

Newbottle 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 initial review of the Council's records, which has been undertaken remotely in mid-December 2022 following agreement of that approach with the Clerk. 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: we hope to undertake that final review on site in conjunction with the review of the Clerk's 3 other Councils.

Overall Conclusions

We are pleased to record that, based on the work undertaken to date, the Clerk continues to maintain adequate and effective controls over the Council's finances: we acknowledge the actions taken to address issues identified in our 2021-22 reports, although a few remain requiring attention: where such areas remain to be addressed, we have reiterated the prior year recommendations in order that they are not overlooked, together with one or two additional issues identified this year.

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 with 2 accounts now in operation through Unity Bank (Current and Playing Field).

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 roll forward of the combined closing balances for 2021-22 into the 2022-23 Scribe accounts;
- 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 28th November 2022 agreeing detail to the relevant supporting bank statements; and
- Checked and agreed detail on the Scribe generated bank reconciliation prepared at 28th November 2022.

Conclusions and recommendations

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 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 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 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 (or receipts) at the time of reconciliation. The Scribe software generates reports providing full detail of any such uncleared payments or receipts. Whilst the 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 reviewed and signed-off by a 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 visit.

R1. The Council should ensure compliance with the adopted Financial Regulations (Para 2.2) with a nominated councillor, not the Chairman or a cheque signatory, formally agreeing and signing-off the content of bank reconciliations, supporting bank statements and uncleared cheque / receipt lists as evidence of their review and agreement of the reconciliation detail.

R2. Copies of all the above signed documents should be uploaded to Scribe, rather than unsigned copies.

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 has formal Standing Orders (SOs) and Financial Regulations (FRs) in place, both of which have been reviewed and re-adopted in May 2022 and are in line with the latest NALC model documents. However, as previously, 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 limit of £10,000 (Para 11.1.b refers). The Clerk has advised that the Council has agreed a limit of £5,000 for formal tender action: consequently, both the SOs and FRs will require further amendment in the relevant paragraphs to reflect the revised limit of £5,000.

We have reviewed the Council minutes examining those for the financial year to 9th October 2022, noting that those for the 21st November meeting have yet to be produced due to the Clerk's illness and non-attendance at the meeting. We seek to ensure that no 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. In endeavouring to review the minutes on the website, we noted that only those to May 2022 had been posted. In accordance with the Transparency Code for Smaller Councils, minutes should, as a minimum, always be posted once they have been approved at the next Council meeting, although most councils are now publishing the draft minutes prior to approval, updating the website accordingly once they have been adopted.

We note that the external auditors have signed-off the 2021-22 AGAR with no issues raised.

Conclusions and recommendation

In noting the reduced value now agreed by the Council for formal tender action at £5,000, the SOs and FRs will require amendment in the relevant paragraphs to reflect that amendment. We shall continue to monitor the Council's approach to governance at future reviews also continuing our review of minutes for the year.

R3. The Standing Orders and Financial Regulations should be amended in the relevant paragraphs to record the now approved lower value of £5,000 for formal tender action.

Review of Expenditure & VAT

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Appropriate documentation supports payments, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due and / or an acknowledgement of receipt, where no other form of invoice is available;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct expense codes have been applied to invoices when processed, and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

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 are pleased to note that the Clerk is uploading the majority of invoices to the Scribe accounts, although those posted do not include any evidence of member scrutiny: however, that is provided on the Scribe generated payment list for the month, which is duly 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. We consider this a marginally acceptable compromise, although we would prefer to see individual invoices being signed-off as well as the schedule.

To ensure compliance with the above criteria, we have selected a sample of 15 individual non-pay related payments in the year to 28th November 2022 totalling £8,435 and equating to 56% by value of non-pay related payments processed to that date. Our test sample includes two payments on 8th April 2022 both of £1,011.21 for street lighting to Eon and nPower: on querying these with the Clerk, we understand that one is a duplicated payment made in error to Eon, which has been refunded against subsequent invoices, although we have not seen categoric evidence of any refund and ask that the Clerk provides such documentary support as is available to confirm the refund as received. We have also noted two further identical payments for street lighting to nPower in October 2022, both of £748.62, which we again understand is an error with one payment made online and the other by direct debit. Again, appropriate recovery should of the overpayment be obtained.

We note that VAT reclaims are prepared and submitted to HMRC annually, with that for 2021-22 repaid on 27th 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 payment could and should be further strengthened with members evidencing their involvement in the process also initialling all payment documentation prior to its upload to the Scribe software. Given the two duplicated street lighting payments processed in the year to date, further improvement in the controls over payments being processed appears essential for implementation.

The Clerk should, rather than await a credit being issued by nPower in respect of the duplicated payments, actively seek a full refund: we also ask that we be provided with documentary evidence confirming refund of the fist duplicated payment made in April 2022.

R4. Members approving and releasing payments should ideally, in line with best practice, examine and 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 releasing the payments: such action would also reduce the risk of duplicated payments occurring.

R5. To ensure full recovery of the two duplicated payments, the Clerk should seek physical refunds of the overpaid amounts, rather than await reductions on future invoices.

R6. All documentation supporting payments should be uploaded to Scribe.

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 with Hiscox noting that cover is in place with both Employer's and Public Liability cover standing at £10 million, together with 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 consideration be given to the requirement to insure for that possible eventuality.

We are pleased to record that the Council has reviewed and re-adopted its Risk Management document at the July 2022 Council meeting, also noting that, following our previous recommendation, a more comprehensive document has now been prepared and adopted: we consider the revised document appropriate for the Council's ongoing requirements.

We again note that an external provider undertakes periodic 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 at this stage of our review. We shall continue to monitor the Council's approach to risk management at future visits.

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.

The Council usually considers its budgetary and precept requirements at its November meeting: due to the unavailability of minutes for the current year's meeting, we have not been able to determine whether appropriate discussion or a formal resolution was reached approving the 2023-24 budget and precept. Consequently, we shall check the outcome of members' deliberations at our final review.

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 information at 30th November with no significant variances apparent that warrant further action, although we note that no budgets in respect of the annual precept or recoverable VAT have been recorded in the software. In examining the Scribe detailed transaction by code report, we note that three HMRC payments have been coded to Centre 3, whilst all others have been coded to Centre 1. The appropriate code should be applied for all HMRC payments.

As indicated in last year's report, 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, although we note the intent to consider this at the current financial year-end.

Conclusions and recommendation

We are pleased to record that no significant concerns arise in this area currently, although we suggest that the correct / consistent code be applied to the HMRC payments made to date in the year. 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.

R7. The approved income budget detail should be entered into Scribe to afford a means of measuring actual performance against the planned income levels in each category.

R8. Monthly tax and NI payments to HMRC should be coded consistently throughout the year.

Review of Income

The Council receives income by way of the annual precept, recoverable VAT and occasional grants and donations. We have, as indicated in the first section of this report, agreed income recorded in the Scribe accounts to the underlying bank statements with no issues arising.

Conclusions

We are pleased to record that no issues arise in this area warranting formal comment or recommendation. We shall agree any further income arising in the year at our final review, also ensuring the accurate compilation of the year's VAT reclaim to be submitted to HMRC.

Petty Cash Account

The Council does not operate a petty cash account.

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 examined the content of her employment contract previously year noting that she is paid in accordance with the nationally agreed NJC salary scale. 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.

To meet the above objective, we have: -

- Noted that members approved an increase in the Clerk's salary to spinal point 24 with effect from 1st April 2022, together with an increase in her monthly hours from 1st June 2022;
- Checked and ensured the accuracy of the Clerk's gross salary paid in November and December 2022 noting that the December salary was uplifted to incorporate the national pay award agreed from 1st April 2022: however, the backdated arrears due from 1st April 2022 have not yet been paid;
- Checked and agreed the calculation of any tax and / or NI deductions to be applied based on the gross salary paid each month in accordance with the tax code recorded on the pay slip and appropriate NI Table; and
- Noted that the Clerk has not been enrolled in the LG Pension Scheme.

Conclusions

We are pleased to record that no issues have been identified in this area this year warranting formal comment or recommendation. The Council will, however, need to ensure the backdated arrears of pay due from 1st April 2022 as a result of the national pay award are implemented accordingly.

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 again note from examination of the Scribe accounts that no bank interest has again been received to date this year.

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, not the Chairman or a cheque signatory, formally agreeing and signing-off the content of bank reconciliations, supporting bank statements and uncleared cheque / receipt lists as evidence of their review and agreement of the reconciliation detail.	
R2	Copies of all the above signed documents should be uploaded to Scribe, rather than unsigned copies.	
Review of Corporate Governance		
R3	The Standing Orders and Financial Regulations should be amended in the relevant paragraphs to record the now approved lower value of £5,000 for formal tender action.	
Review of Expenditure & VAT		
R4	Members approving and releasing payments should ideally, in line with best practice, examine and 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 releasing the payments: such action would also reduce the risk of duplicated payments occurring.	
R5	To ensure full recovery of the two duplicated payments, the Clerk should seek physical refunds of the overpaid amounts, rather than await reductions on future invoices.	
R6	All documentation supporting payments should be uploaded to Scribe.	
Budgetary Control and Reserves		
R7	The approved income budget detail should be entered into Scribe to afford a means of measuring actual performance against the planned income levels in each category.	
R8	Monthly tax and NI payments to HMRC should be coded consistently throughout the year.	