

Adderbury Parish Council

Internal Audit Report (Interim) 2021-22

Stuart J Pollard

*Director
Auditing Solutions Ltd*

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 first review of the Council's records, which has been undertaken remotely following agreement of that approach with the Clerk in early December 2021. 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 pleased to record that, based on the work undertaken to date, the Clerk continues to maintain generally adequate and effective controls over the Council's finances: we acknowledge the actions taken to address the issues identified in our 2020-21 report, although a few remain requiring attention: where such areas remain to be addressed, we have reiterated the prior year recommendation in order that they are not overlooked. One or two 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 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 financial year to 6th December 2021 agreeing detail to the relevant supporting bank statements; and
- Checked and agreed detail on the combined accounts bank reconciliation prepared as of 6th December 2021.

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 now identified where these uncleared transaction reports can be obtained in the Scribe software: these should be printed off in conjunction with the bank reconciliations in future and be provided to the reviewing member for examination and sign-off.

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

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.

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 adopted both Standing Orders (SOs) and Financial Regulations (FRs), 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.

We note that the external auditors have 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.

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.

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.

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 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 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. Again, we appreciate the potential strictures placed on such action by the Covid situation, but urge that, once practicable, the uploaded invoices should be physically reviewed and signed-off by members evidencing their review and approval for payment, with the documents uploaded after being initialled by members rather than prior to that action.

To ensure compliance with the above criteria, we have selected a sample of 29 individual non-pay related payments in the year to 6th December 2021 totalling £49,850 equating to 70% by value of non-pay related payments processed to that date. 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. The invoice is not made out in the name of the Council and consequently, the VAT should not be reclaimed unless the Council can obtain a new invoice made out 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 the 2021-22 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 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.

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.

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 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 now 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 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 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 have again 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

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

R5. Consideration should be given to the establishment of specific earmarked reserves with funds set aside and accumulated in steady stages each year to meet the cost of potential future expenditure on items such as election costs, equipment replacement, etc.

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, as part of this interim review

examined income arising from allotment rents ensuring, noting that a number remain to be paid at the start of December. We will, consequently, revisit this area at our final review, ensuring that all tenants have paid their fees.

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 has kindly provided correspondence relating to interments occurring to date in 2021-22. We have examined that correspondence and endeavoured to verify the resultant fee income recorded in the Scribe accounts with a few areas noted where we need to discuss the position in greater depth with the Clerk. For the sake of simplicity, we will follow these up at our final review, which we hope to be able to undertake on site in the early summer.

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.*

R7. *A single code should be used in Scribe to record the receipt of allotment rental income.*

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, 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.

We have, during the course of this interim review visit, checked and verified the physical cash holding.

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.

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.*

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;
- Checked the calculation of tax and NI deductions / employer contributions based on the gross salary paid in November 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

We are pleased to record that no issues have been identified in this area this year warranting formal comment or recommendation. We understand that no agreement has yet been reached on the 2021-22 pay award and will keep the Clerk advised of the outcome once known and formally announces, also checking to ensure that it is applied appropriately.

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) 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.	
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.	
Review of Expenditure and 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.	
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.	
Budgetary Control & Reserves		
R5	Consideration should be given to the establishment of specific earmarked reserves with funds set aside and accumulated in steady stages each year to meet the cost of potential future expenditure on items such as election costs, equipment replacement, etc.	
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.	
R7	A single code should be used in Scribe to record the receipt of allotment rental income.	
Petty Cash Account		
R8	All petty cash expenditure should be reimbursed periodically at "cost" and recorded accordingly in the Scribe accounts thereby retaining the £50 float.	