

# **Bloxham Parish Council**

*Internal Audit Report (Interim) 2021-22*

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## **Background and Scope**

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, during our first review of the Council's records, which has been undertaken remotely following agreement of that approach with the Clerk in early December 2021. We again thank the Clerk in assisting the process, providing the 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 'IA Report' in the Council's AGAR, which requires independent assurance over a series of internal control objectives.

This report will be updated following completion of our final review for the year the date of which has to be agreed, but will be timed to follow closure of the year's Accounts in the Scribe software

## **Overall Conclusions**

We are pleased to record that, based on the work undertaken to date, the Clerk continues to maintain generally adequate and effective controls over the Council's finances: we acknowledge the actions taken to address the issues identified in our 2020-21 report, although a few remain requiring attention: where such areas remain to be addressed, we have reiterated the prior year recommendation in order that they are not overlooked, together with one or two additional issues identified this year. One or two further issues have been identified at this stage of this year's review with detail again set out in the body of the attached report and any resultant recommendations further reiterated in the attached Action Plan.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

The Clerk has continued to use the Scribe software to maintain the accounting records during 2021-22. Two bank accounts are in place with Unity Bank. Although no finds have yet been transferred to the Instant Access Account.

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 carry forward of the closing 2020-21 balances as opening balances in the Scribe accounts for 2021-22;
- Ensured that an appropriate coding structure is in place to facilitate effective budget monitoring / performance management;
- Checked detail in the receipts and payments “cashbooks” generated by Scribe, examining all transactions recorded for the financial year to 6<sup>th</sup> December 2021 agreeing detail to the relevant supporting bank statements; and
- Checked and agreed detail on the combined accounts bank reconciliation prepared as of 8<sup>th</sup> December 2021.

### *Conclusions and recommendation*

*The Council’s Financial Regulations (FRs), re-adopted in May 2021 are in line with the latest NALC model documents, referring at Para 2.2 to the requirement, in line with best practice, for a member who is neither the Chairman nor a cheque signatory at least once a quarter and at the financial year-end to verify bank reconciliations and sign-off both the reconciliations and bank statements as evidence of their review. We understand that, whilst reconciliations are routinely presented to the Council and adopted, neither they nor the bank statements are being signed-off as evidence of formal review by a nominated member.*

*An integral part of the Scribe generated bank reconciliations is the value of any uncleared payments (or receipts) at the time of reconciliation. The Scribe software will generate reports providing full detail of any such uncleared payments or receipts. We are pleased to note that the Clerk has now identified where these uncleared transaction reports can be obtained in the Scribe software: these should be printed off in conjunction with the bank reconciliations in future and be provided to the reviewing member for examination and sign-off.*

*We will extend our review of these transactions for the remainder of the year at our final visit.*

*R1. The Council should ensure compliance with the adopted Financial Regulations (Para 2.2) with a nominated councillor formally reviewing at least quarterly the content of bank reconciliations, supporting bank statements and uncleared cheque / receipt lists signing off all supporting documentation as evidence of their review.*

## 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 2021 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 date 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.

We note that the external auditors have signed-off the 2020-21 AGAR with no issues recorded.

### **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.

Last year, we discussed with the Clerk the Council's control procedures in relation to the scrutiny and approval of traders' and other invoices for payment and considered 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 are pleased to note that the Clerk is uploading invoices to the Scribe accounts with a suitably designed rubber certification stamp affixed to each indicating confirmation of receipt of goods and services, etc., together with provision for the signatures / initials of members approving the payments. However, we note that the uploaded documents do not afford evidence of member approval for release of the payments. Again, we appreciate the potential strictures placed on such action by the Covid situation, but urge that, once practicable, the uploaded invoices should be physically reviewed and signed-off by members evidencing their review and approval for payment, with the documents uploaded after being initialled by members rather than prior to that action.

To ensure compliance with the above criteria, we have selected a sample of 30 individual non-pay related payments in the year to 6<sup>th</sup> December 2021 totalling £164,255 equating to 93% by value of non-pay related payments processed to that date with no additional issues arising to the above suggested enhancement in evidencing payment release approval. The high percentage arises due to the development costs of Jubilee Hall.

We note that VAT reclaims are prepared and submitted to HMRC annually, with that for 2020-21 repaid on 14<sup>th</sup> May 2021: we shall examine the 2021-22 reclaim at our final review.

### ***Conclusions and recommendations***

***As indicated above, we consider that controls over the authorisation and release of payment could and should be further strengthened with members evidencing their involvement in the process initialling all payment documentation prior to its upload to the Scribe software.***

*R2. Members approving and releasing payments should, in line with best practice, examine all invoices initialling the acquired rubber stamp to indicate effective and full discharge of their fiduciary responsibilities in checking and releasing the payments.*

## **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 a comprehensive Risk Management document in place noting that, following our previous recommendation, a more comprehensive document has now been prepared and adopted by the Council at the May 2021 full Council meeting: we consider the revised document appropriate for the Council's ongoing requirements.

We again 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. We understand that, following our recommendation last year, the clerk has ensured that the Council is appropriately protected against any potential claims.

### ***Conclusions***

***No significant concerns have been identified in this area this year warranting formal; comment or recommendation.***

## **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.

This review took place in advance of the December 2021 minutes being formally approved by Council at a subsequent meeting: we understand that the 2022-23 budget and precept were discussed and approved at that meeting and will review the outcome at our final review for the year.

We note that the Clerk provides members with detail of the Council's budgetary position during the year and have reviewed the latest Scribe generated budget report with no issues identified warranting further enquiry or comment.

We have, as last year, 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***

*We are pleased to record that no concerns arise in this area currently. We shall undertake further work at our final review examining the year-end budget outturn seeking explanations for any significant variances that may have arisen subsequent to this review and considering the ongoing appropriateness of the level of retained reserves to meet the Council's ongoing revenue spending requirements and potential development aspirations.*

*R3. Consideration should be given to the establishment of specific earmarked reserves with funds set aside and accumulated in steady stages each year to meet the cost of potential future expenditure on items such as election costs, equipment replacement, etc.*

## **Review of Income**

The Council has relatively limited sources of income, primarily the annual precept, 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 Council employee: we note that she is paid in accordance with the Council approved spina; point on the nationally agreed NJC salary scale. The Council has again 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 November 2021;
- Checked the accurate calculation of tax, NI and pension fund deductions / contributions based on the gross salary paid in November 2021 in accordance with the tax code recorded on the pay slip, NI Tables and pension contribution band; 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**

*We are pleased to record that no issues have been identified in this area this year warranting formal comment or recommendation. We understand that no agreement has yet been reached on the 2021-22 pay award and will keep the Clerk advised of the outcome once known and formally announces, also checking to ensure that it is applied appropriately.*

## **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 2021-22 Scribe accounts detail that no interest has been received to date in the year from the Unity Bank accounts.

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 1<sup>st</sup> 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, we drew attention to the above requirement for an appropriate Investment Strategy / Policy to be developed as soon as practicable in last year's report. We appreciate that the PC is in the middle of a project at the Jubilee Hall with a proportion of the available resources being used to fund the project, but urge that action is taken to develop an appropriate Strategy / Policy to ensure compliance with extant legislative requirements. We also note the intent to consider potential investment opportunities once the Hall project is completed. Consequently, we restate our previous recommendations in order that they are not overlooked.*

- R4. The Council should develop an appropriate annual Investment Strategy / Policy to ensure compliance with extant legislation and best practice.*
- R5. 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.*



Rec. No.	Recommendation	Response
<b>Review of Accounting Arrangements and Bank Reconciliations</b>		
R1	The Council should ensure compliance with the adopted Financial Regulations (Para 2.2) with a nominated councillor formally reviewing at least quarterly the content of bank reconciliations, supporting bank statements and uncleared cheque / receipt lists signing off all supporting documentation as evidence of their review.	
<b>Review of Expenditure &amp; VAT</b>		
R2	Members approving and releasing payments should, in line with best practice, examine all invoices initialling the acquired rubber stamp to indicate effective and full discharge of their fiduciary responsibilities in checking and releasing the payments.	
<b>Budgetary Control &amp; Reserves</b>		
R3	Consideration should be given to the establishment of specific earmarked reserves with funds set aside and accumulated in steady stages each year to meet the cost of potential future expenditure on items such as election costs, equipment replacement, etc.	
<b>Investments and Loans</b>		
R4	The Council should develop an appropriate annual Investment Strategy / Policy to ensure compliance with extant legislation and best practice.	
R5	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.	