

Sonning Common Parish Council

Internal Audit Report: Final 2023-24

Susan Cook

*For and on behalf of
Auditing Solutions Ltd*

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 2023-24 financial year during the course of our visits on 13th December 2023 and 14th May 2024, along with the preparatory work completed at our offices. We thank the Clerk and RFO for their help in the process, providing documentation in both hard copy and electronic format to facilitate commencement of our review for the year.

Internal Audit Approach

In undertaking our review, we have again paid due regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation 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 and governance controls 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.

Overall Conclusion

Detail of the work undertaken on the Council's accounting and other records is set out in the following detailed report. We have again identified several areas where we consider further action is required to strengthen existing controls, improve financial recording / reporting and ensure compliance with national legislative requirements. We wish to acknowledge the progress made to address previously identified issues, although a number still remain to be actioned appropriately: where such issues remain, we have reiterated the recommendations in this report to help ensure that they are not overlooked.

Based on the generally satisfactory conclusions drawn, we have completed and signed-off the 'IA Certificate' in the year's AGAR assigning positive assurances in each relevant area, apart from Assertions 'L', 'M', 'N' and 'O'.

We take this opportunity to remind the Clerk and 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's financial records are maintained using the RBS Rialtas Omega accounting software, which we consider a sound accounting system.

The Council operates its main financial transactions through the Unity Trust Bank account, with funds also held in a NatWest Bank account, which is primarily used to record transactions using a NatWest Debit Card mainly for online purchases and provide access to cash from a local ATM to "top-up" the petty cash account as and when required. A further Unity Trust account (UTB Halls) is in place, which is currently used to receive hall hire fees.

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. Consequently, we have: -

- Verified the accurate carry forward of the closing balances for 2022-23, as reported in the prior year's accounting software and AGAR, into the 2023-24 Omega accounts;
- Checked detail in the three cashbooks, verifying transactions for the financial year to 31st March 2024 to the underlying bank account statements; and
- Checked and agreed detail on the two Unity Trust accounts bank reconciliations and the Nat West Bank reconciliations at 30th June 2023, 31st October 2023 and March 2024 to the underlying statements.

Conclusions and recommendations

We are pleased to note that bank reconciliations are being prepared routinely at the close of each month with detail provided to and reviewed by a councillor, with the bank reconciliations being signed by the reviewing Councillor.

We note the comments made of the review of our previous report, in regard to the printing of the first page of the trial balance to accompany the bank reconciliations and will look to see that this practice is in place at future reviews.

R1. As a combined bank reconciliation is not available through the Omega software, the first page of the Omega Trial Balance (TB) and original bank statements, should be provided for the checking councillor to approve, as mentioned in the review of our previous report.

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 that, as far as we may reasonably ascertain, as we do not attend meetings, no actions of a potentially unlawful nature have been or are being considered for implementation.

We note that the Council reviewed and adopted Standing Orders in May 2023 and Financial Regulations (FRs) in February 2022 both of which are broadly in line with the NALC model documents making appropriate reference to the requirements of the Public Contracts Regulations with a limit of £25,000 set for formal tender action.

We have completed our review of the Council and Finance Committee's minutes for the year 2023-24, to ensure that, as far as we can reasonably ascertain as we do not attend meetings, no decisions have been taken or are being considered that will have an adverse effect on the Council's current or future financial stability. We note however that the minutes recently are particularly and it is difficult to confirm in some cases the resolutions of the council.

We note that the budget and precept setting process was completed at the full council meeting on 15th January 2024, where it was resolved to approve the Budget and set a Precept of £281,942.00 for the financial year 2024-25.

We note from our review of the minutes that the Council did not show the separate steps for approval of the AGAR, instead resolving to approve as one item in the minutes. The steps for approval of the AGAR are included in the Joint Panel on Accountability and Governance (JPAG) Practitioners Guide, the process is as follows;

- The Annual Internal Audit Report is received and noted.
- The Annual Governance Statement (Section 1) is approved.
- The Accounting Statements (Section 2) are approved.

The external audit report was signed off on 29th January 2024 as follows:

'The inspection period for the exercise of electors' rights was set for 31 working days which is more than the mandatory 30 working days as set out in the Accounts and Audit Regulations 2015, paragraph (14.1). Although this is considered to be a minor technical breach, given more than the standard amount of time was provided for, in future the Council should ensure it provides the precise public inspection period. We would anticipate the Council taking this into account when it completes Assertion 4 on its 2023-24 Annual Governance and Accountability Return. The Council should have answered 'No' to Assertion 4 on Section 1 of the AGAR due to the issue with the Period of Public Rights noted on last years' External Audit Report.

It was noted in the internal Audit Report that the Council did not formally approve a budget prior to setting the Precept as required by paragraph 1.8 of JPAG Practitioners' Guide 2021. Therefore, since this is a breach of proper practices, we would have expected Assertion 3 on the Annual Governance Statement to be answered 'No'. The Council should note this action and ensure protocols are followed properly in future.

Section 1 Assertion 9 has been completed 'Yes' which states that the Council has met all of its responsibilities as sole trustee. We had cause to review the Charity Commission website in relation to other responses on the AGAR and noted that the council has not filed the Annual Return nor Accounts for the Village Hall for several years. This is a legal requirement for the trustees, which falls to the Council to fulfil. Therefore, the answer to Assertion 9 should have been 'No'. The council should look to rectify this position at its earliest opportunity.

Section 1 of the AGAR was completed as approved on 24 April 2023 with a minute reference 23/135. Section 2 of the AGAR was dated on the same day and had the same minute reference. On investigation (due to the same minute references used), the agenda and minutes were found on the Parish Council's website. We noted that the agenda was revised and re-issued with new references provided ahead of the meeting and the references provided on the AGAR form related to the original agenda. As such the minutes references provided are incorrect. In addition, the agenda and minutes clearly show Section 1 was provided and approved at the meeting held on 24 April 2023 and recorded as minute item 24/006. However, the agenda only provided Section 1 for review. Furthermore, the report of the Parish Clerk stated that Section 2 would be provided for review and approval at the council meeting in May. On review of the May agenda and minutes there is provision nor other reference to Section 2 being reviewed and approved, instead this appears to

have been completed at their meeting on 12 June 2023 at minute reference 24/029. We therefore believe the council's response to Assertions 1 and 3 should have been 'No'.

Regulation 12 of the Audit and Accounts Regulations 2015 requires the RFO to complete Section 2 of the Annual Governance and Accountability Return prior to passing it to Council for its approval. This year, we have already established that the Council approved Section 2 of the AGAR at their meeting on 12 June 2023, which is before the RFO approval on 27 June 2023. This is a breach of this regulation. In future the Council should ensure the form is duly completed prior to it considering it for approval.

Section 2 of the AGAR was initially submitted without the Trust Fund disclosures in boxes 11a and 11b completed. This was later resubmitted with a 'No' in Box 11a and a 'Yes' in Box 11b, which was not in line with our knowledge of the council. The council is listed as sole trustee of Sonning Common Village Hall with the Charity Commission.

When the Section 2 of the AGAR was initially submitted, Box 9 for both current and comparative years had a value of £0 entered which is inconsistent with the 2021-22 AGAR. This was queried with the Parish Clerk who confirmed this was incorrect but the revised figures did not agree with the evidence provided, A revised AGAR has not been submitted. We would anticipate the 2023-24 AGAR to reflect the correct figures and for them to be marked as re-stated with an explanation to bring it to the attention of the reader.'

The external auditor also brought the following to the attention of the council.

'Upon review, general reserves are being held at too low a level. The Council should keep this under review and ensure that they have sufficient general reserves to cover expenditure. Generally, this should be at least 0.5 times the precept as a minimum.

Incomplete information was provided with the initial supporting data submitted for review with regards to significant variances, which was later provided on request. The parish council should in future ensure that all the necessary supporting information is provided with the annual submission.

The Internal Auditor has signed off the Annual Internal Audit Report 2022/23 after the Annual Governance and Accountability Return was approved. This means that the completed 2022/23 report was not available for review and consideration with the form. For clarity, it is presumed that the statements in Section 1 Annual Governance Statement refer to the previous years' internal audit report.

The Internal Auditor should have answered 'No' to control objective 'M' on the Annual Internal Audit Report due to the issue with the Period of Public Rights noted on last year's External Audit Report.

The internal auditor responded 'N/A' to Box 'O' with regards to Trustee disclosures. This should have been marked 'Yes' because the Parish Council is a sole trustee.'

Conclusions and recommendations

At our final review we discussed the report of the external auditor with the RFO.

We noted the provisional dates for the exercise of public rights, which would comply with the Accounts and Audit Regulations 2015, paragraph (14.1), however as noted on our previous report as the 2022-23 Annual Governance and Accountability return (AGAR) documents that should be published as required by the Accounts and Audit Regulations were not on the Councils' website, we are unable to provide a positive response to Internal Control Objectives

'L', 'M' or 'N' of the Annual Internal Audit Report for the 2023-24 Annual Governance and Accountability return (AGAR).

We have noted that the budget had been formally approved in January 2024 along with the precept as required by paragraph 1.8 of JPAG Practitioners' Guide 2021.

No returns or accounts have been filed with the Charity Commission since October 2017, as the charity has ceased to operate. Advice is to be sought from the Charity Commission regarding the responsibilities of the Council in this situation. As the council did not receive the external auditors report until the end of January 2024, it had insufficient time to seek advice or rectify the issue in line with the recommendation of the external auditor and so will need to provide a negative response to Section 1, Assertion 9. As the council has been unable to comply, we will this year provide a 'No' response for internal objective 'O'.

Further advice is required from the Charity Commission in regard to Section 2, Box '11a' to confirm if the Charity Commission still considers the Council as Sole Trustee as the charity has ceased. As no accounts are maintained the answer to Section 2, Box 11b should be 'Yes'.

As noted by the external auditor, the Council should receive the report of the internal auditor prior to reviewing Section One of the AGAR, with a separate minute to receive and approve Section Two, which should have been previously signed and dated by the RFO.

The asset register for 2022-23 should be checked to ensure the correct figure was provided to the external auditor, with the figure being amended and noted as 'restated' if this is different to the figures provided to the external auditor.

We have completed a review of the general reserves and comment on these further in this report.

As mentioned, some of the minutes reviewed are particularly sparse and it is not always possible to identify the resolutions passed by council. We refer in particular to the November Finance Committee minutes and the November Council minutes.

R2. As the Council did not provide the correct dates for the exercise of public rights it should provide a negative response to Section 1, Box 4, providing an explanation to the external auditor on the steps it intends to take to remedy this.

R3. As the council has had insufficient time to comply with the required responsibilities as sole trustee, it must provide a negative response to Section 1, Assertion 9, providing an explanation to the external auditor on the steps it intends to take to remedy this.

R4. The Clerk and Council must ensure that the appropriate steps, as laid out in the JPAG Practitioner's Guide are complied with regarding the approval of Section One and Section Two of the AGAR.

R5. The Asset register must be accurately completed, with a note saying 'restated' above the Section 2, Box 9 figure for 2022-23, if this is incorrect.

R6. The Clerk and Council must ensure that the website is updated to include detail of the annual AGAR financial and other details, as required by the Accounts and Audit Regulations 2015.

R7. The minutes of the meeting are not required to record the discussions of the Council but should clearly state the decisions resolved upon by council.

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;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct expense codes have been applied to invoices when processed; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have again reviewed the Council's control procedures in relation to the scrutiny and approval of traders' and other invoices for payment and consider them to be operating generally effectively in relation to the main payments processed through the Unity Trust account. We note that the Clerk sets up the on-line Unity Bank payments with 2 members then going on-line to physically release the payments. A certification slip is prepared and attached to each invoice paid through the Unity account with two authorising members signing / initialling the docket.

Again however, in examining the files of processed invoices, it is apparent that neither direct debit payments nor those pertaining to use of the NatWest Debit Card are subjected to similar member scrutiny or approval. We note the clerk's desire to retain use of certification slips attached to the main payment invoices and urge that **all** payment documentation be subjected to similar scrutiny.

To ensure compliance with the above stated objectives, we have selected and examined a sample of 45 payments to 31st March 2024 from the Unity account, plus 10 using the NatWest Debit Card. Our selected sample totals £120,521 equating to 64% by value of all non-pay related payments processed in the financial year.

Conclusions and recommendations

During our review we noted one payment made through the Nat West account, which was not supported by any payment documentation. We understand this was a refund for Christmas vouchers.

As noted in our previous report, and agreed following the review of our previous report, all documentation supporting payments should be subjected to the same level of control as payments through the main Unity account, with appropriate certification slips completed by members approving the payments and attached to the documentation. This should be applied equally to the regular direct debit payments and those payments by debit card. We will therefore check at future reviews that this has been put in place.

R8. All payments, including direct debits and those made by Debit Card, should be subjected to evidenced member scrutiny and authorisation, albeit most probably post payment in respect of the Debit Card transactions.

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 2023-24 Council's insurance policy with Hiscox with both Employer's and Public Liability cover standing at £10 million, together with Fidelity Guarantee cover at £500,000, all of which we consider appropriate for the Council's present needs. Business Interruption – Loss of Revenue cover remains at £20,000, the Council should keep the current level of cover under review, to ensure it is sufficient for future years.

We note that the Risk Assessment document was reviewed and approved in the minutes of the May 2023 meeting. We note the actions included to mitigate risk for the MUGA at Memorial Park and the amended estimates of maximum financial risk.

We have also reviewed the annual play area inspection reports from December 2023, noting some high-risk items identified by the inspector.

Conclusions

We note that the risk assessment is due to be reviewed again in June 2024, the current risk assessment notes that it does not include Memorial Park, which should be included. Consideration should be given to amending the value of the general reserve to be retained and whether this should be set in terms of a particular value or a percentage of the precept.

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 parent 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 to also cover any unplanned expenditure that might arise.

As previously mentioned, the budget and precept setting process was completed at the full council meeting on 15th January 2024, where it was resolved to approve the Budget and set a Precept of £281,942.00 for the financial year 2024-25.

We note that the Finance Committee receives periodic budget performance reports throughout the year based on the Omega accounting software, but the minutes do not provide detail of any action to be taken in regard to the accounts, such as virement of budget lines or transfer of reserves.

We have reviewed the March 2024 budget report from Omega, noting some small variances in income received and expenditure items.

We note that the total reserves at year-end were £285,390, of which £10,159 were general reserves and £275,231 earmarked reserves. We understand that a full review of the reserves has taken place, and a recommendation is to be made that the general reserve be increased to £129,844 and the earmarked reserves adjusted to £155,547. If approved this would provide a general reserve of just over four months revenue spending at 2023-24 levels, which is in line with the general rule of thumb that the general reserve balance should be between three- and six- months revenue spend.

Conclusions

We are pleased to note that the budget was agreed as part of the annual process, and that a full review of the reserves has taken place, providing a sufficient general reserve in line with the Councils' aspirations.

Review of Income

The Council receives income from a relatively limited range of sources, primarily the annual precept, Village Hall hire, allotment rents, grants and donations, other miscellaneous areas and recovered VAT, together with CIL moneys.

In this review area, we aim to ensure that income due to the Council is identified and recovered within an appropriate period and is also banked promptly. We examined income arising from hall hire selecting a sample of 6 regular bookings in January 2024, checking that that fees have been charged appropriately in accordance with the approved scale of fees and charges, and reviewing the process obtained prior to bookings being confirmed, with no issues.

The allotment rental year commences on 1st October annually: we have previously examined a selection of tenancy agreements and have checked invoices for the allotment year 2023-24 have been raised. At the time of our final review no invoices remained outstanding. We have noted previously that the Council was receiving refundable deposits from allotment tenants, which are coded to an Allotment deposit account.

We have examined the Omega nominal income code transaction detail ensuring, as far as we are reasonably able, that all income due has been charged appropriately and recovered within a reasonable time frame.

Conclusions and recommendations

We have been advised that fees have been reviewed during the year, but this is not recorded in the minutes. We note that the review of our previous report suggests this should occur twice yearly, once in advance of the budget, which in our view would be the most sensible, informing as noted the budget-setting process.

R9. The Council should record in the minutes when fees are reviewed.

Petty Cash Account

We are required, as part of the IA certification process in the AGAR, to assess the Council's approach to and control of the management of petty cash account transactions. The Council operates a petty cash account, the cash "top-up" being drawn using the aforementioned Debit Card.

We have checked the recorded payments in the year to 31st March 2024, the individual amounts expended being supported by appropriate till receipts / trade invoices. The physical petty cash holding at the time of our review totalled £7.14, which, agrees to the March 2024 balance on the Omega petty cash account.

Conclusions

We note that whilst limited use is made of the petty cash account, the council is not inclined to close the account, instead considering use of an imprest system.

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. To meet the above objective, we have: -

- Checked and agreed detail of salaries paid to staff members in September 2023 by reference to the Clerk's record of approved hourly pay rates, as approved by the Council during the financial year, noting that they are not based on the nationally agreed pay scales;
- Ensured that tax and NI deductions / contributions have been made applying the appropriate tax code and NI Table to the test month's salaries; and
- Ensured that the employee contributions to the pension scheme for those staff contributing to the scheme have been correctly calculated.

We note that an HR Committee has now been set up, and is currently working on a draft staff contract, which is to be issued in due course to all staff. We have checked new staff contracts against salaries for those issued, with no issues.

Conclusions

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

Asset Registers

The Practitioner's Guide requires all Councils to maintain a Register of Assets. We are pleased to note that an appropriate register has been established using the RBS Asset management software, also including photographs of a number of the assets, which we consider good working practice as it may well assist the pursuance of any insurance claim in the event of damage to Council property whether accidental or wilful.

We have noted the total asset value has been correctly recorded in the year's AGAR at Section 2, Box 9.

Conclusions

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

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.

As noted in previous reports, the Council has three accounts with the majority of funds held in the two Unity Trust accounts and a significant sum, in excess of £84,000 in the NatWest account with no interest earned on any account to date this year.

As also previously reported, with the majority of funds held in the Unity Trust Bank, the Council is at a degree of risk in the, albeit unlikely, event that the bank should fail as the Government's bail out scheme would only result in recovery of up to £85,000. We appreciate that a significant proportion of these funds will be expended in the future with planned developments, but again urge that the Council considers a degree of further diversification of its funds in other banking institutions where, improved interest rates may be obtainable.

We note that the Council has an Investment Policy, but note this has not been updated since 2020.

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

Conclusions and recommendation

We note the comments in response to our last report, agreeing that there should be some diversification of spare funds to both reduce risk in the unlikely event of a bank failure, and also to earn interest. As this has not yet taken place, we repeat our previous recommendation.

R10. We recommend that the Council should consider a degree of diversification in the short-term placement of surplus funds into different banking institutions to afford cover in the event that any one bank might fail whilst endeavouring to maximise interest earning opportunities.

Statement of Accounts & AGAR

The Accounts and Audit Regulations, as amended periodically, require all councils to prepare annually a Statement of Accounts, in the form of the AGAR, which is, together with the Annual Governance Statement, subject to independent external audit examination and certification. As part of our review process, we have examined the Council's procedures in relation to the identification of detail for inclusion in Section 2 (the Accounts) of the AGAR, which is generated automatically by the Omega accounting software ensuring the accurate reporting of the financial information at Section 2 of the AGAR.

Conclusions

We have duly signed-off the IA Certificate in the year's AGAR, although as indicated earlier in this report, we have had to give negative assurances at Boxes L, M, N or O.

Re c. No.	Recommendation	Response
Maintenance of Accounting Records & Bank Reconciliations		
R1	As a combined bank reconciliation is not available through the Omega software, the first page of the Omega Trial Balance (TB) and original bank statements, should be provided for the checking councillor to approve, as mentioned in the review of our previous report.	
Review of Corporate Governance		
R2	As the Council did not provide the correct dates for the exercise of public rights it should provide a negative response to Section 1, Box 4, providing an explanation to the external auditor on the steps it intends to take to remedy this.	
R3	As the council has had insufficient time to comply with the required responsibilities as sole trustee, it must provide a negative response to Section 1, Assertion 9, providing an explanation to the external auditor on the steps it intends to take to remedy this.	
R4	The Clerk and Council must ensure that the appropriate steps, as laid out in the JPAG Practitioner's Guide are complied with regarding the approval of Section One and Section Two of the AGAR.	
R5	The Asset register must be accurately completed, with a note saying 'restated' above the Section 2, Box 9 figure for 2022-23, if this is incorrect.	
R6	The Clerk and Council must ensure that the website is updated to include detail of the annual AGAR financial and other details, as required by the Accounts and Audit Regulations 2015.	
R7	The minutes of the meeting are not required to record the discussions of the Council but should clearly state the decisions resolved upon by council.	
Review of Expenditure & VAT		
R8	All payments, including direct debits and those made by Debit Card, should be subjected to evidenced member scrutiny and authorisation, albeit most probably post payment in respect of the Debit Card transactions.	
Review of Income		
R9	The Council should record in the minutes when fees are reviewed.	
Investments & Loans		
R10	We recommend that the Council should consider a degree of diversification in the short-term placement of surplus funds into different banking institutions to afford cover in the event that any one bank might fail whilst endeavouring to maximise interest earning opportunities.	