We are able to record that, based on the work undertaken to date, the Clerk maintains generally adequate and effective controls over the Council's finances, although we have identified a number of issues during the course of this interim review that necessitated our referring back to the clerk on two or three occasions to ensure that data in the Scribe accounts was recorded totally accurately leading to a meaningful bank reconciliation at the date of our review. We also acknowledge the actions taken to address most of the issues identified in our 2021-22 report, although action remains to be taken in one or two areas: where such issues remain to be addressed, we have reiterated the prior year recommendation in order that they are not overlooked. A number of further issues have been identified at this stage of this year's review with detail again set out in the body of the attached report and any resultant recommendations further reiterated in the attached Action Plan.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Clerk has continued to use the Scribe software to maintain the accounting records during 2022-23. 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 2021-22 balance has been brought forward correctly as the opening balance for 2022-23 noting that the opening balance as recorded in bank reconciliations to date in the year and uploaded to Scribe all record an understated opening balance of £72,464.57, a difference of £47.02 to that reported in last year's Accounts and the AGAR at Section 2, Boxes 7 & 8. Further enquiry has shown this to be a reimbursement directly to the Clerk for petty cash spending during 2021-22: we also note that this amount was incorrectly appearing as an uncashed payment in the early months' 2022-23 bank reconciliations despite the payment clearing the bank account on 27th April 2022: we are pleased to record that this anomaly has now been resolved satisfactorily with the correct opening balance now recorded on the latest bank reconciliation statement produced by the Clerk following our queries (i.e., at 19 12 2022);
- 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 18th December 2022 to the relevant supporting bank statements. A number of anomalies / errors in accuracy of data entry in relation to recording of both receipts and payments detail were also identified in this respect, detail of which we have drawn to the attention of the Clerk who has made the necessary amendments to help ensure that the accounts are in balance as at 18th December 2022 – a copy of the schedule of identified anomalies is appended to this report; and
- Examined detail on a number of the combined accounts bank reconciliations prepared during the year with a number of anomalies, as recorded above, identified.

Conclusions and recommendation

The Council's extant Financial Regulations (FRs), re-adopted in May 2022 are in line with the latest NALC model documents, referring at Para 2.2 to the requirement for a member who is neither the Chairman nor a cheque signatory to, at least once a quarter and at the financial year-end, verify bank reconciliations and sign-off both the reconciliations and bank statements as evidence of their review. We are pleased to note that reconciliations are routinely presented to the Council and adopted also being signed-off by the Clerk and Chairman, the latter individual's action being contrary to the requirements of the adopted FRs.

An integral part of the Scribe generated bank reconciliation is inclusion of the value of any uncleared payments (and / or receipts) at the time of reconciliation. The Scribe software generates reports providing full detail of any such uncleared payments or receipts. Whilst the bank reconciliation statements are now being uploaded to the Scribe accounts, detail of the uncleared transaction reports is not being uploaded. We have also seen no evidence that the bank

statements loaded onto Scribe have been signed-off in accordance with the adopted FRs. As in last year's report, we urge that the uncleared receipts and payments reports are also printed, reviewed and agreed to the bank reconciliation detail and signed-off by the nominated member (not the Chairman) and are uploaded to the Scribe software together with the signed-off bank statements.

We will extend our review of these transactions for the remainder of the year at our final review.

- R1. The Council should ensure compliance with the adopted Financial Regulations (Para 2.2 refers) with a nominated councillor, not the Chairman or a cheque signatory, formally agreeing detail to the underlying records (bank statements and uncleared receipt and payment listings) and signing-off the content of bank reconciliations, supporting bank statements and the uncleared cheque / receipt lists as evidence of their review and agreement to the reconciliation detail.*
- R2. Copies of all the above signed documents should be uploaded to Scribe, rather than unsigned copies.*
- R3. Care should be taken by the Clerk when preparing the monthly / periodic bank reconciliation statements and other supporting documents to ensure that the detail is factually accurate before providing detail to the nominated councillor for their formal review and sign-off.*

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 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 has adopted Standing Orders (SOs) and Financial Regulations (FRs), both of which were reviewed and re-adopted in May 2022 and are in line with the latest NALC model documents. We noted last year 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). As recommended last year, 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 note that the external auditors have signed-off the 2021-22 AGAR referring to issues relating to the timing and dates of publication of the Notice of Public Rights for that year and remind the Council to ensure full compliance with the Regulations when adopting the 2022-23 AGAR and publishing the Public Rights Notice. The Council will also need to carefully consider its response to Section 1, Box 4 of the 2022-23 AGAR.

Conclusions and recommendation

We are pleased to report that no serious 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.

R4. The Standing Orders and Financial Regulations should be re-examined and amended to ensure they record a consistent value for formal tender action, ideally at £10,000.

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 for payment and considered them generally effective, although we suggested that they could and should be further strengthened to afford 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 note that the Clerk is uploading most, but not all, invoices and documentary evidence supporting the payments made, to the Scribe accounts although those posted do not include any evidence of member scrutiny: we acknowledge that this is provided on the Scribe generated payment list for the month, that being signed-off by the Chairman and Vice Chairman confirming that they have reviewed the listed invoices agreeing them to the schedule and approving the payments for release. That said, we have some doubts as to the effectiveness of the checks undertaken given the two identified entry errors in Scribe as detailed above and in the attached Appendix.

To ensure compliance with the above criteria, we have selected a sample of 28 individual non-pay related payments in the year to 18th December 2022 totalling £30,285 equating to 62% by value of non-pay related payments processed to that date. In examining the supporting documentation, we have noted a few instances where VAT expended on certain purchases has not been identified for recovery, also noting that the payment for insurance cover for 2022-23 included £194.30 Insurance Premium Tax (IPT), which has been erroneously recorded in Scribe as a recoverable VAT amount: IPT is not VAT and may not be recovered from HMRC.

No documentation supporting the Clerk's regular monthly expenses on phone / broadband; Zoom subscriptions and mileage have been posted to the Scribe site and we urge that these also be loaded routinely in future: the first two items will most probably also include VAT, which 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. Similarly, expenses such as the monthly "Eco Web" hosting payment of £5.99 will probably include VAT and, provided a VAT registration number is on the invoice, the VAT may be recovered. We have also noted occasional purchases by councillors on behalf of the Council for events, etc.: to ensure that any VAT incurred may be reclaimed on such purchases, we urge that the

councillor ordering the goods requests that a VAT invoice is provided bearing the name of the Council to facilitate recovery.

Finally, we again note that VAT reclaims are prepared and submitted to HMRC annually, with that for 2021-22 repaid on 22nd April 2022: we shall examine the 2022-23 reclaim at our final review.

Conclusions and recommendations

As indicated above, we consider that controls over the authorisation and release of payments could and should be further strengthened with members actually evidencing their involvement in the process by initialling all payment documentation prior to its upload to the Scribe software. We also urge that every payment processed in the year, be it the Clerk's expenses, grants and donations, etc., should also be uploaded to Scribe. All purchases should be examined closely and, where VAT is identified thereon, but has not been recorded in the Scribe accounts for recovery, appropriate adjustments should be made to the accounts: the erroneous inclusion of IPT as VAT for recovery should also be amended.

- R5. Members approving and releasing payments should ideally, in line with best practice, examine and also sign-off / initial all invoices 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.*
- R6. To ensure the existence of a clear audit trail, all payments recorded in Scribe should be supported by formal documentary evidence which should also be uploaded to Scribe routinely.*
- R7. The identified and potential anomalies in relation to the status of IPT and potentially recoverable VAT in other areas should be examined and, where VAT does apply and a valid VAT registration number appears on the invoice / till receipt (or not in the case of IPT), appropriate adjustment should be made in the Scribe accounts.*

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, following our previous recommendation, a more comprehensive document was prepared: this has been re-adopted by the Council at the May 2022 full Council meeting: we consider this document appropriate for the Council's 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 is in place at £10,000: as the Council has no variable income likely to warrant any claim in this respect, we suggest that further consideration be given to the requirement to insure for that possible eventuality.

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 this year warranting formal comment or recommendation although, as above, we urge that consideration be given to the need to pay to insure for “Business Interruption – Loss of Revenue” cover.

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.

This review was undertaken in advance of the Council’s formal deliberations on the budgetary and precept requirements for 2023-24: consequently, we shall revisit this area at our final review ensuring the formal completion of members’ deliberations with the outcome duly minuted.

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, other than noting a number of apparent miscodings during the year to date. Specifically, it appears that the following transactions (identified by Scribe cost Centre / Transaction Reference Number): Scribe entry nos. 11/23, 11/212, 57/134, 48/221.

We have again seen no indication that the Council has as yet, considered 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, although we are advised that this will be considered further at the close of the financial year.

Conclusions and recommendation

We are pleased to record that no serious concerns arise in this area currently, although we urge that the above referenced apparent miscodings be further examined and, if confirmed, appropriate recoding takes place. We shall undertake further work at our final review ensuring the formal adoption of the 2023-24 budget and precept, also examining the year-end budget outturn seeking explanations for any significant variances that may have arisen subsequent to this review and considering the ongoing appropriateness of the level of retained reserves to meet the Council’s ongoing revenue spending requirements and potential development aspirations.

R8. As recommended previously, consideration should be given to the establishment of specific earmarked reserves with funds set aside and accumulated steadily each year to meet the cost of potential future expenditure on items such as election costs, equipment replacement, etc.

R9. The identified anomalous coding entries should be examined and, if confirmed, appropriate adjustments be made.

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 revised schedule of fees and charges in relation to both burials and allotment rents for 2023-24, as recorded in the minutes of the November 2022 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, as part of this interim review examined income arising from allotment and are pleased to note that, following our suggestion last year, the Clerk has maintained a formal register of allotment tenants in spreadsheet format with detail recorded of the actual rent received from each tenant: we note that, at the present date, 2 tenants have still to pay their rents for 2022-23 and urge that action is taken to ensure recovery of the outstanding rents, unless the tenants have determined to relinquish the plots in which case, we urge that they are reallocated to potential tenants on the waiting list.

The Clerk has kindly provided detail of burial ground interments occurring this financial year, together with undertakers' correspondence and the legally required burial / cremation certificates relating to those interments. We have examined that correspondence and verified the resultant fee income recorded in the Scribe accounts to the approved scales of fees and charges applicable in 2022-23 with no issues arising. As indicated earlier in this report, we hope to undertake our final review on site and will further examine the formal Burial Register and detail of any further interments at that time.

We have also examined the Clerk's control record of income arising from the Wine Tasting event held in the autumn and have agreed detail of that to the Scribe record of income received with no issues arising.

Conclusions and recommendations

We are pleased to record that no significant issues or concerns arise in this area currently, although we suggest that the Clerk's register of recoverable allotment rents be expanded to include the value of rent due from each tenant together with detail of the date of receipt.

R10. The Clerk's allotment register control record should be expanded to include the value of rent due from each tenant (as well as that received) and the actual date of receipt. The two, as yet unpaid rents should be actively pursued to ensure recovery.

Petty Cash Account

The Council operates a small petty cash account with a balance of £50 recorded in the Scribe accounts at the close of the previous financial year. Expenses incurred during the year are being recorded in Scribe as made from the petty cash account, with no indication of any "top-up" to return the physical cash holding to the £50 imprest level.

Consequently, as recommended previously, we urge that as and when the Clerk is reimbursed for any petty cash expenses incurred, payment is made for the full value of those expenses and recorded in Scribe as though they were a payment made by the Clerk and analysed to the appropriate

expenditure code. We note, from the latest prepared bank reconciliation, that the petty cash float / holding is currently standing at £18.90, which reflects a spend of £31.10 on the 6 individual transactions recorded in the Scribe payments cashbook as made by “Petty Cash” to date this year.

By reimbursing the Clerk from the current bank account with the value of petty cash expended periodically during the year, the cash “float” would remain as £50.00 and be recorded as such in the year-end AGAR at Boxes 7 & 8 as a petty cash holding.

We suggest that the software supplier (Scribe) assist in effecting the above revised approach during 2022-23 to help ensure that the petty cash float is returned to the £50.00 “imprest” holding and retained at that level going forward.

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.

R11. All petty cash expenditure should be reimbursed periodically at “cost” and recorded accordingly in the Scribe accounts thereby retaining a consistent float of £50.

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 paid in accordance with the nationally agreed NJC salary scale on point 29 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 and NI contributions to HMRC.

To meet the above objective, we have: -

- Checked the Clerk’s gross salary paid in October, November and December 2022, with the 2022-23 national pay award applied in November’s payroll including arrears from 1st April 2022, together with 15 hours claimed overtime for October and November;
- Checked and agreed the calculation of any tax and / or NI deductions to be applied to the tax code as recorded on the pay slip and appropriate NI Table; and
- Ensured that the Clerk’s pension contributions are being calculated at the appropriate percentage rate.

As above, we understand an additional 15 hours’ overtime in October and November was agreed for payment by the Chairman: we also understand that no formal time sheet is prepared and urge that, where overtime is worked in future, the clerk prepares a suitable claim, which should be signed-off confirming the hours as necessarily worked and approved by the Chairman.

Conclusions and recommendation

We are pleased to record that no significant issues have been identified in this area this year, although to protect the Clerk from any potential allegations of submitting an inappropriate claim for overtime, a suitable proforma timesheet should be prepared and be signed as authorised by the Chairman.

R12. Where necessary overtime is worked and reclaimed, a suitably designed proforma timesheet should be prepared and be signed by the Chairman confirming the hours as necessarily worked and due for payment.

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: The Council should continue to monitor the interest earning opportunities 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.

Rec. No.	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	The Council should ensure compliance with the adopted Financial Regulations (Para 2.2 refers) with a nominated councillor, not the Chairman or a cheque signatory, formally agreeing detail to the underlying records (bank statements and uncleared receipt and payment listings) and signing-off the content of bank reconciliations, supporting bank statements and the uncleared cheque / receipt lists as evidence of their review and agreement to the reconciliation detail.	
R2	Copies of <u>all</u> the above signed documents should be uploaded to Scribe, rather than unsigned copies.	
R3	Care should be taken by the Clerk when preparing the monthly / periodic bank reconciliation statements and other supporting documents to ensure that the detail is factually accurate before providing detail to the nominated councillor for their formal review and sign-off.	
Review of Corporate Governance		
R4	The Standing Orders and Financial Regulations should be re-examined and amended to ensure they record a consistent value for formal tender action, ideally at £10,000.	
Review of Expenditure and VAT		
R5	Members approving and releasing payments should ideally, in line with best practice, examine and also sign-off / initial all invoices 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.	
R6.	To ensure the existence of a clear audit trail, <u>all</u> payments recorded in Scribe should be supported by formal documentary evidence which should also be uploaded to Scribe routinely.	
R7	The identified and potential anomalies in relation to the status of IPT and potentially recoverable VAT in other areas should be examined and, where VAT does apply and a valid VAT registration number appears on the invoice / till receipt (or not in the case of IPT), appropriate adjustment should be made in the Scribe accounts.	
Budgetary Control & Reserves		
R8	As recommended previously, consideration should be given to the establishment of specific earmarked reserves with funds set aside and accumulated steadily each year to meet the cost of potential future expenditure on items such as election costs, equipment replacement, etc.	
R9	The identified anomalous coding entries should be examined and, if confirmed, appropriate adjustments be made.	
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Rec. No.	Recommendation	Response
Review of Income		
R10	The Clerk's allotment register control record should be expanded to include the value of rent due from each tenant (as well as that received) and the actual date of receipt. The two, as yet unpaid rents should be actively pursued to ensure recovery.	
Review of Petty Cash		
R11	All petty cash expenditure should be reimbursed periodically at "cost" and recorded accordingly in the Scribe accounts thereby retaining a consistent float of £50.	
Review of Staff Salaries		
R12	Where necessary overtime is worked and reclaimed, a suitably designed proforma timesheet should be prepared and be signed by the Chairman confirming the hours as necessarily worked and due for payment.	

Adderbury PC Cashbook queries**Receipts**

Cashbook	Current A/c statements	Instant A/c statements
12/9 £15.00 Allen	30/9 £31.00 Cr 0017	20/9 £30.00 Cr 00014
12/9 £15.00 Allen	28/11 £30.00 Green Charlotte	17/10 £15.00 Smart
26/9 £31.00 Corney		31/10 £1,000.00 Atkinson
17/10 £15.00 Mitchell		30/11 £113.00 EMS
31/10 £790.00 Atkinson		
5/12 £113.00 Bratt		
Totals £979.00	£61.00	£1,158.00

The above highlighted entries have been confirmed as relating to the same transactions, whilst the others have now been entered appropriately in Scribe.

Payments

29/11 £918.89 T Fox	30/11 £918.88 T Fox	
19/11 £289.72 OCC Pension	30/11 £439.07 OCC pension	

These have now been entered appropriately in Scribe.

Early year uncleared payments per bank reconciliations posted on the Scribe website

20/4 T Goss £47.02 actually cleared the bank on 27/4
 24/5 Banbury CAB £200.00 – this still remains uncleared in December