

Adderbury Parish Council

Internal Audit Report (Interim) 2020-21

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Background and Scope

Statute requires all town and parish councils to arrange for an independent internal audit 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). We, at Auditing Solutions Ltd, have been appointed to undertake the necessary review for 2020-21 and this is, consequently, our first report to the Council.

This report sets out the work undertaken in relation to the 2020-21 financial year, during our first review of the Council's records, which has been undertaken remotely in late January / early February 2021 due to the ongoing Covid-19 situation and restrictions. We wish to thank the Clerk in assisting the process, providing all 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 'Internal Audit Report' in the Council's AGAR, which requires independent assurance over a series of internal control objectives.

We hope to be able to conduct the final review on site in the early summer and will liaise with the Clerk to determine the approach to be taken nearer that time.

Overall Conclusions

We are pleased to advise that, based on the work undertaken to date, the Clerk maintains generally adequate and effective internal control arrangements: we have, however, identified a number of issues surrounding data entry in the recently acquired and implemented Scribe accounting software together with areas where we consider improved controls are required with members taking greater "ownership" of the Council's financial affairs to further enhance controls and provide the Clerk with a greater degree of security.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Clerk has switched maintenance of accounting records from a spreadsheet format to use of the bespoke Scribe software during the current financial year: the software affords an effective means of financial management and control and is used by a number of our clients effectively providing them with all necessary and relevant financial information to facilitate its internal monitoring of performance. A variety of bank accounts have been in use during the financial year with those at Barclays and Santander closed and residual funds transferred to Unity Bank with two accounts (Current and Instant Access) now in operation, together with additional funds held in a Cambridgeshire Building Society account.

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 the accurate recording of the combined closing balances for 2019-20 into the 2020-21 Scribe accounts, noting a number of anomalies that have been discussed with and rectified by the Clerk;
- Checked detail in the receipts and payments “cashbooks” generated by Scribe, examining all transactions recorded for the financial year to January 2021 agreeing detail to the relevant supporting bank statements, including the effective transfer of closing balances on the “closed” Bank of Ireland Accounts to the Unity Current Account again with a few errors in the values recorded that have now been amended appropriately; and
- Checked and agreed detail on the combined accounts bank reconciliation prepared as of 31st January 2021.

Conclusions and recommendations

We appreciate the significant difficulties encountered by the Clerk in maintaining accurate financial records during the year under the ongoing Covid situation, together with the undoubted teething issues in implementing a new accounting system and changing bank accounts part way through the financial year.

Notwithstanding that, we identified a number of anomalous entries in the accounting software between the detail entered in the Scribe accounts and transactions appearing on the year’s bank statements on each account, detail of which we have provided to and discussed with the Clerk who has agreed the detail and made all necessary amendments to the Scribe entries to bring everything into balance as at 31st January 2021. We also noted a few anomalies in the final bank reconciliation for 2019-20, with bank balances not reflecting the values recorded on bank statements at that date (i.e., 31st March 2020).

The Council’s Financial Regulations (FRs) adopted at the May 2020, meeting require the Council to nominate “a member other than the Chairman (or cheque signatory)” to undertake a minimum of quarterly reviews of bank reconciliations (Para 2.2 refers). Whilst we acknowledge that bank reconciliations have been prepared routinely throughout the year and been presented to meetings, that action requires enhancement to ensure that the process is more formalised with the “checking” member provided with copies of the Scribe generated bank reconciliations, together with supporting bank statements and Scribe schedules of any

unbanked receipts or unpaid payments at that date. To facilitate verification of the Receipt and Payment values to the reconciliation date, as are recorded on the Scribe bank reconciliation, the “checking” member should be provided with the final page of the Receipts and Payments lists generated by the Scribe software at the same time as the reconciliation is prepared to support the values shown on the bank reconciliation, together with copies of the supporting bank statements. Having checked and agreed the reconciliation statement detail, the “checking” member should sign-off and date each document (i.e., reconciliation, Scribe Receipts and Payments to date sheets, schedule(s) of uncleared deposits / payments and the underlying bank statements thereby evidencing their review and agreement of the detail.

- R1. *The Clerk should review the Scribe entries (Receipts and Payments) when preparing bank reconciliations ensuring the accuracy of data entry to ensure that the periodically prepared bank reconciliations are an accurate representation of the Council’s financial position. Reconciliations should ideally be prepared as at the last day of each month.*
- R2. *Cashbook entries (i.e., those receipts and payments to be recorded in the Scribe accounting software) should be recorded either on the date of physical receipt or payment by the Clerk and, if not appearing in the bank account until after the bank reconciliation is prepared, they should be identified as unbanked or unpaid entries in the Scribe software / bank reconciliations.*
- R3. *Bank reconciliations as and when prepared should record the actual date to which they relate, not the Council meeting date, as appears to be the case. The year-end reconciliation must reflect the position as at 31st March annually, with bank balance detail recorded from the supporting bank statements on the date of the reconciliation.*
- R4. *The Council should nominate an appropriate member to undertake periodic reviews of bank reconciliations during the year, examining and signing-off all relevant supporting documentation, as required by the adopted Financial Regulations (Para 2.2 refers) and detailed in the body of this report.*

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 formal Standing Orders (SOs) and Financial Regulations (FRs) in place, both of which were reviewed and re-adopted in May 2020 and are in line with the latest NALC model documents. We 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.

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.

R5. *The Standing Orders and Financial Regulations should record a consistent value for formal tender action, ideally at the lower value currently recorded in the Financial Regulations.*

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 discussed with the Clerk the Council's control procedures in relation to the scrutiny and approval of traders' and other invoices for payment and consider them generally effective, although we suggest that they could and should be further strengthened to afford clear evidence of members' involvement in the authorisation process, particularly in the light of a relatively recent fraud perpetrated by a Town Clerk on the South coast. That fraud arose due to members not effectively scrutinising invoices and evidencing their review of the documents, allowing the Clerk to present invoices on more than one occasion: cheques drawn on the Council's bank account were prepared using erasable ink and once signed by members, the Clerk was able to change the payees name to her own.

We do not wish to imply that any fraudulent or other malicious activity has taken place by the Council's Clerk, but suggest that to further strengthen controls, members should physically scrutinise and sign-off invoices approved for payment: whilst we accept that such action may not be fool-proof, it adds a further level of control and affords clear evidence that members have actively been involved in the payment approval process. We note that, following the move to Unity bank, payments are now made online with the Clerk setting up the payment with approved signatories having to log in and then physically release the payments (see further comment below on inaccuracies between invoices and the amounts physically paid).

Due to the Covid situation, we appreciate that it may not be physically possible at present for members to sign-off the invoices, but suggest that the approach set out in the following "Conclusions" be taken once the present lockdown rules are relaxed and members are again able to physically review and sign-off original invoices. We are also aware that the Scribe software affords a facility for actual invoices to be scanned and saved on the software's web detail and suggest that consideration be given to saving copies accordingly.

We have commenced testing in this area selecting a sample of 34 individual payments totalling £102,400 and equating to 88% by value of non-pay payments processed to early January 2021. In checking the individual invoices and, as part of our above checking of Scribe transactions to bank statements, we noted one instance where an online payment was recorded in the Scribe accounts as £1,120.00, whereas, in line with the invoice, payment was actually made for the correct amount of £720.00: we also noted a few instances where, payments were processed at the incorrect value with occasional minor pence differences to the invoice value. This is indicative that the invoices are not being effectively scrutinised when members are authorising payments.

We note that VAT reclaims are prepared and submitted to HMRC annually, with that for 2019-20 repaid on 14th April 2020: we shall examine the 2020-21 reclaim at our final review.

Conclusions and recommendations

As indicated above, we consider that controls over the authorisation and release of payment could and should be strengthened to evidence members involvement in the process and reduce the risk of incorrect value or possibly duplicated payments being processed. The majority of our clients have acquired a suitably designed rubber payment certification stamp which is affixed to every invoice / payment document: ideally, the stamp should provide for the following detail: -

- ***Signature / initials of the clerk confirming receipt of goods / services and arithmetic accuracy of the invoice;***
- ***Cheque number, or as cheques are not now used routinely, a unique consecutive number allocated to each payment throughout the year (this will ease identification / cross-referencing of identical value payments during the year to individual traders and further reduce the risk of duplicated payments occurring and going undetected;***
- ***Physical payment release date;***
- ***Nominal Scribe account code; and***
- ***Initials of one or more members approving and releasing the payments.***

R6. Consideration should be given to the acquisition of a suitably designed rubber certification stamp to be affixed to every invoice, ideally including the information as set out in the body of the report.

R7. Members approving and releasing payments should (once the Covid situation eases) examine all invoices initialling the above rubber stamp to indicate completion of their fiduciary responsibilities in verifying the accuracy of and releasing the payments.

R8. Consideration should be given to scanning and saving the certified invoices to the Scribe software.

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 have examined the Council's insurance policy noting that cover is 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 reviewed and re-adopted its Risk Management document at the May 2020 Council meeting. Whilst we consider the document generally appropriate for the Council's present requirements, it could possibly be expanded to cover other potential risk areas such as the potential impact should the Clerk be absent for any lengthy time: we have provided the Clerk with a similarly designed, but more expansive document used by a few of our clients and suggest that consideration be given to expanding the Council's existing document accordingly.

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. 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. We also suggest that, in line with best practice and to afford the Council appropriate security the members undertaking these reviews should attend a RoSPA training course leading to the appropriate accreditation. We also suggest that the Clerk liaises with the insurers to establish their requirements to ensure the Council is appropriately covered.

Conclusions and recommendation

No significant concerns have been identified in this area, although, as indicated above, we suggest that the existing register could beneficially be expanded to include other potential risks that the Council may face. We shall continue to monitor the Council's approach to risk management at future visits.

R9. Consideration should be given to expanding the existing adopted Risk Management document.

R10. The Clerk should liaise with the Council's insurers to ensure that the Council is fully compliant with their requirements as regards the inspection of play areas and recording of the outcome of such inspections.

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 are pleased to note that the Council has completed its deliberations on the required budget and precept for 2021-22 adopting the latter at £49,880 at the recent full Council meeting in January 2021.

We note that the Clerk continues to provide members with detail of the Council's budgetary position during the year, although the reporting facility within the Scribe Accounts software has not, we understand, as yet, been used by the Clerk. We have, however, examined the current budget position as shown in the Scribe accounts following the Clerk's necessary amendments to the errors identified and referred to in the first section of this report with no significant or unexplained variances existing that warrant further enquiry.

We have seen no indication that the Council has 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.

Conclusions and recommendation

Whilst no concerns exist in this area currently, we suggest that the Scribe accounting software be used to generate the regular budget performance reports to be presented to members and that some consideration be given to setting aside a proportion of the General Reserve balance into specific earmarked reserves which can be added to annually to accumulate appropriate funds for future equipment replacements, planned developments, etc without recourse to a significant increase in any one year's precept to finance such expenditure: the level of funds held in such reserves should be subjected to annual consideration as part of the budget process with the levels adjusted accordingly.

We shall at our final review examine the final year-end budget outturn seeking explanations for any significant variances that may arise and consider the ongoing appropriateness of the level of retained reserves to meet the Council's ongoing revenue spending requirements and potential development aspirations.

R11. Consideration should be given to the set aside of funds into specific earmarked reserves.

Review of Income

The Council has relatively limited sources of income, primarily the annual precept, Support Grant, Burial and associated Cemetery Fees, Allotment Rents, recoverable VAT and bank interest.

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 rents and burials ensuring that, in the former case, all sums due have been received and brought to account appropriately with no issues arising.

We are pleased to note that burial fees and charges were reviewed with increases applied from 1st April 2020. Three interments have occurred in the current financial year: we have examined the respective undertakers' applications and legally required burial / cremation certificates, also ensuring that the appropriate fees have been charged and recovered, again with no issues arising.

Conclusions

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

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.

Consequently, 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.

Conclusions and recommendation

Whilst no significant concerns arise in this area, we noted on our initial examination of the Scribe accounts detail that the £50 petty cash float had not been identified as part of the cash / bank balance. The Clerk has subsequently corrected the position.

Also, 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.

R12. All petty cash expenditure should be reimbursed periodically at “cost” and recorded accordingly in the Scribe accounts thereby retaining the £50 float.

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 have examined the content of her employment contract noting that she is paid in accordance with the nationally agreed NJC salary scales. The Council has 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, tax and NI contributions to HMRC and also to the Pension Fund Administrators.

To meet the above objective, we have: -

- Noted that the 2020-21 national pay award has been implemented with arrears due from 1st April paid accordingly with the September 2020 salary;
- Checked detail of the Clerk’s salary paid in December 2020, noting that, since issue of her employment contract, her spinal point payable has been increased by two points on the NJC scale;
- Checked the calculation of tax and NI deductions / employer contributions based on the gross salary paid in December in accordance with the tax code recorded on the pay slip and appropriate NI Table; and
- Ensured that the appropriate employee and employer contributions to the pension scheme have been applied.

Conclusions and recommendations

In checking the calculation of tax payable, it appears that the payroll provider has been calculating the tax due based on the gross salary payable. Employee contributions to the

Local Government Pension Scheme are non-taxable and, as such should be deducted from the monthly calculated gross salary before the tax deduction is calculated: this has resulted in the Clerk's salary being underpaid and the tax deduction paid over to HMRC duly overpaid by the corresponding amount. However, in checking the December salary payment to HMRC, it appears that only the Clerk's NI and tax deduction has been paid over for the month excluding the Council's NI contribution. Looking at prior month payments in the year, it appears that this same error has occurred.

The above position will need to be discussed with Tax Assist to ensure that, in future months, the correct Clerk's tax contribution is calculated (i.e., based on gross salary less pension contribution): the Clerk will obviously be due a refund of her overpaid tax for this and, presumably, prior years, which Tax Assist will need to help resolve.

With regard to the apparent non-payment to HMRC of the Council's NI contribution, the assistance of Tax Assist should be sought. Whilst non-government employers with a small number of employees are exempt from paying the employers' NI contribution up to a certain financial value, this does not unfortunately apply to local government employers and the Council will, undoubtedly, have a liability in this respect that will need resolution with HMRC, again potentially going back to prior years. We again suggest that the assistance of Tax Assist should be sought to liaise with HMRC and ensure that the appropriate calculation and payment of all employer's NI contributions and arrears are paid over to HMRC.

R10. The Clerk will need to liaise with Tax Assist to resolve and help recover her overpaid tax for the current and potentially prior years. Conversely, the Clerk will need to liaise with HMRC (and Tax Assist) over the apparent underpayment of the employer's NI contributions in the current and, presumably, prior years.

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. We note from examination of the prior year closing Financial Statement that only limited bank interest was received in that year (£39 from the Cambridge Building Society and £11 from the former Santander accounts), both of which have historically been paid in January and December respectively each year. The 2020-21 interest receivable on the Cambridge account has, as yet not been advised and no other interest has been received in the current financial year from the other accounts.

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, although the Council may wish to consider placement of part of the funds currently held in the Unity Current account in alternative banking institutions in order to generate further interest income, also taking account of the Government Compensation Scheme, which only affords cover up to £85,000 for any one banking institution should, albeit unlikely, the Unity Bank "fail".

Whilst we cannot act as financial advisors, several of our clients have placed surplus funds in the CCLA Deposit Fund, which has historically paid a better rate of interest than most High Street banks. Obviously, interest earning opportunities have been significantly eroded

due to the Covid situation: even so, we suggest that consideration should be given to potentially improved interest earning opportunities that might be available whilst ensuring appropriate protection of public funds.

We shall continue to monitor the position in relation to the placement of funds and attraction of appropriate interest at future visits.

Rec. No.	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	The Clerk should review the Scribe entries (Receipts and Payments) when preparing bank reconciliations ensuring the accuracy of data entry to ensure that the periodically prepared bank reconciliations are an accurate representation of the Council's financial position. Reconciliations should ideally be prepared as at the last day of each month.	
R2	Cashbook entries (i.e., those receipts and payments to be recorded in the Scribe accounting software) should be recorded either on the date of physical receipt or payment by the Clerk and, if not appearing in the bank account until after the bank reconciliation is prepared, they should be identified as unbanked or unpaid entries in the Scribe software / bank reconciliations.	
R3	Bank reconciliations as and when prepared should record the actual date to which they relate, not the Council meeting date, as appears to be the case. The year-end reconciliation must reflect the position as at 31 st March annually, with bank balance detail recorded from the supporting bank statements on the date of the reconciliation.	
R4	The Council should nominate an appropriate member to undertake periodic reviews of bank reconciliations during the year, examining and signing-off all relevant supporting documentation, as required by the adopted Financial Regulations (Para 2.2 refers) and detailed in the body of this report.	
Review of Corporate Governance		
R5	The Standing Orders and Financial Regulations should record a consistent value for formal tender action, ideally at the lower value currently recorded in the Financial Regulations.	
Review of Expenditure and VAT		
R6	Consideration should be given to the acquisition of a suitably designed rubber certification stamp to be affixed to every invoice, ideally including the information as set out in the body of the report.	
R7	Members approving and releasing payments should (once the Covid situation eases) examine all invoices initialling the above rubber stamp to indicate completion of their fiduciary responsibilities in verifying the accuracy of and releasing the payments.	
R8	Consideration should be given to scanning and saving the certified invoices to the Scribe software.	

Rec. No.	Recommendation	Response
Assessment and Management of Risk		
R9	Consideration should be given to expanding the existing adopted Risk Management document.	
R10	The Clerk should liaise with the Council's insurers to ensure that the Council is fully compliant with their requirements as regards the inspection of play areas and recording of the outcome of such inspections.	
Review of Budgetary Control & Reserves		
R11	Consideration should be given to the set aside of funds into specific earmarked reserves.	
Petty Cash Account		
R12	All petty cash expenditure should be reimbursed periodically at "cost" and recorded accordingly in the Scribe accounts thereby retaining the £50 float.	
Review of Staff Salaries		
R13	The Clerk will need to liaise with Tax Assist to resolve and help recover her overpaid tax for the current and potentially prior years. Conversely, the Clerk will need to liaise with HMRC (and Tax Assist) over the apparent underpayment of the employer's NI contributions in the current and, presumably, prior years.	