

Patchway Town Council

Internal Audit Report: Interim 2023-24

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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 initial work undertaken in relation to the 2023-24 financial year both at our offices in advance of and during our interim visit to the Council's offices on 6th December 2023.

Internal Audit Approach

In commencing our review for 2023-24 and in accordance with the requirements of the IA Certificate in the AGAR and the latest 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 previously discussed the financial procedures in place for recording and authorising various transactions with the Clerk / RFO which has assisted us in determining an appropriate review and testing strategy, whilst 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 general quality of retained documentation and overall approach to governance matters. One or two non-material matters have been identified during the course of this review, detail of which we have discussed with the Deputy Clerk: these are set out in the body of the following detailed report with resultant recommendations further summarised in the appended Action Plan.

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

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 Omega accounts with a daily automatic sweep to keep the Current account balance at £1,000. Separate accounts to hold surplus finds are also in place with the CCLA Deposit Fund.

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 balances as recorded in the 2022-23 closing Trial Balance / AGAR to the current year's Omega records;
- Verified that the financial ledgers remain "in balance" as at 30th November 2023
- Verified detail in the Council's combined Current & Deposit a/c cashbooks for April, July & November 2023 to the relevant bank statements, including the daily inter-account transfers;
- Similarly checked and agreed detail of the CCLA account transactions for the financial year to 30th November 2023; and
- Verified the accuracy of detail in bank reconciliations as at 30th April, 31st July and 30th November 2023 on the accounts.

Conclusions

We are pleased to record that no issues have been identified in this review area currently and are again pleased to note that bank reconciliations are subject to regular quarterly member review and sign-off.

We will undertake further work in this area at our final review, including examining further months financial transactions, verification of those month-end bank reconciliations and ensuring the accurate disclosure of the combined account balances at 31st March 2024 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 2023 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 Council's 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 no such issues arise currently.

We note that the external auditors have signed off the 2022-23 AGAR with no formal comments or recommendations arising. We also note the appropriate posting of the 2022-23 Notice of Public Rights on the Council's website, although it actually provides for 32 working days rather than the legally required 30 working days.

Conclusions and recommendation

We are pleased to record that no significant areas of concern have been identified in this review area, although we note the excess 2 working days provision for the public's review of the Council's financial records, which may result in a formal comment by the external auditors.

RI. Care should be taken when publishing the 2023-24 Notice of Public Rights to ensure that the advert records only the requisite 30 working days.

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 previously discussed the procedures in place for the processing, certification and release of funds with virtually all payments paid online and payments set up by the RFO. Members are then provided with scanned copies of the purchase invoices and, following review, they release the funds online 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 2023 reviewing the files of hard copy documents to ensure compliance with the above criteria: our test sample includes 38 individual payments and totals £283,150 equating to 63% by value of non-pay related payments in the year to the above date with all the above criteria appropriately met.

In reviewing the files of payments processed in the year to date, we have experienced some difficulties in tracing the relevant supporting documentation in each month's filed section of processed payments. We also noted one case in our test sample where the formal invoice supporting an initial deposit was filed in the month of that payment without any documentation copied into the month when the final balance was paid. We also noted that the Omega accounts Purchase ledger reference number was not being recorded on all invoices.

We have discussed the position with the Deputy Clerk suggesting that to simplify the identification / tracing of supporting documentation, when a deposit is paid, with the balance paid subsequently, a copy of the invoice should be placed on file in each month when the payments are made.

We note that the 2022-23 year-end and first two quarterly VAT reclaims for 2023-24 have been appropriately prepared, submitted and repaid by HMRC, detail of which we have agreed to the Omega nominal control account.

Conclusions and recommendations

We are pleased to record that no major concerns have been identified in this area to date this year, although we urge that the filing of invoices be improved appropriately with the invoices filed sequentially by Purchase Ledger reference number, although this may not apply in relation to debit card purchases and some direct debit invoices.

We will extend our sample of payments for review at our final visit applying the same test criteria, also ensuring the appropriate submission of VAT reclaims for the remaining quarters of the year.

R2. Where invoices are paid in two (or more) tranches (deposit and final / further settlements) a copy of the original invoice should be placed on the “proceeded invoice” files in the month(s) of payment.

R3. To ease the process of tracing invoices, both for staff and us, all invoices should record the Purchase ledger posting reference number, where applicable, and ideally be filed in sequential order of those reference numbers.

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 reviewed and re-adopted by the Council in May 2023: a comprehensive risk register is also in place having last been reviewed and adopted in January 2023. We have also previously noted the existence of a raft of venue specific risk assessments.

We have also examined the Council’s 2023-24 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. We note that Business Interruption – Loss of Revenue cover is also in place at £10,000 which we also consider appropriate based on current income levels.

Conclusions

We are pleased to record that no issues of concern arise in this area currently. We take this opportunity to remind officers and the Council that the Governance and Accountability Manual – “The Practitioner’s Guide” requires councils to formally review and re-adopt their financial risk registers at least once annually: we will ensure compliance at our final review. 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 the 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 and final deliberations and determination of the 2024-25 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 2023, seeking and obtaining explanations for the few existing significant variances that exist currently by reference to the underlying Omega nominal account codes. Total income at that date stands at 110% of the approved budget, whilst expenditure stands at 72%.

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 and adoption of the 2024-25 budget and precept requirements, 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.

We have examined the controls in place over the recovery of fees for hire of the Casson Centre for September 2023 ensuring that appropriate invoices were raised and that income due to the Council has been received in a timely manner: we 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 including that relating to rents receivable monthly re the Scott Park Cafe and Patchway Sports and Social Club.

Conclusions

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

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.

The Council uses an external agent to prepare the monthly payroll together 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 2023 by reference to the Council's approved spinal points on the nationally agreed salary scales, also noting that the 2023-24 national pay award is due to be applied in December 2023: in that respect, we have checked the accuracy of the calculated gross salaries to be paid thenceforth to each employee;
- 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 in November 2023;
- Checked to ensure that the appropriate pension deductions / contributions have also been calculated for that month; and
- Ensured the accurate payment of staff net salaries for November 2023, 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, the Council has placed surplus funds with the CCLA Deposit Fund to ensure an appropriate rate of interest is being received. We have also noted previously that a formal Investment Strategy / Policy is in place which was subjected to further review and re-adoption by the Council in May 2023.

We have checked and agreed the two half-yearly PWLB loan repayment instalments made in May and November 2023 as part of our previously referenced payment review, by reference to the relevant PWLB demand notices.

Conclusions

No issues arise in this area currently. We will ensure the accurate disclosure of the residual loan liability as of 31st March 2023 in the year's AGAR at Section 2 box 10 by reference to the UK Debt

Agency year-end advice notice and their web site where all local government outstanding loan detail at 31st March is published.

Rec. No	Recommendation	Response
Review of Corporate Governance		
R1	Care should be taken when publishing the 2023-24 Notice of Public Rights to ensure that the advert records only the requisite 30 working days.	
Review of Payments and VAT		
R2	Where invoices are paid in two (or more) tranches (deposit and final / further settlements) a copy of the original invoice should be placed on the “proceeded invoice” files in the month(s) of payment.	
R3	To ease the process of tracing invoices, both for staff and us, all invoices should record the Purchase ledger posting reference number, where applicable, and ideally be filed in sequential order of those reference numbers.	