

Bickleigh Parish Council

Internal Audit Report 2023-2024

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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 2023-24 financial year, which was undertaken at our offices on 23rd April 2024. We wish to thank the Clerk in assisting the process, providing all necessary documentation to facilitate the conduct 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 Certificate' in the Council's AGAR, which requires independent assurance over a series of internal control objectives.

Overall Conclusions

We are pleased to advise that, based on the work undertaken this year, the Clerk and Council maintain adequate and effective internal control arrangements with only a few issues identified that require appropriate action: any such items are set out in the following detailed report with resultant recommendations summarized further in the appended Action Plan for ease of reference and response.

We have duly signed the Internal Audit Section of the AGAR assigning positive assurance against the control objectives.

We remind the Clerk and Council of the need to ensure compliance with the website disclosure requirements as set out in the preface to the 2023-24 AGAR, also observing the timing requirements for posting the AGAR and Notice of Public Rights for 2023-24.

We ask that the report be considered by members, as required by the Practitioner's Guide, with the "Response" section of the Action Plan duly completed and returned for our consideration in advance of the final update review visit.

Review of Accounting Arrangements & Bank Reconciliations

Our objective here is to ensure that the accounting records are being maintained accurately and that no anomalous entries appear in cashbooks or financial ledgers. The Council operates a Current bank account with the Unity Bank for its day-to-day transactions with surplus funds held in a Unity Bank Instant Savings Account which is used to provide “top-ups” to the Current account during the year. We have: -

- Ensured that an appropriate coding structure is in place in the RBS Rialtas Alpha accounting software;
- Ensured that the closing balances for 2022-23, as reported in the Statement of Accounts and AGAR for that year, have been correctly rolled forward as opening balances for 2023-24 in the Omega software;
- Checked and verified the full years’ transactions in the Current account cashbook by reference to the supporting bank statements;
- Verified transactions on the savings account accounts for the year to 31st March 2024 by reference to the supporting bank statements;
- Noted that payments are made exclusively online or by Standing Order / Direct Debit, with the resultant removal of risk that cheques remain unpaid for any significant time; and
- Reviewed and agreed detail of bank reconciliations on the Current Account as at 30th June 2023, 30th September 2023, 31st December 2023 and 31st March 2024, to the cashbooks and bank statements, noting that they reported to Council at each meeting, but are not signed.

Conclusions and recommendation

We have reviewed the Statement on Internal Control, and whilst we are pleased to note the structures in place to review and approve payments, we note that there is no process in place for the review and signing of the bank reconciliations as required in the Financial Regulations (para. 2.2 refers).

We have checked that the combined cash and bank balances are accurately disclosed in the year’s AGAR Section 1, Box 8.

R1. The Council should develop a process to ensure that on a regular basis, at least once in each quarter, and at each financial year end, a member other than the Chairman shall be appointed to verify bank reconciliations (for all accounts) produced by the RFO. The member shall sign the reconciliations and the original bank statements (or similar document) as evidence of verification.

Review of Corporate Governance

Our objective here is to ensure that the Council has robust corporate governance documentation and processes 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, no actions of a potentially unlawful nature have been or are being considered for implementation.

We have completed our examination of the minutes of the Full Council and Finance Committee meetings that have taken place during the course of the year to 31st March 2024 to ensure that no significant issues affecting the Council’s financial stability either in the short, medium or long term exist.

- We are pleased to note that the Council's Standing Orders (SOs) and Financial Regulations (FRs) were adopted at the meeting at the May 2023 Annual Meeting.
- We note that the General Power of Competence was adopted by full council in May 2023.
- We note that the external audit report for 2022-23 has been signed off with two comments made, firstly in relation to the incorrect recording on the AGAR of the minute reference for the approval of Section One and secondly of their acceptance of the Councils' reason for the non-compliance of Section One, Box 4.

Conclusion

There are no issues arising in this area of our review warranting formal comment or recommendation.

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 controls are in place over the release of funds and that they accord with the adopted FRs;
- Payments are supported by appropriate documentation, 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;
- An official order has been raised for all purchases and service delivery where one would be expected;
- 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 selected an extended sample of processed invoices including for the year to 31st March 2024 all payments individually in excess of £1,200, together with a more random selection of every 15th cashbook transaction, irrespective of value: our test sample comprises 16 individual non-pay related payments totalling £49,661 and equating to 71% by value of all non-pay related payments to the above date. All these payments were checked to the control account to ensure correct allocation, with one payment being incorrectly allocated, but later moved to the correct code.

All invoices were provided, apart from grant payments for which the minute reference, resolving to approve the grant, was given.

We note that all invoices are sent electronically to Councillors for their review and are approved for payment at each council meeting, however none of the invoices have been initialled to confirm verification that each invoice has been examined and represents expenditure previously approved by the council.

We have reviewed the online payment processing arrangements included on the Statement of Internal Control noting the procedures in place, which we consider are appropriate for the Council's present requirements and to afford an appropriate level of financial control.

Finally, in this review area, we note receipt of the 2022-23 Q4 VAT return, but note that there have been no VAT claims made for the 2023-24 financial year.

Conclusions and recommendations

The Council has a Grants Policy, with applicants required to complete a grant application form, it would be useful if this form could be provided as evidence for payment review. We also remind that the VAT return should be completed periodically.

Whilst we note that Councillors are sent copies of invoices, which are approved at Council meetings, there is no evidence of the scrutiny of invoices, per Finance Regulations (paras 5.3 and 5.4 refer).

R2. To improve its internal controls, the Council should develop a process that confirms that evidence of the scrutiny of invoices has been completed. This could be in the form of a stamp, that is initialled by the RFO to confirm that Financial Regulations 5.3 and 5.4 have been complied with, and that an approving Councillor has provided an additional check.

Review of 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 identified in order to minimise the opportunity for their coming to fruition.

We note that members had received, considered, and adopted the Risk Management Register at the April 2023 meeting. We have reviewed the resultant document and consider it appropriate for the Council's present requirements.

We have examined the year's insurance schedule with Ansvar, running until 5th June 2024, noting that Public & Employer's Liability stand at £10 million respectively, together with Fidelity Guarantee cover at £250,000, all of which we consider appropriate for the Council's present requirements.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation.

Review of Precept Determination and Budget Control

We aim in this area of our work to ensure that the Council has appropriate procedures in place to determine its future financial requirements leading to the adoption of an approved budget and formal

determination of the amount to be precepted on the District Council; that effective arrangements are in place to monitor budgetary performance throughout the financial year and that the Council has identified and retains appropriate reserve funds to meet future spending plans.

We are pleased to note that following due deliberation, the Council approved and adopted the 2024-25 budget and precept setting the latter at £110,025 at the January 2024 full Council meeting.

We have reviewed the final budget position (as at 31st March 2024), as set out in the detailed report generated by the Omega accounting software, noting a considerable underspend of some £41,000. Following discussion with the Clerk. We were advised that the reasons for the differences were due to works to the Woolwell centre, which had not yet been invoiced, and that repayments for the loan for further works to the Woolwell centre had not yet started.

We have reviewed the year-end reserves and General Fund balances to ensure that they are both appropriate and are likely to be utilised, noting that at the time of this review total reserves are £111,715, made up of Earmarked reserves of £12,773 and General reserves £98,942. However following discussion with the Clerk, a recommendation is due to be made to Council that £36,000 should be moved to earmarked reserves. This will reduce the general reserves to £62,942 which equates to just over 10 months revenue expenditure at 2023-24 levels. This is somewhat over the rule of thumb that the General Reserve balance should be between three- and six-months revenue spending.

Conclusions

Whilst we note that the value of the general reserves are higher than we would anticipate, these appear to be appropriate to finance the Council's revenue spending requirements for the Woolwell Centre in the coming year.

Review of Income

In considering the Council's income streams, we aim to ensure that robust systems are in place to ensure the identification of all income due to the Council from its various sources, to ensure that invoices are prepared and issued in a timely manner and that effective procedures are in place to pursue recovery of any outstanding monies due to the Council. We note that, apart from the Precept, the Council receives little additional income apart from interest receipts and grant funding for grass cutting.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation.

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, together with meeting the requirements of the LGPS.

The Council outsources its monthly payroll. Consequently, we have examined the December 2023 and March 2024 payslip detail: -

- Ensuring that staff gross pay for the month has been paid in accordance with the scale point and basic weekly working hours;
- Ensuring that tax and NI deductions / contributions have been calculated appropriately by reference to the relevant tax and NI tables;
- Ensuring that the correct percentage superannuation deductions have been applied where appropriate;
- Checking to ensure that, where overtime payments have been made, they are supported by appropriately certified time records and been paid at the appropriate enhanced hourly rate; and
- Verifying that the net salary payments for December 2023 and March 2024 have been made appropriately and recorded accurately in the accounting records.

Conclusions and recommendations

We are pleased to record that the annual pay award was approved for payment by the Council in November 2023, and that pensions payments are paid by direct debit, being one month in arrears at year-end as expected. We note however that HMRC was underpaid by some £540 at year-end, although we understand this has now been paid.

R3. The previous internal auditor also noted that the Council had been fined for late payment of tax and national insurance to HMRC so we recommend that the Council sets a process to ensure that HRMC are paid regularly.

Asset Registers / Inventories

The "Governance and Accountability Manual – The Practitioner's Guide", requires all councils to maintain a detailed register of their assets. We aim in examining this aspect of the Council's documentation to ensure that the Council has complied with that legislation; that an appropriate and comprehensive register is being maintained and that it is subject to periodic review and update.

We have reviewed the asset register for the Council, noting it has very few assets, but that the value of the register is rather high for a Council of this size. The Clerk has confirmed that the value of the register currently is as 'inherited' by her, however it appears that the hall was revalued in 2021 and the asset register appreciated at the time.

We confirm the value of the asset register to Section 2 box 9 of the AGAR as £2,492,762, with no change from the prior year.

Conclusions

We are pleased to record that no issues have been identified in this area of our review process.

Review of Investments and Loans

Our objectives here are to ensure that the Council is investing “surplus funds”, be they held temporarily or on a longer term basis, in appropriate banking and investment institutions; that an appropriate investment policy is in place; that the Council is obtaining the best rate of return on any such investments made; that interest earned is brought to account correctly and appropriately in the accounting records and that any loan repayments due to or payable by the Council are transacted in accordance with the relevant loan agreements.

We note that the Council has no investments in place, but at 31st March 2024 held over £113,000 in Unity Bank, although we note that some £41,000 is due to be spent in the very near future.

We confirm from our review of the UK Debt Agency website, that the Council has completed repayment of its existing loan in 2023-24 and note that as at 31st March 2024 it had not drawn down the new loan of £250,000.

Conclusions and recommendations

Whilst an Investment Policy should be in place where cash at the bank exceeds £100k, it is also best practice for a policy to be in place where funds in excess of over £10k are held, and we recommend that the Council considers developing a suitable Policy to ensure that it spreads the risk in the unlikely event that Unity Bank fails, whilst maximizing interest earned.

Whilst no significant issues arise in this area, we note that the Council is using the new loan for works to the Woolwell Centre, which we understand is run by a Charitable Trust. We are surprised that the Council, apart from providing grants to the Trust also pays for room hire at the Woolwell Centre and would expect that any new lease rectifies this situation, as we also note that no rent is paid to the Council by the Trust.

We have confirmed the accurate disclosure of the residual loan liability in the AGAR Section 2 at Box 10 at 31st March 2023 by reference to the UK Debt Agency website where all such year-end loan balances are reported as mentioned earlier.

R4. The Council should consider the development of a suitable Investment Policy and consider transferring funds elsewhere to reduce the risk to the Council in the unlikely event of the failure of Unity Bank.

Statement of Accounts and AGAR

The Clerk has, prepared the necessary Annual Accounts and statutory AGAR detail from the Alpha accounting system: we have checked and agreed the detail therein to the underlying data in the software and other supporting documentation.

Conclusions and recommendations

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

As in the preface to this report, we take this opportunity to remind the Clerk and Council of the need to ensure compliance with the website disclosure requirements as set out in the preface to the 2023-24 AGAR, also observing the timing requirements for posting the AGAR and Notice of Public Rights for 2023-24.

Rec. No.	Recommendations	Response
Review of Accounting Arrangements & Bank Reconciliations		
R1	The Council should develop a process to ensure that on a regular basis, at least once in each quarter, and at each financial year end, a member other than the Chairman shall be appointed to verify bank reconciliations (for all accounts) produced by the RFO. The member shall sign the reconciliations and the original bank statements (or similar document) as evidence of verification.	
Review of Expenditure & VAT		
R2	To improve its internal controls, the Council should develop a process that confirms that evidence of the scrutiny of invoices has been completed. This could be in the form of a stamp, that is initialled by the RFO to confirm that Financial Regulations 5.3 and 5.4 have been complied with, and that an approving Councillor has provided an additional check.	
Review of Staff Salaries		
R3	The previous internal auditor also noted that the Council had been fined for late payment of tax and national insurance to HMRC so we recommend that the Council sets a process to ensure that HRMC are paid regularly.	
Review of Investments and Loans		
R4	The Council should consider the development of a suitable Investment Policy and consider transferring funds elsewhere to reduce the risk to the Council in the unlikely event of the failure of Unity Bank.	