

Bloxham Parish Council

Internal Audit Report (Final update) 2020-21

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Background and Scope

Statute requires all town and parish councils to arrange for an independent internal audit 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). We, at Auditing Solutions Ltd, have been appointed to undertake the necessary review for 2020-21.

This report sets out the work undertaken in relation to the 2020-21 financial year, during our two separate reviews of the Council's records, both of which have been undertaken remotely in late January / early February and April 2021 due to the ongoing Covid-19 situation and restrictions. We wish to thank the Clerk in assisting the process, providing all requested documentation in electronic format to facilitate commencement 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 "Internal Audit Certificate" in the Council's AGAR, which requires independent assurance over a series of internal control objectives.

We are hoping that we will be able to conduct the 2021-22 interim review on site in the autumn and will liaise with the Clerk to determine the approach to be taken nearer that time, which will obviously again depend on the Covid situation at that time.

Overall Conclusions

We are pleased to advise that, based on the work undertaken for the year, we consider that the Clerk operates generally sound and effective internal control arrangements: we identified a number of issues at the time of our interim review surrounding data entry in the Scribe accounting software acquired and implemented in the latter stages of 2020, together with areas where we considered improved controls were required with members taking greater "ownership" of the Council's financial affairs to further enhance controls and provide the Clerk with a greater degree of security. We are pleased to acknowledge the positive action taken to address those and have reflected the current position on each of the recommendations raised in our interim report both in the body of this update report and in the appended Action Plan.

Based on the overall satisfactory conclusions drawn from our review programme for the year and testing applied, we have signed off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Clerk switched maintenance of the accounting records from spreadsheet format to use of bespoke Scribe software during the financial year: the software affords an effective means of financial management and control and is used by a number of our clients effectively providing them with all necessary and relevant financial information to facilitate the internal monitoring of performance. Separate bank accounts have been in use during the financial year with those at the Bank of Ireland closed and a new Current account with Unity Bank now in use.

Our objective in this review area is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. We have accordingly: -

- Ensured the accurate recording of the combined closing balances for 2019-20 into the 2020-21 Scribe accounts;
- Checked detail in the receipts and payments “cashbooks” generated by Scribe, examining all transactions recorded for the financial year agreeing detail to the relevant supporting bank statements, including the effective transfer of closing balances on the “closed” Bank of Ireland Accounts to the Unity Current Account;
- Checked and agreed detail on the combined accounts bank reconciliations prepared as of 31st January and March 2021; and
- Ensured the accurate disclosure of the year-end cashbook balance in the year’s AGAR at Section 2, Box 8.

Conclusions and recommendations

We appreciate the significant difficulties encountered by the Clerk in maintaining accurate financial records during the year under the ongoing Covid situation, together with the undoubted teething issues in implementing a new accounting system and changing banks part way through the financial year.

The Scribe accounts software generates bank reconciliations as and when required. The generated reconciliation records the total value of any uncleared deposits or unpresented cheques and also generates separate detailed statements of both of these: we urge that, where such uncleared transactions arise, their detail be printed off and provided to the checking member (see following paragraph) also for sign-off. (We have provided the Clerk with a specimen of the Scribe generated uncleared payment report from another of our clients using Scribe in case the Clerk has not, as yet, found the Scribe report having only recently installed the software).

The Council’s Financial Regulations adopted in May 2020, which we are pleased to note are in line with the latest NALC model documents, refer at Para 2.2 to the requirement, in line with best practice, for a member who is neither the Chairman nor a cheque signatory to, at least once a quarter and at the financial year-end, verify bank reconciliations and sign off both the reconciliations and bank statements as evidence of their review. We appreciate that our review has, of necessity, been undertaken remotely, as well as the potential ongoing difficulties for a member to undertake such a physical review at present, but urge that appropriate action is taken to implement this review as soon as physically practicable. In the

meantime, we suggest that such nominated member be provided with an electronic emailed copy of the Scribe bank reconciliation and supporting bank statements and that they either initial and scan the signed documents returning them to the Clerk or acknowledge completion of the review in an email with subsequent hand over of signed hard copies.

In checking the Scribe bank reconciliation, prepared effectively as at 31st January 2021, we note the inclusion of one uncleared Bank of Ireland cheque (no. 1726 - £250.00). As the Bank of Ireland accounts have both been closed, this cheque should be written back in the Scribe accounts as a negative payment and, if a new cheque / online payment is required by the payee it should be prepared, issued and recorded appropriately in the software.

Where the need arises for cheques to be cancelled or written back in future, we urge that they are entered in the Scribe accounts as a negative payment with the new payment duly recorded to ensure that a clear audit trail is in place.

- R1. *The Council should nominate an appropriate member to undertake periodic reviews of bank reconciliations during the year, examining and signing-off all relevant supporting documentation, as required by the adopted Financial Regulations (Para 2.2 refers). **Agreed: will be implemented starting in April 2021.***
- R2. *If members are unable to physically review the reconciliations and supporting documents due to the Covid situation, they should be provided with electronic copies of the Scribe reconciliation, together with the Scribe records of any uncleared deposits and cheques and supporting month-end bank statements, duly signing off printed hard copies, scanning them and returning them to the Clerk for retention or issuing an email confirming agreement of the reconciliation detail. **Agreed: will be implemented starting in April 2021.***
- R3. *Month-end reconciliations should be prepared accurately only after receipt of the supporting month-end bank statements. **Noted.***
- R4. *Cheque number 1726 drawn for £250.00 in May 2020 on the Bank of Ireland Account should be written back in the Scribe accounts as a negative payment as the account has now been closed.*

Review of Corporate Governance

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 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 are pleased to note that the Council has formal Standing Orders (SOs) and Financial Regulations (FRs) in place, both of which were reviewed and re-adopted in May 2020 and are in line with the latest NALC model documents, both recording a value of £25,000 for formal tender action in accordance with the extant Public Contract Regulations.

We have reviewed the Council and Committee minutes examining those for the financial year to determine whether any issues exist that may have an adverse effect, through litigation or other causes, on the Council's future financial stability and are pleased to record that no such matters have been identified.

Conclusions

We are pleased to report that no issues arise in this area currently: we will continue to review minutes and the Council's approach to governance issues at future reviews.

Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Appropriate documentation supports payments, 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;
- 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 discussed with the Clerk at the time of our interim review the Council's control procedures in relation to the scrutiny and approval of traders' and other invoices for payment and consider them generally effective, although we suggested that they could and should be further strengthened to afford clear evidence of members' approval and involvement in the authorisation process, particularly in the light of a relatively recent fraud perpetrated by a Town Clerk on the South coast.

We do not wish to imply that any fraudulent or other malicious activity has taken place by the Clerk, but suggest that to further strengthen controls, members should physically evidence their scrutiny signing-off invoices approved for payment: whilst we accept that such action may not be fool-proof or easily undertaken, it adds a further level of control and affords clear evidence that members have actively been involved in the payment approval process and affords a degree of protection to the Clerk in the event that any external agent fraudulently accesses and uses the Council's bank account.

Due to the Covid situation, we appreciate that it may not be physically possible at present for members to sign-off the invoices, but suggest that, once the present lockdown rules are significantly relaxed and members are again able to physically review and sign-off original invoices, they do so. We also note that the Scribe software affords a facility for actual invoices to be scanned and saved on the software's web detail and are now pleased to note that the Clerk is, following our previous suggestion, saving copies on the Scribe accounts: ***(NB: hard copies should only be discarded once the year's AGAR has been signed-off by the external auditors, subject to separate HMRC retention requirements in relation to staff pay).***

We have extended testing in this area for compliance with the above criteria selecting a sample of 36 individual payments totalling £79,100 and equating to 89% by value of non-pay related payments processed in the financial year.

We note that VAT reclaims are prepared and submitted to HMRC annually, with that for 2019-20 repaid on 20th April 2020: we have examined the 2020-21 reclaim at this final review agreeing detail to the underlying Scribe accounts.

Conclusions and recommendations

As indicated above, we consider that controls over the authorisation and release of payment could and should be strengthened to evidence members involvement in the process and reduce the risk of incorrect or possibly duplicated payments being processed. The majority of our clients now use a suitably designed rubber payment certification stamp which is affixed to every invoice / payment document: ideally, the stamp should provide for the following detail: -

- *Signature / initials of the clerk confirming receipt of goods / services and arithmetic accuracy of the invoice;*
- *Cheque number, or as cheques are not now used routinely, a unique consecutive number allocated to each payment throughout the year (this will ease identification / cross-referencing of identical value payments during the year to individual traders and further reduce the risk of duplicated payments occurring and going undetected);*
- *Physical payment release date;*
- *Nominal Scribe account code; and*
- *Initials of one or more members approving and releasing the payments.*

R5. *Consideration should be given to the acquisition of a suitably designed rubber certification stamp to be affixed to every invoice, ideally including the information as set out in the body of the report. A suitably designed stamp has been acquired and is now in use.*

R6. *Members approving and releasing payments should (once the Covid situation eases) examine all invoices, initialling the above rubber stamp to indicate completion of their fiduciary responsibilities in releasing the payments. This has now been actioned appropriately.*

R7. *Consideration should be given to scanning and saving the certified invoices to the Scribe software once members have scrutinised and signed them off. Agreed and now implemented.*

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 to minimise the opportunity for their coming to fruition.

We have examined the Council's insurance policy with Ecclesiastical noting that cover is in place with both Employer's and Public Liability cover standing at £10 million, together with Fidelity Guarantee cover at £0.5 million, all of which we consider appropriate for the Council's present needs.

We are pleased to record that the Council has reviewed and re-adopted its Risk Management document at the May 2020 Council meeting. Whilst we consider the document generally appropriate for the Council's present requirements, it could possibly be expanded in certain

areas to cover other potential risks such as the potential impact should the Clerk's be absent for any lengthy time: we have provided the clerk with a similarly designed document used by a few of our clients and suggest that consideration be given to expanding the Council's existing document accordingly.

We note that an external provider undertakes periodic reviews of the Council's play areas reporting their conclusions accordingly with detail presented to the Council for determination of any remedial action considered necessary. This review is supplemented by "in-house" reviews undertaken by members who advise the Clerk of any issues requiring attention. As claims could potentially be made against the Council for injuries sustained by children up to the age of 21, the review documentation should be retained accordingly. We also suggest that, in line with best practice and to afford the Council appropriate security the members undertaking these reviews should attend a RoSPA training course leading to the appropriate accreditation. We also suggest that the Clerk liaises with the insurers to establish their requirements to ensure the Council is appropriately covered.

Conclusions and recommendation

No significant concerns have been identified in this area, although, as indicated above, we suggest that the existing register could beneficially be expanded to include other potential risks that the Council may face. We shall continue to monitor the Council's approach to risk management at future visits.

- R8. ***Consideration should be given to expanding the existing adopted Risk Management document. To be actioned in May 2021 when all PC documents are reviewed and approved.***
- R9. ***The Clerk should liaise with the Council's insurers to ensure that the Council is fully compliant with their requirements as regards the inspection of play areas and recording of the outcome of such inspections. This has been actioned accordingly.***

Budgetary Control & 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 the District 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 and cover any unplanned expenditure that might arise.

We are pleased to note that the Council has completed its deliberations on the required budget and precept for 2021-22 adopting the latter at £96,676 at the full Council meeting in December 2020.

We note that the Clerk provides members with detail of the Council's budgetary position during the year, although the reporting facility within the Scribe Accounts software has not, as yet, been used by the Clerk. We have examined the year-end budget outturn and detailed transaction reports for the financial year as shown in the Scribe accounts with no significant variances existing: During our interim review, we noted that the HMRC payment for February 2021 had been inadvertently charged to the Clerk's salary code in Scribe (Code 4) rather than the HMRC Code 7. We now note that this has been corrected appropriately.

We have also considered the appropriateness of the Council's retained reserves as at 31st March 2021 to meet the Council's ongoing revenue spending requirements and future development aspirations, with no issues arising.

We have seen no indication that the Council has considered the establishment of any specific reserves to be set aside for any future potential development aspirations or periodically recurring expenditure such as election costs or equipment replacement.

Conclusions and recommendation

Whilst no concerns exist in this area, we suggest that the Scribe accounting software be used to generate regular budget performance reports to be presented to members and that some consideration be given to setting aside a proportion of the General Reserve balance into specific earmarked reserves which can be added to annually to accumulate appropriate funds for future equipment replacements, planned developments, etc: the level of funds held in such reserves should be subjected to annual consideration as part of the budget process with the levels adjusted accordingly.

R10. Greater use should be made of the Scribe software to generate regular reports to members on the financial performance against the approved budget: consideration should also be given to the establishment of specific earmarked reserves for future planned projects and equipment replacement.

R11. Consideration should be given to the set aside of a proportion of the existing total reserves into one or more specific earmarked reserves to provide funds for future planned developments and / or replacement of existing equipment.

Review of Income

The Council has relatively limited sources of income, primarily the annual precept, Support Grant, recoverable VAT and occasional grants and donations.

Our objective in this area is to ensure that all income due to the Council is identified and recovered within an appropriate period and is also banked promptly. We have, as indicated in the first section of this report, agreed the income recorded in the Scribe software to the supporting bank statements for the year to date with no issues arising.

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.

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 local government pension scheme.

The Clerk is the only employee of the Council and we note that she is paid in accordance with the nationally agreed NJC salary scale on point 25. The Council has outsourced preparation of the monthly payroll to Tax Assist, with all necessary monthly documentation provided to the Clerk to facilitate payment of her net salary, tax and NI contributions to HMRC.

To meet the above objective, we have: -

- Checked and detail of the Clerk's salary paid in December 2020, noting that since issue of her employment contract her spinal point and weekly contracted hours payable have been increased;
- Noted that the Council approved payment of the 2020-21 national pay award, together with arrears due from 1st April 2020, but note in checking the December 2020 payslip that she is still being paid at the prior year (i.e., 2019-20) salary rate;
- Checked the accurate calculation of tax and NI deductions based on the gross salary paid in December in accordance with the tax code recorded on the pay slip and appropriate NI Table; and
- Ensured that the appropriate tax, NI and employee / employer contributions to the pension scheme have been applied and been paid over to the respective agencies.

Conclusions and recommendations

In checking the December salary deduction payment to HMRC, it appears that only the Clerk's NI and tax deduction has been paid over for the month excluding the Council's NI contribution. Looking at prior month payments in the year, it appears that the same error has occurred and probably also applied in prior years.

Whilst employers with a small number of employees are exempt from paying the employers' NI contribution, this does not unfortunately apply to local government employers and the Council will, undoubtedly, have a liability in this respect that will need an arrears payment to HMRC, again potentially going back to prior years. We suggest that the assistance of "Tax Assist" should be sought to liaise with HMRC and ensure that the appropriate payment of all employer's NI contributions and arrears are paid over to HMRC.

R12. The Clerk should liaise with Tax Assist & HMRC to resolve the underpayment of the employer's NI contributions, which will most probably also apply in prior years. This has been actioned accordingly with due payment made to HMRC.

Asset Registers

The Practitioner's Guide requires all councils to develop and maintain an appropriate register of the Council's land, property and equipment in a formal register, with the cost of assets duly recorded, the total value of which should be recorded in the AGAR at Section 2, Box 9. These values should not be subject to changes year-on-year other than to reflect the cost of any new acquisitions (net of VAT) and any disposals / deletions.

We note that the Scribe accounting software provides for an asset register, detail of which we have reviewed and agreed as far as we are reasonably able as we have not visited the Council this year due to the Covid situation.

Several of our clients have also developed photographic records of assets such as street furniture, etc, which they have found to be of assistance in progressing insurance claims in the event of any accidental or malicious damage occurring.

Conclusions and recommendation

No concerns have been identified in this area, although, as indicated above we suggest that consideration be given to the development of a photographic register of street furniture, etc.

R13. The Council should consider the development of a photographic register of its assets, which may be of assistance in the event of any accidental or wilful damage to property and equipment requiring an insurance reclaim.

Investments and Loans

We aim in this area of our review process to ensure that the Council is taking appropriate action to ensure interest earning capabilities are maximised whilst safeguarding the Council's resources. We note from examination of the 2019-20 accounts detail posted on the website that limited bank interest was received in the year, although none has been received from either the now closed Bank of Ireland or new Unity Bank accounts in the current year.

Statutory guidance on Local Government investments (3rd Edition) issued under section 15(1)(a) of the Local Government Act 2003 was amended with effect from 1st April 2018 requiring all councils with retained funds in excess of £100,000 to develop and adopt formally an Annual Investment Strategy. This Strategy should also pay due heed to the fact that the Government's Compensation Scheme will only cover funds up to £85,000 held in one banking institution. We have provided the Clerk with a copy of the relevant legislation.

No loans are in existence either payable by or to the Council.

Conclusions and recommendations

Whilst we have no significant concerns in this area, the Council needs to ensure that it complies with extant regulations developing an appropriate Investment Strategy / Policy: to assist the Council, we have provided the Clerk with a few examples as used by a few of our clients. Consideration should also be given to the diversification of funds into other banking institutions to not only protect funds as the Government's compensation scheme only guarantees cover up to £85,000 in any single banking institution, but also in an effort to attract a degree of interest income.

*R14. The Council should develop an appropriate annual Investment Strategy / Policy to ensure compliance with extant legislation and best practice. **Noted and to be actioned in May/June 2021.***

*R15. Consideration should also be given to the diversification of the placement of funds to reduce the risk of loss in the, albeit unlikely, event that Unity Bank should "fail" and potential to earn interest on any surplus (to day-to-day spending requirements) funds held. **Noted and to be actioned in May/June 2021.***

Statement of Accounts / AGAR

The AGAR now forms the statutory accounts of the Council in accordance with the Accounts and Audit Regulations 2015. The Accounts and financial detail at Section 2 of the year's AGAR are generated automatically by the Scribe accounts and we have consequently agreed detail to the underlying Scribe records.

Conclusions

We are pleased to record that no issues arise in this area warranting formal comment or recommendation: we have duly signed-off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area.

Rec. No.	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	The Council should nominate an appropriate member to undertake periodic reviews of bank reconciliations during the year, examining and signing-off all relevant supporting documentation, as required by the adopted Financial Regulations (Para 2.2 refers).	<i>Actioned. Starting in April 2021.</i>
R2	If members are unable to physically review the reconciliations and supporting documents due to the Covid situation, they should be provided with electronic copies of the Scribe reconciliation, together with the Scribe records of any uncleared deposits and cheques and supporting month-end bank statements, duly signing off printed hard copies, scanning them and returning them to the Clerk for retention or issuing an email confirming agreement of the reconciliation detail.	<i>Actioned. Starting in April 2021.</i>
R3	Month-end reconciliations should be prepared accurately only after receipt of the supporting month-end bank statements.	<i>Noted.</i>
R4	Cheque number 1726 drawn for £250.00 in May 2020 on the Bank of Ireland Account should be written back in the Scribe accounts as a negative payment as the account has now been closed.	
Review of Expenditure & VAT		
R5	Consideration should be given to the acquisition of a suitably designed rubber certification stamp to be affixed to every invoice, ideally including the information as set out in the body of the report.	<i>Actioned.</i>
R6	Members approving and releasing payments should (once the Covid situation eases) examine all invoices, initialling the above rubber stamp to indicate completion of their fiduciary responsibilities in releasing the payments.	<i>Actioned.</i>
R7	Consideration should be given to scanning and saving the certified invoices to the Scribe software once members have scrutinised and signed them off.	<i>Actioned.</i>
Assessment and Management of Risk		
R8	Consideration should be given to expanding the existing adopted Risk Management document.	<i>To be actioned in May 2021 when all PC documents are reviewed and approved.</i>
R9	The Clerk should liaise with the Council's insurers to ensure that the Council is fully compliant with their requirements as regards the inspection of play areas and recording of the outcome of such inspections.	<i>Actioned.</i>

Rec. No.	Recommendation	Response
Budgetary Control & Reserves		
R10	Greater use should be made of the Scribe software to generate regular reports to members on the financial performance against the approved budget: consideration should also be given to the establishment of specific earmarked reserves for future planned projects and equipment replacement.	<i>Actioned</i>
R11	Consideration should be given to the set aside of a proportion of the existing total reserves into one or more specific earmarked reserves to provide funds for future planned developments and / or replacement of existing equipment.	
Review of Staff Salaries		
R12	The Clerk should liaise with Tax Assist & HMRC to resolve the underpayment of the employer's NI contributions, which will most probably also apply in prior years.	<i>Actioned</i>
Fixed Asset Registers		
R13	The Council should consider the development of a photographic register of its assets, which may be of assistance in the event of any accidental or wilful damage to property and equipment requiring an insurance reclaim.	
Investments and Loans		
R14	The Council should develop an appropriate annual Investment Strategy / Policy to ensure compliance with extant legislation and best practice.	<i>Noted and to be actioned in May/June 2021.</i>
R15	Consideration should also be given to the diversification of the placement of funds to reduce the risk of loss in the, albeit unlikely, event that Unity Bank should "fail" and potential to earn interest on any surplus (to day-to-day spending requirements) funds held.	<i>Noted and to be actioned in May/June 2021.</i>