

Shanklin Town Council

Internal Audit Report 2023-24 (Final update)

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 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 our interim review undertaken remotely in November 2023 and our final visit on 10th April 2024. We thank the Clerk for assisting the process, providing all necessary documentation in either hard copy or electronic format to facilitate completion 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 abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Internal Audit Certificate' in the Council's AGAR, which requires independent assurance over a series of internal control objectives.

Overall Conclusions

We are pleased to report that, based on the work undertaken this year, the Clerk and Council continue to maintain adequate and effective internal control arrangements with no residual significant issues identified requiring attention. Details of the work undertaken and any issues arising are set out in the following 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 in due course.

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

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

Our objective here is to ensure that accounting records are being maintained accurately and currently and that no anomalous entries appear in the cashbooks, also that effective controls are in place to confirm the accuracy of that detail. The Clerk has again used the Scribe accounting software to maintain the Council's financial records for 2023-24.

The Council continues to operate a number of bank accounts, with detail of both receipt and payment transactions being recorded appropriately in the Scribe accounts. Consequently, we have: -

- Checked the accurate roll forward of the 2022-23 closing balances as opening balances for 2023-24;
- Ensured that an appropriate coding structure remains in place to provide accurate reporting of financial performance during the year and analysis of detail in the year's AGAR at Section 2;
- Checked and verified detail of all transactions recorded in Scribe for the full financial year by reference to supporting bank statements; and
- Checked and agreed detail on the combined account bank reconciliations at 31st October 2023 and March 2024; and
- Ensured the accurate disclosure of the combined cash and bank balances in the year's AGAR at Section 2, Box 8.

Conclusions

We are pleased to record that no issues arise from work undertaken in this area this year.

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 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 have examined Council minutes for the financial year as posted on the Council's website or provided by the Clerk electronically with no issues identified that might affect the Council's financial stability either in the short, medium, or longer term, also ensuring that no unlawful actions are being or have been considered.

We noted in our final report for 2022-23 the satisfactory completion of a review of both SOs and Financial Regulations (FRs) with both adopted by the Council at the February 2023 full Council meeting and are pleased to note that both are broadly in line with the NALC model documents: as such we consider them appropriate for the Council's present requirements.

We are pleased to note that the external auditors signed-off the 2022-23 AGAR with a few issues raised in the "Other matters" section of their report, which have duly been answered by the Council. However, the external auditors have stated that we (at ASL) have completed Box F of the IA Certificate incorrectly annotating it as "Not applicable", whereas the accounting records indicate a cash holding of £40. This has correctly been included in the AGAR Section 2, Box 8 as part of the Council's year-end cash and bank balance. However, the £40 in question is purely held as a change

float at the library and is not used in any way to defray incidental expenses. Consequently, we have again assigned a “Not applicable” comment in the 2023-24 AGAR IA Certificate, but will draw attention to this detailed year-end report where the nature of this cash holding is explained as above.

We are also pleased to note the publication on the Council’s website of the statutorily required Notice of Public Rights for electors to examine the Council’s financial records for the requisite 30 working days.

Conclusions

We are pleased to record that no issues have been identified in this area warranting formal comment or recommendation, although we remind the Clerk and Council of the need to publish on its website the external audit certificate together with the AGAR Sections 1 & 2. We shall continue to monitor the Council’s approach to governance at future visits also continuing our review of minutes.

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;
- Payments are supported by appropriate documentation, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure any applicable discount;
- The correct coding analysis has been applied to invoices when processed; and
- Expended VAT is appropriately identified for recovery through reclaims prepared and submitted to HMRC quarterly.

To ensure compliance with the above criteria we have selected a sample of 52 payments for review in the year as recorded in the Scribe accounts including all transactions individually in excess of £1,000 plus every 25th as recorded in the Scribe “payments cashbook”. The payment sample totals £254,590.

We have previously noted the acquisition of a suitably designed invoice certification stamp, which we are pleased to note continues to be placed on each invoice / payment docket with the relevant boxes duly completed and signed off by a reviewing member.

We have ensured that quarterly VAT reclaims continue to be prepared and submitted to HMRC with HMRC reimbursement of those relating to the quarters ended 31st March 2023, plus those for 30th June and September, plus 31st December 2023 reimbursed accordingly with no issues arising. We have also reviewed and confirmed the content of the year-end reclaim to the underlying Scribe accounts.

We have examined the detailed Scribe expenditure by code transaction report at the year-end to ensure that payments have been analysed appropriately also noting at the time of our interim review that the August 2023 salary for the Ops. Manager / Asst Clerk had been miscoded to Code 19 instead of Code 9: an appropriate adjustment has been made correcting the miscoding prior to the financial year-end.

Conclusions and recommendation

We are pleased to record that no residual issues arise in this area warranting formal comment or recommendation.

R1. The mis-posting of the Ops Manager / Asst Clerk's August 2023 salary should be amended appropriately. This has been corrected accordingly.

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 in order to minimise the opportunity for their coming to fruition.

We have previously noted that the Clerk and Council use the LCRS software to maintain their Registers of potential risks: this has been subjected to further review and update in January 2024. We have reviewed the resultant documentation noting that no significant issues scoring high enough to warrant inclusion in the software's generated Action Plan(s) for the year.

We note that the Council's insurance cover continues to be provided by Hiscox and have examined the 2023-24 insurance schedule: we consider that appropriate cover remains in place with Employer's and Public Liability cover both set at £10 million, together with Fidelity Guarantee cover of £500,000 and Business Interruption – "Loss of Revenue" cover at £10,000, all of which we consider appropriate for the Council's present requirements.

Conclusions

We are pleased to record that no issues arise in this area this year: we shall 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 precept to be drawn down from the Isle of Wight 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, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

We are pleased to note that, following a full review of the budgetary requirements for 2023-24, the Council approved and adopted a precept of £360,000 at the February 2024 Council meeting.

We have reviewed the level of retained reserves noting that total funds have decreased to £271,558 (£359,962 as of 31st March 2023), with £93,249 set-aside in five specific earmarked reserves. The residual General Reserve balance of £178,309 equates to approximately 6 month's spending at the 2023-24 level and sits comfortably within the generally recognised level of between 3 & 12 months' revenue spending.

We have also reviewed the year-end budget performance report in Scribe with no significant or unexpected variances existing warranting further enquiry or follow-up.

We also note that no budget detail is recorded for income budget headings and suggest that, whenever possible, accurate budget detail is recorded when entering the 2024-25 anticipated budgets (e.g. the annual precept): obviously due to its variable nature, accurate assessments are not possible for other areas such as hall hire, toilet income, bank interest, etc. although we urge that a “best estimated” value is assigned.

Conclusions & recommendation

We are pleased to record that no significant issues arise in this area although, as indicated above, we urge that either factual or best estimated values for the various income headings are input to the Scribe accounts for 2024-25 to facilitate a degree of effective monitoring of income levels.

R2. In line with best practice and to afford members appropriate information on budgetary performance for the various income headings, either factual (e.g. precept) or “best estimate” values for the various income headings in Scribe be entered for 2024-25 and thereafter.

Review of Income

The Council has limited sources of annual income including the annual precept, hire of Falcon Cross Hall, library book sales, late book return fines, coin machine income from the public WCs and occasional donations, plus limited interest on bank deposits.

Due to our interim review being undertaken remotely, we did not undertake detailed work in this area other than reviewing the various nominal income transaction codes detail for the year to that date to ensure that no apparent anomalous postings have occurred and that, as far as we are reasonably able to ascertain, all income due to the Council has been received and accounted for appropriately. One potential minor issue was identified in relation to the quarterly VAT reclaims with the April and October reclaim receipts being recorded as a net and gross receipt in the Receipts listing, whilst the July receipt is recorded only in the VAT and total columns of the Receipts listing. Similarly, the nominal transaction code reflects a similar anomaly: we referred this to the Clerk who we are pleased to note has reviewed and made appropriate amendments to the detail ensuring consistency in recording this area of recoverable income.

We have at this final review for the year reviewed detail of bookings in November 2023 by reference to the booking diary ensuring that appropriate booking forms have been completed and invoices raised at the correct fee level in accordance with the Council’s approved scale of fees and charges with no issues arising. We also note that the Council has reviewed and agreed an increase in the Falcon Cross Hall hire fees from 1st April 2024.

In examining the file of bookings detail, in which records are filed monthly, we noted that where hirers book for regular monthly meetings and are invoiced accordingly at the outset for the series of bookings, a copy of the invoice raised is placed in each monthly section within the file together with a copy of the signed agreement form. We have discussed the position with the Clerk suggesting that the invoice only be filed in the month it is raised and is annotated accordingly to record the date of settlement and Scribe voucher reference to provide an appropriate and more effective means of cross-referencing. We acknowledge the potential benefit of filing a copy of the agreement form in each month’s record on the file.

We have reviewed income arising at the library by way of book sales and fines, etc. noting that, as identified last year, various miscellaneous cash holdings are being held in various cash bags awaiting handover to the Clerk for banking, one of which related to a late-March till total that had still to be handed to the Clerk for banking. As indicated last year, all such income should be handed over to the

Clerk at the end of each week for banking rather than be held for a couple of weeks or longer. All income received by the library should also be rung through the till and appropriate supporting records be kept identifying its source so that it can be appropriately accounted for (i.e. correctly coded as to its source).

In checking the content of the till and library drawers, we again noted the holding of various other “bags” of cash, detail of which we have passed on to the Clerk for further enquiry and explanation.

Finally in this area, we have examined the spreadsheet record of public WC collections for the year with no issues arising, although we note that, due to the use of radar keys, etc., income arising from “The Lift” toilets cannot be readily reconciled to any control mechanism on the toilet door as is the case at the other to public WCs.

Conclusions and recommendation

We are pleased to record that no significant concerns arise in this area, although as indicated in last year’s report, the recording of library income requires more appropriate and detailed recording with the prompt transfer of funds to the Town Clerk for banking and recording in the Scribe accounts.

R3. The apparent mis-posting of receipt of the quarterly VAT reclaims to date in 2023-24 should be examined to ensure that appropriate amendment is made to the way the three quarterly receipts are recorded in a consistent and appropriate manner. This has been examined by the Clerk and appropriate corrective recording action taken.

R4. All income received by the library should be rung into the library till with the library control spreadsheet record of library fines, etc. annotated handed to the Clerk weekly for banking and recording in the Scribe accounts.

Petty Cash Account

No formal petty cash account is in place, the Clerk and librarian reclaiming expenses through the normal trader payment procedures, detail of which we have reviewed and checked as part of the above referenced expenditure check. A £40 change float is held in the library, which is appropriately accounted for in the Scribe accounts as a “Cash in hand” holding at the financial year-end. See previous comments in relation to the 2022-23 external audit report in relation to the library change float in the above Governance Section of this report.

Review of Staff Salaries

In examining the Council’s payroll function, we aim to confirm that extant legislation is being appropriately observed ensuring 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 those in relation to pension contributions to the LG Pension Fund, where applicable.

We note that the 2023-24 national pay award was implemented in November 2023 with arrears due from 1st April 2023 also paid with that month’s salaries. We have, consequently, checked and verified the accuracy of the gross salary payments made in both September and November 2023 to the Council approved NJC spinal points and contracted working hours, also ensuring the accurate calculation of the arrears due from 1st April 2023. We have also ensured the accuracy of income tax, NI and pension scheme deductions / Council contributions for both months.

Conclusions

We are pleased to report that no issues have been identified in this area this year warranting formal comment or recommendation.

Fixed Asset Registers

“The Practitioner’s Guide” requires all councils to maintain a detailed register of their assets. We aim in examining this aspect of the Council’s documentation, to ensure that the Council has complied with that requirement noting that an appropriate and comprehensive asset register is now being maintained in the Scribe software with appropriate amendment annually to reflect the cost of new purchases (net of VAT) and any deleted / disposed of assets.

Conclusions

No issues arise in this area warranting comment or recommendation.

Investments and Loans

The Council continues to deposit excess funds with the Co-operative bank, re-investing the amount held together with the periodic interest earned: we have verified the accuracy of recording of interest earned for the financial year in the Scribe accounts.

We have also reported previously that the Council has complied with the latest guidance on Investment Strategies / Policies noting that the Investment Strategy has been subjected to further review, update and formal re-adoption in February 2024. We have reviewed the updated document and consider it appropriate for the Council’s present requirements.

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

Conclusions

No issues arise in this area of our review process at present.

Statement of Accounts & AGAR

The Scribe accounting software generates a formal I&E Account and Balance Sheet annually, together with data for inclusion in the year’s AGAR. The Clerk has duly identified all year-end debtors and creditors with detail input to the Scribe accounting software to generate the year-end Accounts and AGAR Section 2 financial data. We have duly checked the detail reported therein to the underlying financial and other documents and are pleased to report that no errors have been identified.

Conclusions

We are pleased to record that no issues have been identified in this area this year. We have also ensured the accurate transfer of the Scribe accounts detail to the AGAR and have duly signed-off the IA Certificate assigning positive assurances in each relevant area.

Rec. No.	Recommendation	Response
Review of Expenditure& VAT		
R1	The mis-posting of the Ops Manager / Asst Clerk’s August 2023 salary should be amended appropriately.	<i>This has been corrected accordingly.</i>
Budgetary Control & Reserves		
R2	In line with best practice and to afford members appropriate information on budgetary performance for the various income headings, either factual (e.g. precept) or “best estimate” values for the various income headings in Scribe be entered for 2024-25 and thereafter.	This has been added to the quarterly budget process. RFO
Review of Income		
R3	The apparent mis-posting of receipt of the quarterly VAT reclaims to date in 2023-24 should be examined to ensure that appropriate amendment is made to the way the three quarterly receipts are recorded in a consistent and appropriate manner.	<i>This has been examined by the Clerk and appropriate corrective recording action taken.</i>
R4	All income received by the library should be rung into the library till with the library control spreadsheet record of library fines, etc. annotated handed to the Clerk weekly for banking and recording in the Scribe accounts.	A new recording sheet has been implemented RFO.