

# **Portishead Town Council**

*Internal Audit Report 2021-22 (First interim)*

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*Stuart J Pollard*

*Director  
Auditing Solutions Ltd*

## **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 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 interim review of the Council's records for the year, which was undertaken on site on 9<sup>th</sup> September 2021. We wish to thank the new Clerk and her staff for assisting the process, providing all necessary documentation in hard copy or electronic format to facilitate commencement of our review for the year.

## **Internal Audit Approach**

In undertaking our review, we have again 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.

Due to the number of staff changes in the last year or so, we have agreed with the new Clerk that we would undertake an interim update review in the New Year followed by a final review visit once the accounts have been closed down for the year. This report will be updated further following both of those visits.

## **Overall Conclusions**

We are pleased to advise that, based on the work undertaken to date, officers continue to maintain adequate and effective internal control arrangements with a few relatively minor issues identified requiring attention. Detail of those issues have been discussed with officers and are set out in the following detailed report with any resultant recommendations further summarised in the appended Action Plan: we ask that the report be presented to members and a formal response be provided to those recommendations in advance of our interim update visit / review indicating the actions taken and / or in hand at that time.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

The Council has again used the Rialtas Omega accounting software to maintain its financial and management accounting information. The Council operates two bank accounts with Lloyds Bank (Current & CIL), supplemented by three further deposits with the Monmouth and Nationwide Building Societies.

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear therein. Consequently, we have: -

- Ensured that an appropriate cost centre and nominal account coding structure is in place to facilitate preparation of periodic budget reports and the year-end detailed Statement of Accounts and AGAR information;
- Ensured that the closing balances, as reported in the 2020-21 Accounts and AGAR have been brought forward accurately as opening balances for 2021-22 in the Omega Accounts;
- Verified two months' transactions on the Lloyds Current account (April & July 2021) by reference to supporting bank statements;
- Verified the year's transactions to 31<sup>st</sup> July 2021 on the three Building Society accounts by reference to underlying records; and
- Verified the content of the resultant Omega month-end bank reconciliations for each of the above two months on all accounts.

We are pleased to note from our review of minutes that the combined bank reconciliation prepared at each month-end is presented to and signed-off by Council.

### *Conclusions*

*We are pleased to record that no significant concerns have been identified in relation to the maintenance of the accounting records at this stage of our review process. We shall undertake further work in this area at our next and final reviews checking further monthly cashbook entries to bank and Building Society statements, verifying the accuracy of the combined year-end bank reconciliation and accurate disclosure of that balance in the year's AGAR at Section 2, Box 8.*

## 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 (SOs) and Code of Practice and that, as far as we can reasonably be expected to ascertain as we do not attend meetings, no actions of a potentially unlawful nature have been or are being considered for implementation.

We noted in last year's report that the SOs and Financial Regulations (FRs) were reviewed and re-adopted in May 2020, both documents being in line with the NALC model documents and making appropriate reference to the extant Contract Regulations. We also now note a further

review and re-adoption of the SOs in July 2021 and have reviewed the resultant document with no comments arising.

We have commenced our review of the Council's and Standing Committee's minutes, examining those posted on the Council website in the current financial year to ensure that no issues exist or may be being considered by the Council that may have an adverse effect, through litigation or other causes, on the Council's future financial stability.

We have, in discussion with officers, identified that the requisite Notice of Public Rights for 2020-21 (advising members of the public of the dates on which the Council's financial and related records will be available for examination) has, as yet, neither been prepared or publicised on a noticeboard or on the Council's website. We have advised that, whilst the reasons for the oversight are understood (primarily staff changes), an appropriate notice should be published, albeit not in accordance with the statutorily specified timetable, advising the statutory 30 working days when the records would be available for examination: this will undoubtedly result in a negative reference by the external auditors in their report when issued: we also note that the external auditors have requested further information in a few areas and have advised the Clerk accordingly of the requisite action and responses needed. We shall examine the external audit report and certificate, once received, at our next review visit.

### ***Conclusions and recommendation***

***We shall continue to monitor the Council's approach to governance issues at future visits, also continuing our review of minutes. We draw the Clerk and members' attention to the statutory disclosure requirements (Accounts and Audit Regulations 2015) as set out in the preface to each year's AGAR and urge that the Council ensures compliance in 2021-22 and beyond.***

*R1. The Council must ensure future compliance with the disclosure requirements (Accounts and Audit Regulations 2015 refer) as also set out in the preface to each year's AGAR.*

## **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 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;
- The correct expense analysis has been applied in the spreadsheet cashbooks to invoices when processed; and
- VAT has been appropriately identified and recorded appropriately for periodic recovery.

We have discussed with officers the procedures in place for processing purchase invoices, noting the continued use of internet banking with, following our previous suggestion, the bank transaction confirmation reports attached to either individual or a group of payments being initialled by both the Deputy Clerk and Admin Assistant as evidence of the duality of the checking and release process. Whilst we appreciate the difficulties in affording members the opportunity to review hard copy invoices given the Covid situation, we urge that improved

evidencing of their involvement in the review and processing of payments is introduced as soon as physically practicable. Ideally, members should be examining and signing off the hard copy invoices as well as a supporting schedule as evidence of their scrutiny and effective discharge of their fiduciary responsibilities: this not only serves as a safeguard to staff, but also reduces the risk of potential duplicated payments occurring and, as above, effectively demonstrates members involvement in the payment approval process.

To ensure compliance with the above anticipated controls, we have selected a sample of 34 individual payments processed during the financial year to 31<sup>st</sup> August 2021, including all those payments individually in excess of £1,250 plus every 25<sup>th</sup> payment processed and two NNDR accounts for the Council's halls, those payments being processed monthly during the year. Our test sample totals £129,200 and equates to 72% by value of non-pay related payments processed during the year to date.

VAT reclaims continue to be prepared and submitted to HMRC quarterly, although that for the first quarter of the current financial year has yet to be repaid by HMRC.

### *Conclusions and recommendations*

*We are pleased to record that no significant issues arise in this area currently, although, as indicated above, with the new appointment of a dedicated Bookkeeper we again suggest that improved control should be implemented with members both reviewing and signing-off individual invoices as evidence of their review, together with more effective and demonstrable segregation between the set-up of online payments and their physical release.*

- R2. *Members should be physically reviewing and signing-off individual invoices as evidence of their review and effective discharge of their fiduciary responsibilities.*
- R3. *Effective separation of duties should be implemented between the set-up of online payments and their physical release.*

## **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 / 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 previously reported that the Council switched its insurance cover from Zurich to BHIB as part of a 3-year deal and have reviewed the 2021-22 policy schedule accordingly noting that Employer's and Public Liability cover are both in place at £10 million, together with Fidelity Guarantee cover at £1 million and "Loss of Revenue" cover set at £96,000 together with detailed insurance cover for various premises and equipment all of which we consider appropriate for the Council's present requirements.

We noted in our final report for 2020-21 that the Council reviewed and re-adopted the previously prepared risk assessment document at the full Council meeting on 17<sup>th</sup> March 2021: we have reminded officers at this visit of the need to ensure that the register is subjected to at least once annual formal review, update (if appropriate) and re-adoption as required by the Governance and Accountability Manual – "The Practitioner's Guide" and will ensure compliance at a future visit.

We noted last year that an annual review of play areas was undertaken by RoSPA, supplemented with fortnightly checks by a local company who have appropriate qualifications and provide reports which are filed and acted on accordingly. We understand and are pleased to note that the same arrangement remains in place in 2021-22.

### **Conclusions**

*We are pleased to record that no significant issues arise in this area this year, although we remind the Council that the over-arching risk assessment should be subjected to formal review and adoption by the Council prior to the financial year-end.*

## **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 the level of annual precept to be drawn down; also, that an effective reporting and monitoring process is in place. Additionally, we 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 members continue to receive periodic budget reports based on the Omega information and have reviewed the latest position with no unexplained or unanticipated variances apparent that require further enquiry at this stage. We understand that the new Clerk intends to review the existing Cost Centre and Nominal Account coding structure ensuring it is aligned more closely to the adopted lines of budget management responsibility and will monitor progress in that respect at future visits.

This review visit took place in advance of the Council's formal deliberations and determination of the 2022-23 budget and precept requirements: we shall, consequently, revisit this area at our next and / or final review.

### **Conclusions**

*No issues arise in this area warranting formal comment or recommendation at present: we shall undertake further work in this respect at future reviews including ensuring the formal determination of the 2022-23 budget requirements and adoption of the year's precept, also assessing the ongoing appropriateness of the retained reserves.*

## **Review of Income**

We aim in this area of our review to ensure that income due to the Council is identified, recovered and banked within a reasonable time period noting that the Council has relatively limited sources of income, primarily arising from the precept, hire fees at the three halls, coinage from the public WCs, plus bank interest and allotment rent payable by the Allotment Association for the sites they run on behalf of the Council. Obviously the Covid situation had a significant impact on the income arising from hall hire during 2020-21 and at the start of the current financial year due to the closure of the halls for much of that time, although this has to an extent been offset by specific grant support from North Somerset DC.

At this first review visit for the year, we have focused attention on coin income arising from public WCs and the extent of any outstanding debt due to the Council.

**Public WCs:** the door coin operate public WCs are visited generally weekly by the Town Orderly or Hall Caretaker with cash brought back to the office and handed over to the Office Manager who counts the cash and records detail of the amount collected on a control spreadsheet.

Standard and best working practice procedures generally require that the collection and counting of such cash income is undertaken by 2 officers with a formal cash collection sheet prepared identifying by denomination, the make-up of the cash collected, with that record duly signed by both officers confirming the accuracy of the recorded cash. No such record is being maintained currently.

We also note that, due to the unavailability of any cash banking facility in the town, cash collected is periodically used to provide round-sum “top-ups” of the office petty cash float. We also remind officers that the adopted FRs (Para 9.5) require that all sums received are banked intact.

**Outstanding debt:** the Council invoices hall hirers using Omega with a separate Sales Ledger in use for each of the three halls: we have examined the status of any “unpaid” debts at the current date noting that in each case there are a few unpaid debts dating back to early 2020 and have provided officers with a copy of the relevant Omega Sales Ledger reports. We appreciate that, due to the Covid situation, certain hirers will have potentially lost their own sources of income, albeit temporarily, and may be experiencing some difficulties in settling their accounts. Notwithstanding that, we urge that appropriate action is taken to pursue and ensure recovery of those long-standing uncleared accounts.

We also note the existence of one “unmatched” receipt on the North Weston Hall Sales Ledger in respect of Tai chi (£19.25 on invoice NW1606 dated 11 11 2020).

We shall examine a sample of one week’s hall bookings for all halls at our next visit, ensuring that appropriately priced fee invoices have been raised and that they are settled within a reasonable time period.

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

***Action is required to strengthen the controls in place over the collection and banking of cash income arising from use of the public WCs, also ensuring compliance with the adopted FRs. Appropriate arrangements should be put in place to ensure recovery of outstanding debts, with possible consideration given to initiating a system of prepayment for hall hire bookings for recalcitrant payers.***

- R4. Improved controls should be introduced over the emptying and recording of cash takings from the public WCs with two officers involved and a formal record and certificate confirming the amount collected signed by both.*
- R5. Whilst appreciating the unavailability of cash banking facilities in the town, cash should be banked intact in accordance with the adopted Financial Regulations.*
- R6. Action should be taken to pursue and ensure recovery of all long-standing debts.*
- R7. The one referenced “unmatched” receipt should be examined and appropriate action taken to ensure its clearance from the Sales Ledger.*

## Petty Cash Account

We are required, as part of the IA Certification process in the AGAR, to consider the controls in place over the operation of any petty cash account in use. We note that the Office Manager is maintaining a handwritten running record of the periodic “top-ups” to the account and individual payments processed, together with a signed monthly spreadsheet reconciliation record identifying agreeing the physical cash holding.

Only 7 payments are recorded as having occurred to date in this financial year totalling £53.91, each of which we have verified to the underlying invoice / till receipt. The opening cash balance on the account at 1<sup>st</sup> April 2021 is recorded as £37.76, which matches that on the Omega financial ledger at that date. We have, however, noted that none of the cash deposits or payments made to date in the financial year have been processed through the Omega nominal account code.

We have also checked and agreed the physical cash holding at the time of this first review visit for the year to the underlying records (£33.85).

### *Conclusions and recommendation*

***Whilst no significant issues of concern have been identified in this area, we have made earlier reference in this report to the requirements of the adopted FRs in relation to the banking of income received intact (Para 9.5 refers). We also consider that the manner in which transactions (cash receipts and payments) are recorded could be improved and / or simplified were a single record maintained.***

- R8. *The handwritten record of transactions during the year should be expanded to include identification of the value of any VAT incurred.*
- R9. *Detail of the year-to-date petty cash spending should be recorded in the Omega ledger to ensure consistency with the actual cash holding position: going forward, data should be entered monthly, with any VAT incurred duly coded for recovery with the VAT reclaims submitted to HMRC.*

## 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 in relation to the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme.

The Deputy Clerk has kindly provided detail of staff in post, including their NJC spinal pay point and basic weekly working hours, together with, for August 2021, copies of the payslips for each employee.

Consequently, we have: -

- Examined the gross salary payments made to all staff in post in August 2021, agreeing detail to the establishment schedule provided by the Deputy Clerk;
- Checked to ensure that appropriate tax and NI deductions / contributions have been applied by reference to relevant HMRC & NI deduction tables;

- Checked that the correct percentages of superannuation deductions, based on the nationally agreed LGPS salary bandings, have also been applied for staff contributing to the scheme;
- Ensured the correct net pay salaries have been paid to individuals based on the payslips for the same month; and
- Ensured the accuracy of payments made to HMRC and the Pension Fund Administrators again in relation to the August 2021 salary deductions / contributions.

### ***Conclusions***

***We are pleased to record that no issues have been identified in this area of our review process this year warranting formal comment or recommendation.***

## **Investments and Loans**

The Council has previously placed surplus funds in short-term “Bonds/Term deposits” with various banking institutions. We have examined detail of transactions in the financial year to date, also ensuring the appropriate receipt and recording of any gross interest earned.

We have also previously noted that the Council adopted a formal Investment Policy, as required by statute from 1<sup>st</sup> April 2018 for all councils with funds in excess of £100,000: the content of which we have reviewed and considered appropriate for the Council’s present requirements.

The Council has no loans in place either repayable by or to it.

### ***Conclusions***

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

Rec. No	Recommendation	Response
<b>Review of Corporate Governance</b>		
R1	The Council must ensure future compliance with the disclosure requirements (Accounts and Audit Regulations 2015 refer) as also set out in the preface to each year's AGAR.	
<b>Review of Expenditure &amp; VAT</b>		
R2	Members should be physically reviewing and signing-off individual invoices as evidence of their review and effective discharge of their fiduciary responsibilities.	
R3	Effective separation of duties should be implemented between the set-up of online payments and their physical release.	
<b>Review of Income</b>		
R4	Improved controls should be introduced over the emptying and recording of cash takings from the public WCs with two officers involved and a formal record and certificate confirming the amount collected signed by both.	
R5	Whilst appreciating the unavailability of cash banking facilities in the town, cash should be banked intact in accordance with the adopted Financial Regulations.	
R6	Action should be taken to pursue and ensure recovery of all long-standing debts.	
R7	The one referenced "unmatched" receipt should be examined and appropriate action taken to ensure its clearance from the Sales Ledger.	
<b>Petty Cash Account</b>		
R8	The handwritten record of transactions during the year should be expanded to include identification of the value of any VAT incurred.	
R9	Detail of the year-to-date petty cash spending should be recorded in the Omega ledger to ensure consistency with the actual cash holding position: going forward, data should be entered monthly, with any VAT incurred duly coded for recovery with the VAT reclaims submitted to HMRC.	