

Milcombe Parish Council

Internal Audit Report (Final update) 2024-25

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Background and Scope

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

This report sets out the work undertaken in relation to the 2024-25 financial year, during our two reviews of the Council's records, which have been undertaken remotely on 31st December 2024 and 4th April 2025 following agreement of that approach with the Clerk. We again thank the Clerk in assisting the process, providing the requested documentation in electronic format to facilitate commencement of our review for the year.

Internal Audit Approach

In undertaking our review, we have had regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts / AGAR. Our programme of cover is designed to afford assurance that the Council's financial systems remain robust and operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'IA Report' in the Council's AGAR, which requires independent assurance over a series of internal control objectives.

Overall Conclusions

We are pleased to record that, based on the work undertaken to date, the Clerk continues to maintain generally adequate and effective controls over the Council's finances, although at our interim review we noted a significant (by value) unintentional erroneous payment processed in November 2024. We acknowledge the actions taken to address issues identified in our previous reports: however, where such areas remain to be addressed, we have reiterated the prior year recommendations in order that they are not overlooked, together with a few additional issues identified this year.

This report should be presented to members in accordance with the statutory requirement and we ask that a formal response to the recommendations, as summarised in the appended Action Plan, be provided in advance of our final review setting out the actions taken or pending to address the matters identified.

We have duly signed off the 2024-25 Part 3 AGAR, as the Council's turn over for the year exceeded the £25,000 threshold, which will therefore require an external audit for the year.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Clerk has continued to use the Scribe software to maintain the accounting records during 2024-25 with two bank accounts in place with Unity during the financial year.

Our objective in this review area is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. We have accordingly: -

- Ensured the accurate carry forward of the closing 2023-24 balances as opening balances in the Scribe accounts for 2024-25;
- Ensured that an appropriate coding structure is in place to facilitate effective budget monitoring / performance management;
- Checked detail in the receipts and payments “cashbooks” generated by Scribe, examining all transactions recorded for the financial year agreeing detail to the relevant supporting bank statements; and
- Checked and agreed detail on the combined accounts bank reconciliation prepared on 30th November 2024 and 31st March 2025.

Conclusions

We are again pleased to note that reconciliations are routinely presented to the Council and adopted, also being signed off by the Clerk and a nominated councillor. Copies of signed bank statements and reconciliations are then duly uploaded to the Scribe accounts software.

We have ensured the accurate disclosure of the combined account balances 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 and that, as far as we are reasonably able to ascertain as we do not attend meetings, no actions of a potentially unlawful nature have been or are being considered for implementation.

We are pleased to note that the Council re-adopted both its extant SOs and Financial Regulations (FRs) at the May 2024 Council meeting, also noting the subsequent adoption of the 2024 updated NALC model FRs at the September 2024 Council meeting. We have made previous reference to the level at which formal tender action is required suggesting that a more appropriate level for a Council the size of Milcombe would be set at around £10,000. Whilst we acknowledge that the latest NALC model FRs suggest a level of £60,000 (Para 5.6 refers), we remain of the opinion that the above suggested value would be more appropriate for Milcombe. Care should also be taken to ensure that the SOs and FRs record a consistent value for formal tender action.

We have reviewed the Council minutes examining those for the financial year to determine whether any issues exist that may have an adverse effect, through litigation or other causes, on the Council’s future financial stability and are pleased to record that no such matters have been identified.

We note that the Council met the qualifying criteria to claim exemption from an external audit in 2023-24 and duly submitted the requisite certificate of exemption. As the 2024-25 expenditure exceeds the £25,000 threshold, the Council will need to prepare, adopt and submit a Part 3 AGAR to the external auditors. We are also pleased to note that the Council published an appropriate “Notice of Public Rights” for examination of the Council’s records for the requisite 30 working days.

Conclusions and recommendation

We are pleased to report that no serious issues or concerns arise in this area this year, although we again urge that the SOs and FRs are amended to record a lower and consistent value for formal tender action. We will continue to review minutes and the Council’s approach to governance issues at future reviews.

R1. The Standing Orders and Financial Regulations should record a consistent value for formal tender action, ideally in the region of £10,000, which is more appropriate to a Council the size of Milcombe than the standard £60,000 set out in the latest NALC model Financial Regulations. These will be amended in May 2025.

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.

To ensure compliance with the above criteria, we have selected a sample of 23 individual payments in the financial year totalling £26,545 equating to 89% by value of non-pay related payments processed in the year.

We have previously discussed with the Clerk the Council’s control procedures in relation to the scrutiny and approval of traders’ and other invoices for payment: however as suggested previously, we consider that they could and should be further strengthened to afford clear evidence of members’ approval and **effective** involvement in the authorisation process, especially in the light of the following noted payment error in our test sample this year.

In examining the payments, we noted 2 payments recorded on 5th November 2024 to Playground Services, one for £72.00 and one for £7,200.00. In examining the scanned copy invoices uploaded to Scribe, we could only trace an invoice for the smaller value: we discussed this with the Clerk and understand that a second payment was generated in error for the larger amount, which was set up for online payment and duly released by the signatory councillor(s). Given the size of the erroneous payment, the fact that it was released on the same date and that no invoice was held to support the erroneous amount, we have significant concerns as to the effectiveness of members’ scrutiny of documentation when payments are set up and presented for their release. We are, however, pleased to note the timely and effective recovery of the erroneous payment once the error was spotted.

Consequently, we urge that a more rigorous and effective methodology for the approval and release of payments be implemented with the reviewing and authorising member(s) physically examining all documentation supporting payments **prior** to their physical release. That review should be formally evidenced with the reviewing and releasing members duly initialling the stamped image now affixed to individual invoices / payment documentation prior to the documents being scanned and uploaded to the Scribe accounting records.

We note that VAT reclaims are prepared and submitted to HMRC annually, with that for 2023-24 repaid in May 2024: we have examined the 2024-25 reclaim agreeing detail to the Scribe accounts.

Conclusions and recommendation

*As indicated previously, and in view of the above erroneous payment, we strongly urge that controls over the authorisation and release of payments need further strengthening with members formally reviewing all payment documentation **prior** to payment release with them evidencing completion of that review by signing or initialling all supporting payment documentation prior to the release of payments and its upload to the Scribe software. We also urge that every payment processed in the year, be it individual elements of the Clerk's expenses, grants and donations, etc., should also be supported by a relevant document that should also be signed off / initialled prior to its / their upload to Scribe.*

R2. *To ensure the existence of clear evidence of member scrutiny and approval for payment, **all** individual payment documents should be stamped, as currently, and be initialled by members confirming their scrutiny and approval of the invoices for payment **prior** to the physical release of the payments: the initialled invoices should then be uploaded to Scribe routinely following member scrutiny, approval and sign-off. **Noted.***

Assessment and Management of Risk

Our aim here is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks to minimise the opportunity for their coming to fruition.

We have examined the Council's insurance policy with Hiscox noting that cover is in place with both Employer's and Public Liability cover standing at £10 million, together with Fidelity Guarantee cover at £0.5 million, all of which we consider appropriate for the Council's present needs. We also note that "Business Interruption – Loss of Revenue" cover is in place at £10,000.

We are pleased to record that the Council has reviewed and re-adopted its comprehensive Risk Management document at the May 2024 Council meeting: we consider the document appropriate for the Council's ongoing requirements.

We also noted previously that an external provider undertakes an annual review of the Council's play areas reporting their conclusions accordingly with detail presented to the Council for determination of any remedial action considered necessary. This review is supplemented by "in-house" reviews. We understand that, following our recommendation last year, the clerk has ensured that the Council is appropriately protected against any potential claims.

Conclusions

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

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 District Council, also that an effective reporting and monitoring process is in place. We also aim to ensure that the Council retains appropriate funds in general and earmarked reserves to finance its ongoing spending plans and cover any unplanned expenditure that might arise.

We note that the Council has completed its deliberations on its budgetary and precept requirements for 2025-26, formally approving the precept for the year at £15,600 at the November 2024 meeting. We are also pleased to note that the Clerk provides members with detail of the Council's budgetary position during the year and have reviewed the year-end Scribe generated budget report with no additional issues identified to the aforementioned erroneous payment warranting further enquiry or comment.

As recorded in last year's report, we have again seen no indication that the Council has considered the establishment of any specific earmarked reserves to be set aside for any future potential development aspirations or periodically recurring expenditure such as election costs or equipment replacement, but seen no indication in the Scribe accounts of any such action with only the General Fund balance recorded currently.

In examining the detailed transaction report by cost centre at the year-end, we have noted that the Clerk's March salary (entry 84) has erroneously coded to Centre 2 (Clerk's expenses), whilst the Clerk's expenses have been miscoded to Centre 1 (Clerk's salary & HMRC) resulting in the understatement of Staff costs in the value to be reported in the AGAR at Box 4 by £200 with a corresponding overstatement of the Box 6 value.

Conclusions and recommendation

We are pleased to record that no significant concerns arise in this area, although we urge that the Council takes appropriate action to formally identify and record in Scribe the existence of appropriate specific earmarked reserves. The identified miscoding of the Clerk's March salary and expenses should be corrected when completing the AGAR Section 2 detail.

R3. *The Council should consider the establishment of specific earmarked reserves for areas such as election expenses and equipment replacement with detail duly recorded in the Scribe accounts.*
Noted.

R4. *The identified coding erroring posting the Clerk's March 2025 salary and expenses should be corrected prior to completing the Section 2 financial entries in the year's AGAR.*

Review of Income

The Council receives income by way of the annual precept, recoverable VAT and occasional grants and donations. We have, as indicated in the first section of this report, agreed income recorded in the Scribe accounts to the underlying bank statements with no additional issues arising.

Conclusions

We are pleased to record that no issues arise in this area warranting formal comment or recommendation. We shall check detail of any further income arising in the year at our final review, also ensuring the accurate compilation of the year's VAT reclaim to be submitted to HMRC.

Petty Cash Account

The Council does not operate a petty cash account.

Review of Staff Salaries

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HMRC legislation as regards the deduction and payment over of income tax and NI contributions.

The Clerk is the only employee of the Council: we have previously examined the content of her employment contract noting that she is paid in accordance with an approved point on the nationally agreed NJC salary scale. The Council has again outsourced preparation of the monthly payroll to Tax Assist, with all necessary monthly documentation provided to the Clerk to facilitate payment of her net salary, tax and NI contributions to HMRC. We have noted in reviewing the minutes the appointment of a new payroll service provider for 2025-26.

To meet the above objective, we have: -

- Checked the Clerk's gross salary paid in October and November 2024, with the 2024-25 national pay award applied in November's payroll, including arrears from 1st April 2024;
- Checked and agreed the calculation of any tax and / or NI deductions to be applied to the tax code as recorded on the pay slip and appropriate NI Table; and
- Noted that the Clerk has not been enrolled in the LG Pension Scheme.

Conclusions

We are pleased to record 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 develop and maintain an appropriate register of the Council's land, property and equipment in a formal register, with the cost of assets (net of VAT) duly recorded, the total value of which should also be recorded in the AGAR at Section 2, Box 9.

We note that the Scribe accounting software provides the Council's formal asset register, detail of which we have reviewed and agreed with a few new acquisitions recorded for 2024-25.

Several of our clients have also developed photographic records of assets such as street furniture, etc, which they have found to be of assistance in progressing insurance claims in the event of any accidental or malicious damage occurring.

Conclusions and recommendation

No concerns have been identified in this area, although, as indicated above we suggest that consideration be given to the development of a photographic register of street furniture, etc.

R4. The Council should consider the development of a photographic register of its assets, which may be of assistance in the event of any accidental or wilful damage to property and equipment requiring an insurance reclaim. Noted.

Investments and Loans

We aim in this area of our review process to ensure that the Council is taking appropriate action to ensure interest earning capabilities are maximised whilst safeguarding the Council's resources. We note the quarterly receipt of interest on the Unity Deposit account.

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

Conclusions

No issues arise in this area warranting formal comment or recommendation currently: we shall ensure the appropriate receipt and recording of further bank interest for the year at our final review.

Statement of Accounts / AGAR

The AGAR now forms the statutory accounts of the Council in accordance with the Accounts and Audit Regulations 2015. As the Council's turnover for 2024-25 exceeds the £25,000 threshold requiring a limited assurance review by the appointed external auditor, the Council will need to prepare, adopt and submit a Part 3 AGAR to the external auditors for the year. Based on the overall satisfactory conclusions drawn from our review work this year, we have signed off the Part 3 IA Certificate.

Conclusions

We are pleased to record that no additional issues arise in this area warranting formal comment or recommendation, although as indicated above (Recommendation R4 refers) the miscoding of the March salary and expenses will require amendment prior to completion and submission of the year's AGAR to the external auditors.

| Rec. No | Recommendation | Response |
|---|---|--|
| Review of Corporate Governance | | |
| R1 | The Standing Orders and Financial Regulations should record a consistent value for formal tender action, ideally in the region of £10,000, which is more appropriate to a Council the size of Milcombe than the standard £60,000 set out in the latest NALC model Financial Regulations. | <i>These will be amended in May 2025.</i> |
| Review of Expenditure & VAT | | |
| R2 | To ensure the existence of clear evidence of member scrutiny and approval for payment, <u>all</u> individual payment documents should be stamped, as currently, and be initialled by members confirming their scrutiny and approval of the invoices for payment <u>prior</u> to the physical release of the payments: the initialled invoices should then be uploaded to Scribe routinely following member scrutiny, approval and sign-off. | <i>Noted</i> |
| Budgetary Control & Reserves | | |
| R3 | The Council should consider the establishment of specific earmarked reserves for areas such as election expenses and equipment replacement with detail duly recorded in the Scribe accounts. | <i>The Council has a Reserves Policy which includes elections.</i> |
| R4 | The identified coding erroring posting the Clerk's Marc 2025 salary and expenses should be corrected prior to completing the Section 2 financial entries in the year's AGAR. | |