

Patchway Town Council

Internal Audit Report: Interim 2021-22

Stuart J Pollard

*Director
Auditing Solutions Ltd*

Background

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 at our offices in advance of our interim visit and at the Council's offices on 10th December 2021.

Internal Audit Approach

In undertaking our review for 2021-22 and in accordance with the requirements of the IA Certificate in the AGAR and the latest 2021-22 edition of The Practitioner's Guide, we have again paid due regard to the materiality of transactions and their susceptibility to potential misrepresentation in the Accounts / AGAR, together with examining the overall governance framework.

We have again discussed the financial procedures in place for recording and authorising various transactions with the Clerk / RFO to determine an appropriate review and testing strategy, also having 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 also designed to afford appropriate assurance that the Council's financial systems are robust and operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'IA Certificate' in the Council's AGAR, which requires independent assurance over several internal control objectives.

Overall Conclusion

We are pleased to again acknowledge the effectiveness of the existing accounting arrangements with support from an external contractor (DCK Accounting), the quality of retained documentation and approach to governance matter.

We wish to thank the Clerk / RFO for his assistance during the course of our visit and are pleased to acknowledge the actions taken to address the recommendations recorded in our prior year report.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Council's accounting records are maintained using Rialtas Omega software with Current and Deposit accounts in place with NatWest, transaction detail being recorded in a single cashbook in the financial ledgers with a daily automatic sweep to keep the Current account balance at £1,000. Separate accounts are also in place with the CCLA Deposit Fund and Cambridge and Counties Building Society.

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. To meet that objective, we have: -

- Verified the accurate carry forward of closing trial balance detail in the 2020-21 closing Trial Balance / AGAR for the Council to the current year's Omega records;
- Verified that the financial ledgers remain "in balance" as at 30th November 2021;
- Examined detail in the Council's combined Current & Deposit a/c cashbook for April & November 2021 agreeing detail to the relevant bank statements, including the daily inter-account transfers;
- Similarly checked and agreed detail of the other account transactions for the financial year to 30th November 2021, and
- Verified the accuracy of detail in bank reconciliations as at 30th April and November 2021 on all accounts.

Conclusions

We are pleased to record that no issues have been identified in this review area also again noting that bank reconciliations are subject to regular member review and sign-off. We will undertake further work in this area at our final review visit, including examining further months financial transactions, verification of those month-end bank reconciliations and ensuring the accurate disclosure of the combined account balances in the year's AGAR at Section 2, Box 8.

Review of Corporate Governance & Regulatory Framework

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 note that the Council's SOs and Financial Regulations (FRs) have been further reviewed and re-adopted in May 2021 with a few relatively minor changes. and have reviewed their content noting that both remain in line with the latest NALC model documents.

We have commenced our review of minutes for the financial year reading all those for the full Council and Standing Committees as posted on the website to the present date to ensure that the Council has neither considered nor is taking any actions that may result in ultra vires expenditure being incurred and are pleased to report that such no issues arise currently.

We note that the external auditors have signed off the 2020-21 AGAR with no issues arising.

We are also pleased to note that the interim external audit report and signed copies of the AGAR for 2020-21 have been published on the Council's website, together with the appropriate Notice of Public Rights of inspection. *We take this opportunity to remind the Clerk that the final external audit certificate for 2020-21 should also be posted on the website.*

Conclusions

We are pleased to record that no areas of concern have been identified in this review area.

Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the approved procedures and budgets;
- Payments are appropriately supported, 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;
- An official order has been raised on each occasion when one would be expected;
- 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 the procedures in place for the processing, certification and release of funds with virtually all payments now paid online and payments set up by the RFO. Members are then provided with scanned copies of the purchase invoices and, following review, they go online themselves to release the funds to the respective payees. Members subsequently sign-off the original hard copy invoices which are retained on file. We consider the controls in place to be appropriate and in line with sound financial control procedures.

We have selected an initial sample of payments processed throughout the year to 30th November 2021 reviewing the files of hard copy documents to ensure compliance with the above criteria: our test sample includes 76 individual payments plus 2 NNDR payments to South Gloucester Council and totals £1,387,600 and equates to 92% by value of non-pay related payments in the year to the above date with all the above criteria appropriately met: the high percentage arises from the redevelopment work at the Community Centre. Unfortunately, the file of payments between 1st October and 30th November 2021 was not available for our review during the course of our visit: we have consequently, agreed with the Clerk that, once the file is available, he will scan and forward the "missing" invoices in electronic format for our review. Based on our review of the file with the first 6 months invoices for the year, we do not anticipate that any issues will arise. However, should any issues arise in this respect we will issue an update to this report accordingly.

We note that the 2020-21 year-end VAT reclaim was prepared, submitted and repaid by HMRC and have also examined the first two 2021-22 quarterly reclaims, noting that these have also been repaid accordingly during the year.

Conclusions

We are pleased to record that no issues arise from the work undertaken in this area with all payments in our test sample appropriately supported (other than the above 21 “missing” documents) with all bearing appropriate evidence of member review and sign-off. We shall extend our sample to cover the remainder of the year at our final review visit, also examining the final two quarterly VAT reclaims agreeing detail to the underlying Omega nominal control account.

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 in order to minimise the opportunity for their coming to fruition.

We have noted previously that a comprehensive “Risk Management Policy and Strategy” document is in place, which was re-adopted by the Council in May 2021, together with a comprehensive risk register. We have examined the content of both documents and consider that they afford the Council an appropriate and effective means of assessing and addressing any specific areas of potentially medium to high risk.

We have also examined the Council’s 2021-22 insurance policy with Zurich Municipal with cover in place for Council premises, property and equipment, together with Public and Employer’s Liability cover in place at £15 million and £10 million respectively and Fidelity Guarantee (FG) cover set at £2 million all of which we consider that appropriate to the Council’s present requirements.

Conclusions

We are pleased to record that no issues arise in this area currently warranting formal comment or recommendation: we shall continue to monitor the Council’s approach to risk management at future reviews reporting our conclusions accordingly.

Budgetary Control and 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 South Gloucester 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, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

This review visit took place in advance of the Council’s formal deliberations and determination of the 2022-23 budget and precept requirements: we shall, consequently, revisit this area at our final review.

We are also pleased to note that members continue to receive routine budget reports throughout the year based on the accounting software and have examined the latest Omega budget report as at 30th November 2021, seeking and obtaining explanations for any significant variances that exist currently by reference to the underlying Omega nominal account codes.

Conclusions

No issues arise in this area warranting formal comment or recommendation at present: we shall undertake further work in this respect at our final review including ensuring the formal determination of the 2022-23 budget requirements and adoption of the year's precept, also assessing the ongoing appropriateness of the retained reserves.

Review of Income

Our objective in this area is to ensure that the Council identifies all income to which it is entitled and has appropriate arrangements in place to ensure its prompt recovery. The Council receives income from a variety of areas in addition to the annual precept, primarily by way of hall and sports field hire, together with various grants, donations, recoverable rents and VAT and other miscellaneous events, etc. Due to the Covid situation during the early part of 2021-22, the halls were closed with a resultant reduction in income.

We also note that, due to the Covid situation and the resultant financial difficulties being experienced by the Sports & Social Club, the Council agreed to waive the rent due from the Club for part of the financial year.

Notwithstanding the above, we have examined the controls in place over the recovery of fees for hire of sports facilities referring the Clerk's diary for bookings in October and ensuring that appropriate invoices were raised and that income due to the Council has been received in a timely manner and are pleased to record that no issues have arisen in that respect.

We have also examined the detailed income transaction reports for the financial year to date ensuring, as far as we are reasonably able, that all income due to the Council has been received and accounted for appropriately.

Conclusions

We are pleased to record that no issues arise in this area warranting formal comment or recommendation. We shall examine income from other sources at our final review visit.

Petty Cash Account

The Council does not operate a petty cash account, any out-of-pocket expenses incurred by officers being reimbursed through the normal trader payment process.

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 and contributions to the LG Pension Fund. We note the significant turnover of staff in recent months with a number of vacancies existing currently and will revisit the staff pay situation again at our final review visit and hope that the Council is able to appoint appropriate staff to the present vacancies.

The Council uses an external agent to prepare the monthly payroll with copy payslips and all other relevant documentation to facilitate payments to individuals, HMRC and the Pension Fund Administrators produced and retained. To meet the above objective, we have:

- Agreed the gross salaries paid to all staff in post in November 2021 by reference to the Council's approved spinal points on the nationally agreed salary scales;
- Checked, by reference to the relevant HMRC tax and NI tables, that deductions have been made appropriately in accordance with the individuals' tax codes and NI Table;
- Checked to ensure that the appropriate pension deductions / contributions have been calculated; and
- Ensured the accurate payment of staff net salaries for November 2021, together with payments to HMRC and the Pension Fund administrators based on the supporting payslips and bureau generated payment advice detail.

Conclusions

We are pleased to report that no matters arise in this area this year warranting formal comment or recommendation.

Investments and Loans

We aim here to ensure that the Council is maximising its interest earning potential through the "investment / deposit" of surplus funds in appropriate banking institutions. As recorded earlier in this report, we noted last year the placement of a proportion of surplus funds with the CCLA Deposit Fund and Cambridge & Counties Building Society to ensure a better rate of interest is received, although the Covid pandemic has obviously affected the level of interest rates available in the current financial year. We are also pleased to note that a formal Investment Strategy / Policy is in place and has also been subjected to further review and re-adoption by the Council in May 2021.

In checking the receipt and recording of interest for the year to date, we noted that accrued interest of £441.10 is reported as received in the Cambridge and Counties Bank account on 20th April 2021, but does not appear to have been added to either the current year's accounts or been included as a debtor / accrual in the 2020-21 Accounts.

We have checked and agreed the first half-yearly PWLB loan repayment instalment made in May 2021 as part of our previously referenced payment review, by reference to the relevant PWLB demand notice. The second half yearly repayment was paid in November and will, consequently, be checked as part of the documentation being provided by the Clerk in electronic format once he has recovered the file of invoices from the councillor.

Conclusions and recommendation

The apparent oversight of inclusion of interest arising during 2020-21 on the Cambridge and Counties bank account should be checked with the contract accountants and, as we suspect, it may have been overlooked, it should be brought to account as soon as practicable. We will, as above, examine the 2nd half-yearly loan repayment in due course and, at our final review visit, ensure the accurate disclosure of the residual loan liability as of 31st March 2022 in the year's AGAR at Section 2 box 10.

R1. The apparent non-recording of interest arising on the Cambridge and Counties bank account in April 2021 should be checked and, if confirmed, appropriate entries be made in the Omega accounts.

Rec. No	Recommendation	Response
Investments and Loans		
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