

Portishead Town Council

Internal Audit Report 2021-22 (Final update)

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Background

Statute requires all town and parish councils to arrange for an independent Internal Audit (IA) examination of their accounting records and systems of internal control and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR).

This report sets out the work undertaken in relation to the 2021-22 financial year, during our three review visits, which took place on site on 22nd October 2021, 8th February & 8th June 2022. We thank the Council staff in assisting the process, providing all necessary documentation to facilitate the conduct of this year's review.

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 mis-representation in the year-end Statement of Accounts / AGAR. Our programme of cover, as applied to all clients, is designed to afford appropriate assurance that the Council's financial systems are robust and operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'IA Certificate' in the Council's AGAR, which requires independent assurance over a selection of internal control objectives.

We have also reviewed progress on implementation of recommendations recorded in previous reports for the year and reflect the current position in both the body of the report and the appended Action Plan.

Overall Conclusion

We are pleased to advise that, based on the work undertaken this year, officers continue to maintain adequate and effective internal control arrangements with a few issues identified requiring attention.

We have duly signed off the IA Certificate in the year's AGAR providing a copy for the Council's necessary further action. We also take this opportunity to remind the Council of the requirements of the guidance notes in the preface to the year's AGAR in relation to the documentation that should be displayed on the Council's website, together with the need to ensure compliance with the timing requirements for publication of the Notice of Public Rights to examine the Council's documentation for the financial year.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Council uses the Rialtas Omega accounting software to maintain its financial and management accounting information with two bank accounts in place with Lloyds Bank (Current & CIL), supplemented by three further deposits with the Monmouth and Nationwide Building Societies. We note the council's approval to switch from Lloyds to Unity Bank noting the positive action taken to open the latter account(s) with action to transfer funds into the account taken on the day of this final visit.

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 four months' transactions on the Lloyds Current account (April, July and October 2021, plus January 2022) by reference to supporting bank statements;
- Verified the full year's transactions in view of their low volume on the three Building Society accounts by reference to underlying records;
- Verified the content of the resultant Omega month-end bank reconciliations for each of the above four months on the Current account and at 31st January & March 2022 on the other accounts; and
- Ensured the accurate disclosure of the combined cash and bank account balances in the year's AGAR at Section 2, Box 8.

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 and recommendation

We are pleased to record that no significant concerns have been identified in relation to the maintenance of the accounting records this year. However, in examining the cashbooks at the time of our January 2022 visit, we noted that monthly interest received on the Lloyds Deposit account had only been recorded to that date as a single entry in month 8 covering interest earned to 31st October 2021. We also noted a minor 30 pence discrepancy on the Lloyds current account bank reconciliation as at 31st January 2022, which appeared to have arisen in December 2021.

- R1. *Whilst acknowledging the low level of interest being earned on bank deposits currently, to ensure accurate reporting of the Council's finances, earned interest should be posted to the cashbooks at least once quarterly. **Noted: the year's interest has been recorded accordingly.***
- R2. *The source of the 30 pence imbalance on the latest Lloyds Current Account balance should be examined and corrected appropriately. **This has been rectified prior to the financial year-end.***

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 note the review and re-adoption of the SOs in January 2022: we also note the review and re-adoption of the Financial Regulations (FRs) in March 2022,

We have extended our review of the Council's and Standing Committee's minutes, examining those posted on the Council website during the financial year and to date in 2022-23 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 note the approval of several grants and donations during the course of the financial year: as the Council no longer meets the criteria to apply the General Power of Competence, minutes approving the payment of grants and donations should formally record the relevant powers relied on for the approvals to help ensure no irregular payments are approved.

At our first visit for the year, we noted, in discussion with officers, 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 would be available for examination) had neither been prepared nor publicised on a noticeboard or on the Council's website. We now note that appropriate action has been taken, although the timing falls outside the requisite period as set out in the Accounts and Audit Regulations 2015: the external auditors have made relevant comment in this respect in their final certificate on the 2020-21 AGAR pointing out that a negative assertion will need to be made at Box 4 of the 2021-22 AGAR Governance Section. We shall similarly have to issue negative assertions in the relevant Boxes of the IA Certificate.

Conclusions and recommendations

We shall continue to monitor the Council's approach to governance issues at future visits, also continuing our review of minutes. We remind the Clerk and members of 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, also assigning a negative assurance at Box 4 of the current year's Governance Statement.

- R3. 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. **Noted and has been addressed appropriately when preparing the 2021-22 AGAR.***
- R4. When considering approval of grants and donations, the Council should ensure that it has appropriate powers for their approval, formally recording those powers in the relevant minutes. **Noted and will be observed in future.***

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 currently by both the Locum and Deputy Clerks 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, but cannot eliminate, 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 extended our test sample of payments processed during the financial year, now comprising 80 individual payments made in excess of £1,250, together with every 25th payment and the Hall NNDR accounts, those payments being processed monthly during the year. Our test sample totals £242,825 and equates to 65% by value of non-pay related payments made in the year.

VAT reclaims continue to be prepared and submitted to HMRC quarterly: we have ensured that the final 2020-21 quarter and four 2021-22 quarterly reclaims have been submitted in line with the Omega control account detail and been repaid accordingly by HMRC, the last quarter's being repaid in early 2022-23.

Conclusions and recommendations

We are pleased to record that no significant issues arise in this area currently, although, as indicated above, with the 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. We have also discussed the manner in which invoices are being filed with officers suggesting that some improvement be made to the referencing of individual payments and their recording in the Omega accounts.

- R5. ***Members should be physically reviewing and signing-off individual invoices as evidence of their review and effective discharge of their fiduciary responsibilities. The existing process will be reviewed and revised to improve evidencing of the member review process.***
- R6. ***Effective separation of duties should be implemented between the set-up of online payments and their physical release. This will be appropriately achieved with the move to Unity Bank where members will be physically required to go online and release 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 / 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 are pleased to note the approval of the updated Corporate Risk Register by the Council at the meeting held in January 2022 and consider the document appropriate for the Council's present requirements.

Finally in this area, we note that an annual review of play areas continues to be 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.

Conclusions

We are pleased to record that no issues arise in this area this year. We will continue to monitor the Council's approach to risk management at future visits.

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, following due deliberation, members determined their budgetary and precept requirements for 2022-23 at the December 2021 full Council meeting setting the Band D equivalent at £79.17. In line with best practice the full value of the annual precept should also be recorded formally in the minutes. ***This has been addressed with a retrospective minute in February 2022 confirming the approved precept as £820,863.***

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.

We have also considered the ongoing appropriateness of the level of retained reserves noting that they have increased significantly to £819,472 (£578,602 at 31st March 2021). Of that total, earmarked reserves (EMRs) stand at £411,358 (£295,468 at the prior year-end). The residual General Reserve balance of £408,114 equates to approximately 7 months' revenue spending and is in line with the generally accepted level of between 3 and 12 months' such expenditure.

Conclusions and recommendation

Whilst no residual concerns arise in this area, we reminded the Clerk at our interim update review that the full precept value should be minuted formally.

R7. The total value of the 2022-23 precept should be formally agreed and minuted at the next full Council meeting. This has been recorded retrospectively in February 2022.

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 our first review visit for the year, we focused attention on coin income arising from public WCs and the extent of any outstanding debt due to the Council. We have at subsequent visits, examined the controls in place over the hire of facilities at two of the Council's halls for two weeks from 15th to 28th November 2021.

Public WCs: the door coin operated public WCs were, at the time of our first review, generally visited 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. We are pleased to note that following our previous recommendation two officers have been undertaking the collection of WC income.

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 recently re-adopted FRs (Para 9.5) still indicate that all sums received should be banked intact.

Hall hire: The Council uses the Rialtas hall booking software to manage bookings at the various halls. As indicated above, we have acquired detail of two weeks bookings at the Folk and North Weston Halls ensuring that appropriate invoices have been raised in a timely manner in accordance with the approved scale of fees and charges. We are pleased to record that no issues arise in this area.

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 financial year-end noting that, for Sales ledger 2, a few unpaid debts exist dating back to May 2021: we are pleased to note that the position identified at our interim update review has improved significantly

and have disused the few long-standing debts recorded in the year-end Sales Ledger have now been settled.

At our first review visit for the year, we noted the existence of one “unmatched” receipt on the North Weston Hall Sales Ledger in respect of Tai chi and are pleased to now note its appropriate resolution.

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. As indicated above, no issues arise in relation to the management of halls.

- R8. *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. **Appropriate action has been taken to address this issue with two officers now emptying the coin boxes.***
- R9. *Whilst appreciating the unavailability of cash banking facilities in the town, cash should be banked intact in accordance with the adopted Financial Regulations (Para 9.5 refers). Or the latter be adapted appropriately to allow use of cash collections to “top-up” the petty cash account.*
- R10. *Action should be taken to either pursue and ensure recovery of all long-standing debts, issue credit notes or write them off where appropriate. **This has been actioned accordingly.***
- R11. *The one referenced “unmatched” receipt should be examined and appropriate action taken to ensure its clearance from the Sales Ledger. **This has been addressed appropriately.***

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 the date of our interim review 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 1st 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.

R10. The handwritten record of transactions during the year should be expanded to include identification of the value of any VAT incurred. This has been actioned accordingly.

R11. 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. The record is now being maintained currently.

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;
- Ensured the accuracy of payments made to HMRC and the Pension Fund Administrators again in relation to the August 2021 salary deductions / contributions; and
- At this final review visit checked the payroll detail for March ensuring that the 2021-22 pay award has been paid appropriately that month together with arrears backdated to 1st April 2021.

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.

Fixed Asset Registers

“The Practitioner’s Guide” requires councils to maintain a record of all assets owned. We are again pleased to note compliance with this requirement with detail now entered in the RBS software asset register. We have reviewed the content of that asset register for 2021-22 noting the appropriate inclusion of newly acquired assets during the financial year, with the total value to be disclosed in the year’s AGAR at Section 2, Box 9 duly agreed.

Conclusions

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

Investments and Loans

The Council has previously placed surplus funds in short-term “Bonds/Deposits” with various banking institutions. We have examined detail of transactions in the financial year, 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 1st 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.

Statement of Accounts and AGAR

The Council’s year-end Statement of Accounts, including the Balance Sheet and Income and Expenditure Account, together with financial detail for inclusion at Section 2 of the year’s AGAR are generated automatically by the Omega accounting software.

As part of our overall review of the Council’s accounting transactions, we have, on a sample basis, verified the accuracy of the recording of transactions in the accounting software and consequently for reporting in the year’s AGAR and are satisfied that the AGAR accurately reflects the year’s transaction detail.

Conclusions

No issues arise in this area this year and we have duly signed off the IA Certificate in the AGAR assigning positive assurances in each relevant area, excepting those at Boxes M & N following the delayed submission and publishing of the Notice of Public Rights for 2020-21 as highlighted in the year’s external audit report. The Council will, as indicated earlier in this report, consequently, have to (and has) given a negative assertion at Box 4 of the current year’s Governance Statement. We ask that we be provided with copies of the certified Sections 1 & 2 of the 2021-22 AGAR once formally adopted by the Council.

Rec. No	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	Whilst acknowledging the low level of interest being earned on bank deposits current, to ensure accurate reporting of the Council's finances, earned interest should be posted to the cashbooks at least once quarterly.	<i>Noted: the year's interest has been recorded accordingly.</i>
R2	The source of the 30 pence imbalance on the latest Lloyds Current Account balance should be examined and corrected appropriately.	<i>This has been rectified prior to the financial year-end.</i>
Review of Corporate Governance		
R3	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.	<i>Noted and has been addressed appropriately when preparing the 2021-22 AGAR,</i>
R4	When considering approval of grants and donations, the Council should ensure that it has appropriate powers for their approval, formally recording those powers in the relevant minutes.	<i>Noted and will be observed in future.</i>
Review of Expenditure & VAT		
R5	Members should be physically reviewing and signing-off individual invoices as evidence of their review and effective discharge of their fiduciary responsibilities.	<i>The existing process will be reviewed and revised to improve evidencing of the member review process.</i>
R6	Effective separation of duties should be implemented between the set-up of online payments and their physical release.	<i>This will be appropriately achieved with the move to Unity Bank where members will be physically required to go online and release the payments.</i>
Budgetary Control & Reserves		
R7	The total value of the 2022-23 precept should be formally agreed and minuted at the next full Council meeting.	<i>This has been recorded retrospectively in February 2022.</i>
Review of Income		
R8	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.	<i>Appropriate action has been taken to address this issue with two officers now emptying the coin collection boxes.</i>
R9	Whilst appreciating the unavailability of cash banking facilities in the town, cash should be banked intact in accordance with the adopted Financial Regulations (Para 9.5 refers). Or the latter be adapted appropriately to allow use of cash collections to "top-up" the petty cash account.	

Rec. No	Recommendation	Response
Review of Income (Continued)		
R10	Action should be taken to either pursue and ensure recovery of all long-standing debts, issue credit notes or write them off where appropriate.	<i>This has been actioned accordingly.</i>
R11	The one referenced “unmatched” receipt should be examined and appropriate action taken to ensure its clearance from the Sales Ledger.	<i>This has been addressed appropriately.</i>
Petty Cash Account		
R12	The handwritten record of transactions during the year should be expanded to include identification of the value of any VAT incurred.	<i>This has been actioned accordingly.</i>
R13	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.	<i>The record is now being maintained currently.</i>