



Patchway Town Council

Internal Audit Report: Final update 2021-22

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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 2021-22 financial year at our offices in advance of our interim and final visits to the Council's offices on 10th December 2021 and 11th May 2022.

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.

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.

We thank the Clerk / RFO for his assistance during the course of our reviews and are pleased to acknowledge the actions taken to address the recommendations recorded in previous reports.

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 matters.

A detailed Statement of Accounts has again been produced by the external accountants and, as a service to the Council, we have checked the content of the detailed Accounts agreeing it to the Omega accounts and supporting working papers created by the accountants.

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 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" at the financial year-end;
- Examined detail in the Council's combined Current & Deposit a/c cashbook for April & November 2021, plus January and March 2022 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 full financial year;
- Verified the accuracy of detail in bank reconciliations as at 30th April and November 2021, plus 31st January and March 2022 on all accounts; and
- Ensured the accurate disclosure of the combined account balances in the year's AGAR at Section 2, Box 8.

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.

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) were 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 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 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.

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 the Clerk with virtually all payments now paid online and payments set up by the Clerk. 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 extended 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 108 individual payments plus 2 NNDR payments to South Gloucester Council made over 10 months of the year and totals £1,644,380 and equates to 89% by value of non-pay related payments in the year with all the above criteria appropriately met: the high percentage arises from the redevelopment work at the Community Centre.

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

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.

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 noted in our interim report that a comprehensive “Risk Management Policy and Strategy” document was in place, which was re-adopted by the Council in May 2021, together with a comprehensive risk register. We note that the register has been subjected to further review, being re-adopted in January 2022: 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 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.

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 2022 full Council meeting setting the precept at £796,643 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 with no unexplained / unanticipated variances existing warranting further investigation or explanation.

We have, as part of this final review, considered the ongoing appropriateness of the level of retained reserves noting that total reserves have reduced to £635,000 (£1,572,000 as at 31st March 2021) due to costs associated with completion of the Community Centre project. Of the total funds, a series of Earmarked reserves (EMRs) totalling £509,222 exist (£1,415,000 previously) leaving a reduced General Reserve Fund balance of £125,800 (£157,000 as at 31st March 2021), which balance equates to approximately three months spending at the 2021-22 level and sits at the lower end of the generally accepted range of between three and twelve months for the General Reserve.

Conclusions

No issues arise in this area warranting formal comment or recommendation this year, although we urge that the Council monitors the level of the General Reserve balance carefully to ensure that it does not reduce to too low a level: we shall continue to monitor the level of retained reserves at future visits commenting appropriately at that time.

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 the early 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 2021 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 reviewed the Clerk's register of invoices raised noting that, at 31st March 2022, only 9 invoices remained unpaid the earliest dating back to a booking in September 2021. We are, however, pleased to note that all have now been paid.

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

We are pleased to record that no issues arise in this area warranting formal comment or recommendation.

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 noted at our interim review the significant turnover of staff in recent months with a number of vacancies existing.

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;
- Noted that the 2021-22 national pay award was implemented in March 2022 with arrears backdated to 1st April 2021 also duly calculated and paid. We have tested a sample of the arrears calculations and are pleased to record that no significant concerns have been identified in relation to the calculated payments;
- 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 for both November 2021 and March 2022;
- Checked to ensure that the appropriate pension deductions / contributions have been calculated; and
- Ensured the accurate payment of staff net salaries for November 2021 and March 2022, together with payments to HMRC and the Pension Fund administrators based on the supporting payslips and bureau generated payment advice detail.

Conclusions and recommendation

We are pleased to report that no significant concerns arise in this area this year, although we note that, following his promotion to Clerk, his pension contribution should have been increased to 6.8% from 6.5%. We have drawn this to the Clerk's attention so that he may ensure the appropriate contribution rate is applied going forward in 2022-23.

R1. The Clerk's pension contribution rate should be revised to ensure it is brought into line with the 6.8% rate applying to his annual salary.

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. In verifying the value of assets disclosed in the year's AGAR, based on the DCK prepared detailed Statement of Accounts, we noted that the recorded value (£4,533,042) significantly exceeds the total value recorded in the Clerk's register (£2,861,318). Both records should reflect the same value and we have drawn this variance to the Clerk's attention. He has agreed to refer the issue to DCKs so that it may be resolved appropriately with a correct value reported in the year's AGAR at Section 2. Box 9.

We are also pleased to note that the register includes photographs of the individual assets, which may assist the Council in pursuing any insurance reclaim or police enquiry in the event of any wilful or accidental damage to Council property.

Conclusions and recommendation

The significant variance in the asset values recorded in the DCK Statement of Accounts and Clerk's Asset Register require further examination to ensure that both records identify the same assets with consistent values assigned in each.

R2. *The identified imbalance in content and values between the Clerk's Asset Register and the detail generated by DCKs in the Statement of Accounts prepared by them should be reviewed with both records synchronised to help ensure a consistent value id recorded in both and disclosed in the AGAR and detailed Statement of Accounts.*

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 at our interim review, we noted that accrued interest of £441.10 is reported as received in the Cambridge and Counties Bank account on 20th April 2021, had not at the time of that review been added to either the current year’s accounts.

We have checked and agreed both half-yearly PWLB loan repayment instalments made in the year as part of our previously referenced payment review, by reference to the relevant PWLB demand notice. We have also now, by reference to the UK Debt Agency formal advice, verified the residual loan liability to be recorded in the year’s AGAR as £120,000, noting that the DCK advised value is shown as £146,182 at Section 2, Box 10. This will require appropriate amendment before the AGAR is adopted by the Council and submitted to the external auditors.

Conclusions and recommendation

The apparent oversight of inclusion of interest arising during 2020-21 on the Cambridge and Counties bank account identified at our interim review has been rectified accordingly. As indicated above, the DCK advised outstanding loan liability to be reported in the AGAR at Section 2, Box 10 should be amended to read £120,000.

R3. *The correct residual loan liability of £120,000 at 31st March 2022 should be recorded in the Council’s AGAR at Section 2, Box 10, that value having been advised by the UK Debt Agency as the residual value at that date.*

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 have reviewed 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. We are pleased to report that no other issues to that referred to under the Fixed Assets section of this report have been identified, with all other values agreed to the underlying records.

Conclusions

We are pleased to record that no additional, to the asset value, issues arise in this area this year and we have, based on the overall satisfactory conclusions drawn from our review programme for the year, duly signed off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area. We ask that once the asset value position has been established, we be advised of any amendment to the asset value reported in either the detailed DCK Statement of Accounts and / or the Clerk's Asset Register.

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 2021-22.

Rec. No	Recommendation	Response
Review of Staff Salaries		
R1	The Clerk's pension contribution rate should be revised to ensure it is brought into line with the 6.8% rate applying to his annual salary.	
Fixed Asset Registers		
R2	The identified imbalance in content and values between the Clerk's Asset Register and the detail generated by DCKs in the Statement of Accounts prepared by them should be reviewed with both records synchronised to help ensure a consistent value is recorded in both and disclosed in the AGAR and detailed Statement of Accounts.	
Investments and Loans		
R3	The correct residual loan liability of £120,000 at 31 st March 2022 should be recorded in the Council's AGAR at Section 2, Box 10, that value having been advised by the UK Debt Agency as the residual value at that date.	