

Patchway Town Council

Internal Audit Report: Final update 2022-23

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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 work undertaken in relation to the 2022-23 financial year both at our offices and during our two onsite visits which took place on 15th December 2022 and 21st April 2023.

Internal Audit Approach

In conducting our review for 2022-23 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 quality of retained documentation and overall approach to governance matters. One or two relatively minor matters have been identified during the course of our review, detail of which we have discussed with the 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 for his assistance during the course of our visits and are pleased to acknowledge the actions taken to address recommendations recorded in our prior year reports.

Based on the satisfactory conclusions drawn from this year's work programme we have duly signed off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area.

We take this opportunity to remind the Clerk of the requirements of the guidance notes in the preface to the year's AGAR in relation to the documentation that should be displayed on the Council's website, together with the need to ensure compliance with the timing requirements for publication of the Notice of Public Rights to examine the Council's documentation for the financial year.

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 holding surplus finds 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 balances as recorded in the 2021-22 closing Trial Balance / AGAR to the current year's Omega records;
- Verified that the financial ledgers remain "in balance" at the financial year-end;
- Verified detail in the Council's combined Current & Deposit a/c cashbooks for April, July & November 2022, plus March 2023 to the relevant bank statements, including the daily inter-account transfers;
- Similarly checked and agreed detail of the other account transactions for the full financial year;
- Verified the accuracy of detail in bank reconciliations as at 30th April, 31st July and 30th November 2022 plus 31st March 2023 on all accounts; and
- Ensured the accurate disclosure of the combined account balances in the year's AGAR at Section 2, Box 8.

Conclusions and recommendation

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 as required by the adopted Financial Regulations (FRs).

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 FRs have been further reviewed and re-adopted in May 2022 and have reviewed their content noting that both remain in line with the latest NALC model documents.

We take this opportunity to advise the Clerk and Council of a recent revision to the Public Contract Regulations clarifying the value at which contracts must be published on the Government's Contract Finder website: the value is now clarified as £30,000 including VAT, which should now be identified accordingly in the Council's SOs and FRs when they are next the subject of review and formal re-adoption.

We have continued 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 no such issues arise.

We note that the external auditors signed off the 2021-22 AGAR reporting a typographical error which was corrected accordingly, also advising erroneously the misstatement of the outstanding PWLB loan at Section 2, Box 10 of the year's AGAR quoting in their report an outstanding value of £120,000. The advice note received from the UK Debt Agency and recorded on their website quotes the value as £112,000, which was recorded on the AGAR submitted to the external auditors. The Clerk has referred this back to the auditors, but has heard nothing further.

We are also pleased to note compliance with the requirement to publicise on the Council website the Notice of Public Rights for 2021-22 for the requisite period of 30 working days.

Conclusions

We are pleased to record that no areas of concern have been identified in this review area. We shall continue to review the Council's governance arrangements at future visits, also reviewing minutes as posted on the website.

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 Clerk / 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 appropriately retained on file. We consider the controls in place to be appropriate and in line with sound financial control procedures.

We have selected a sample of payments processed throughout the year reviewing the files of hard copy documents to ensure compliance with the above criteria: our test sample includes 94 individual payments plus 2 NNDR payments to South Gloucester Council paid over 10 months of the year and totals £1,980,700 equating to 92% by value of non-pay related payments in the year with all the above criteria appropriately met: the high value and percentage arise from the redevelopment project at the Community Centre.

We note that the 2021-22 year-end and first three quarterly VAT reclaims for 2022-23 have been prepared, submitted and repaid by HMRC during the financial year, with the final quarter's reclaim also prepared and submitted, with repayment still awaited at the time of our final review visit. We have agreed each quarterly reclaim detail to the Omega nominal control account.

Conclusions

We are pleased to record that no concerns have been identified in this area this year.

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 note that the "Risk Management Policy and Strategy" document was re-adopted by the Council in May 2022. The supporting comprehensive risk register has also been subjected to further review and update being re-adopted by the Council at their meeting in January 2023. We have examined both documents and consider them appropriate for the Council's present requirements. We also note the existence of a raft of venue specific risk assessments.

We have also examined the Council's 2022-23 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 appropriate to the Council's present requirements. We note that Business Interruption – Loss of Revenue cover is also in place at £10,000: whilst we understand that even following completion of the Community Centre project, the Council is not anticipating variable income likely to increase and exceed £10,000: even so, we suggest that the position be kept under review to ensure that if required, cover is increased accordingly in this respect.

Conclusions and recommendation

We are pleased to record that no issues of concern arise in this area currently although we urge that the financial risk register is subjected to formal review / revision and re-adoption prior to the financial year-end: we shall continue to monitor the Council's approach to risk management at future reviews reporting our conclusions accordingly.

R1. The position in relation to variable income and potential for loss of revenue in the event of damage to Council premises rendering them inoperable for any lengthy period of time should be kept under review and, if appropriate, insurance cover be increased accordingly in this respect. Noted and will be kept under review.

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.

We are pleased to note that, following detailed consideration of its budgetary requirements, the Council formally approved the budget and precept for 2022-23 at the January 2023 full Council meeting setting the precept at £540,271 minuting the approval accordingly.

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 final Omega budget outturn report, also examining the detailed transaction reports for the year where any significant variances are apparent noting that the majority of significant variances arise in relation to property maintenance costs at various sites and with capital spending on projects such as the Community Centre where no formal budgets are recorded for all such projects in the Omega accounts.

We undertook this review within a couple of days of the Omega accounts being closed down by the Council's contract accountants who will be producing, as last year and in due course, a detailed Statement of Accounts. Rather than delay issue of this report pending receipt of those Accounts, we are issuing the report as a holding measure and will, if appropriate, issue an update in relation to the financial standing of the Council at the financial year-end once the detailed Accounts are available for our examination.

We have, however, noted the concerns expressed by the Council towards the end of the financial year with the possible need to seek an advance payment of the 2023-24 precept to ensure the Council had sufficient resources to finance the residual expenditure for the 2022-23 financial year. Fortunately, that need was avoided although only £36,300 was held in the Council's bank accounts at the year-end compared with in excess of £500,000 at the start of the financial year, those funds being required for the Community Centre redevelopment.

Conclusions

No issues arise in this area warranting formal comment or recommendation at present: we shall, as indicated above, revisit this area on receipt of a copy of the detailed Statement of Accounts for the year updating this report appropriately if deemed necessary.

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 sports facilities referring the Clerk's diary for bookings in October 2022 and 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 similarly at this final visit examined the booking diary for the Casson Centre for November and December 2022 ensuring that appropriate invoices have been raised for each booking and that they have been settled within a reasonable time frame with no issues arising.

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

Conclusions and recommendation

We are pleased to record that significant issues arise in this area this year, although at our interim review we noted that the file of raised invoices was not being maintained in a tidy manner with invoices filed out of chronological sequence: we understand this arises due to work undertaken on them by the external accounting contractor. We are pleased to note that the invoices continue to identify the date of payment and, following our previous suggestion are now having the top right-hand corner of the invoices cut off to help clearly identify any unpaid accounts.

R2. To provide a clear audit trail, invoices should be filed in sequential order and, ideally, have the top right-hand corner cut off when payment is received. This has been actioned accordingly.

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 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 2022 by reference to the Council's approved spinal points on the nationally agreed salary scales, also noting that the 2022-23 national pay award has been applied appropriately and have agreed to revised pay rates for each employee accordingly ;
- 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 2022, 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.

Fixed Asset Registers

The Practitioner's Guide requires all councils to develop and maintain a register of its stock of assets with detail updated annually to reflect the purchase cost, net of VAT, of any new acquisitions less any disposals at the previously recorded value.

We are pleased to note that the Clerk is maintaining a Fixed Asset Register that is updated routinely each year to reflect the cost of any new acquisitions (net of VAT) with the value of any disposals removed from the register.

Conclusions

Once we have received the contract accountants detailed year-end Statement of Accounts, we will ensure that the value of assets recorded therein is consistent with the Clerk's asset register.

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 and Cambridge & Counties Building Society to ensure a better rate of interest is being received. We have also noted previously that a formal Investment Strategy / Policy is in place which has been subjected to further review and re-adoption by the Council in May 2022.

We have checked and agreed the two half-yearly PWLB loan repayment instalments made in May and November 2022 as part of our previously referenced payment review, by reference to the relevant PWLB demand notices.

We have obtained a copy of the UK Debt Agency statement confirming the value of residual loan liability as at 31st March 2023 and will, on receipt of the accountants detailed Statement of Accounts and detail to be reported in the year's AGAR, ensure the accuracy of the assigned loan liability value in the AGAR Section 2, Box 10 by reference to the UK Debt Agency record.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Statement of Accounts and AGAR

The AGAR now forms the statutory Accounts of the Council, subject to external audit scrutiny and certification. The Council uses the services of DCK Accounting to undertake the year-end closedown of the Omega accounts and to prepare a detailed Statement of Accounts for presentation to and adoption by the Council in addition to the detail to be reported in the year's AGAR at Section 2.

As a courtesy to the Council, we will, on receipt of the documentation, review the content of the detailed Statement of Accounts and AGAR financial information by reference to the year's closing Omega Trial Balance and DCKs working papers used to produce the detailed Statement of Accounts and, hence, the AGAR financial detail for Section 2 and advise the Clerk accordingly as to its accuracy and appropriateness for disclosure in the year's AGAR.

Conclusions

We are pleased to record that currently no issues arise in this area: as indicated above, we will liaise with the Clerk once we have had an opportunity to review the detailed Accounts and confirm, or otherwise, the accuracy of detail to be reported in the AGAR.

We remind the Clerk and RFO of the need to ensure full disclosure in the Council's website of the detail as set out in the preface to the year's AGAR, together with ensuring adherence to the timing requirements of adopting the AGAR and posting the Notice of Public Rights for 2022-23.

We have duly signed-off the IA Certificate in the year's AGAR assigning positive assurances I each relevant area.

Rec. No	Recommendation	Response
Assessment and Management of Risk		
R1	The position in relation to variable income and potential for loss of revenue in the event of damage to Council premises rendering them inoperable for any lengthy period of time should be kept under review and, if appropriate, insurance cover be increased accordingly in this respect.	<i>Noted and will be kept under review.</i>
Review of Income		
R2	To provide a clear audit trail, invoices should be filed in sequential order and, ideally, have the top right-hand corner cut off when payment is received.	<i>This has been actioned accordingly.</i>