

## **Hannington Parish Council**

*Internal Audit Report 2021-22*

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*For and on behalf of  
Auditing Solutions Ltd*

## **Background**

**Statute requires all town and parish councils to arrange for an independent internal audit examination of their accounting records and system of internal control and for the conclusions to be reported each year in the AGAR.**

This report sets out the work undertaken in relation to the 2021-22 financial year, following on from our first review of this Council in August 2021. We have again undertaken our review for this period remotely: we wish to thank the Chair and Clerk for assisting the process, providing some documentation in electronic format to facilitate our review for the period and sign off of the Internal Audit Certificate in the 2021-22 AGAR.

## **Internal Audit Approach**

In undertaking our review we have had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts.

This report summarises our conclusions on each of the key areas set out in the Internal Audit Report that is required under the Annual Return arrangements. Issues requiring attention have been further summarised into an Action Plan at the end of the report.

## **Overall Conclusion**

We are disappointed to record little apparent action since our 2020-21 report. While we note with concern the poor health of the Clerk, this does not absolve the Council from the need to properly account for Public Funds.

Therefore, following discussion with the Chair over the need to formally close the 2021-22 Accounts, we issue this report in order to provide Council with guidance on how to improve the governance position in the hope that a significantly improved position can be generated during the rest of 2022-23. Of necessity we have had to repeat many of our previous recommendations, which now require urgent action.

We have signed off the Internal Audit Certificate in the Annual Return assigning appropriate assurances to all the required assertions.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

The Clerk records the Council's accounting transactions (cashbook) using an Excel spreadsheet. A single Current Account is in operation with Lloyds Bank. Given the small number of transactions, we have verified all cashbook transactions to the bank statements with no issues arising.

The cashbook is kept at a very basic level, providing little detail of transactions. We particularly note the following:

- there is no analysis of the VAT element of transactions, which would support a valid claim to HMRC. We have seen no evidence that a VAT reclaim has been made since at least 2017, suggesting that the Council could be owed a considerable sum of money;
- there is no analysis of transactions against approved budgets;
- there is no analysis of particular statutory payments, most notably those relating to Section 137 of the Local Government Act 1972 which require specific reporting;
- payroll costs are noted as including expenses, which need to be separately analysed.

While there is evidence in the Council's cashbook of quarterly bank reconciliations, it is not clear from the Minutes that these have always been formally noted by the Council. While we are pleased to note that a specific Councillor was nominated in July 2021 to undertake independent checks on reconciliations and transactions in accordance with the latest Model Form of Financial Regulations, there is no evidence in the Minutes that such checks have been undertaken.

### *Conclusions and recommendation*

*R1. Improvements need to be made to the Council's cashbook to improve budget monitoring, aid VAT reclaims, and improve statutory reporting.*

## Review of Corporate Governance

Our objective here is to ensure that the Council has a robust regulatory framework in place to ensure that Council meetings are conducted in accordance with the adopted Standing Orders and that, as far as we are able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation. We also aim to ensure that appropriate policies, procedures and protocols are in place to prevent and provide a reasonable assurance of the detection of any fraudulent or corrupt activity.

We have reviewed the Council's Minutes for meetings held during the financial year to determine whether or not any issues exist or may be developing that might have an adverse effect on the Council's future financial stability, whilst also ensuring that no decisions have been made or are being considered that might result in ultra vires expenditure being incurred.

We note that Standing Orders and Financial Regulations were last approved in February 2022, but have not been reviewed since 2017. The currently-approved documents are not in accordance with the latest versions of the NALC Model Forms, and are missing key requirements and controls.

We note a Statement of Compliance on the Council's website with regard to the Transparency Code 2015. The basic requirements of this Code (lists of payments, asset valuations) can be found in the Council's published Minutes, but should be enhanced (eg. with publication of annual AGAR's, Internal and External Audit reports), and detailed separately on the website for easy examination by Parishioners and other interested parties in a spirit of Open Government.

While we note that the 2020-21 Accounts were subjected to the Exercise of Public Rights, this was outside the statutory period, and the requirement to allow 30 working days was not met (the Christmas / New Year Public Holidays were not allowed for). This requires the Council to make a negative assurance at Section 1 (Governance Statement), Assertion 4 of the 2021-22 AGAR.

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

- R2. Council must review its Standing Orders and Financial Regulations, to ensure that they meet all current and future legal requirements in accordance with the NALC Model Forms, as a priority.*
- R3. Council should review and enhance its compliance with the requirements of the Transparency Code 2015 with regard to Public Accountability.*
- R4. Council must review its procedures with regard to proper reporting of the Annual Accounts and Governance Statements in the AGAR, which is a requirement of the Accounts and Audit Regulations approved by HM Government.*

## **Review of Payments and VAT**

We have not been provided with any original payments documentation, so are unable to give an opinion on the following important criteria:

- Payments were supported by a trade invoice or acknowledgement of receipt;
- VAT has been calculated correctly and is recovered at appropriate intervals.
- The Council has approved each payment.
- Payments have been correctly analysed in preparation of the year-end Statement of Accounts.
- Section 137 payments have been identified in the cashbook and are within the Council's spending limit.

While transactions have been recorded in the Minutes, there is no evidence that the payments have been individually checked by Councillors. This is particularly important with regard to the release of payments using electronic banking, which the Council adopted in early 2021. Appropriate authorisation should be noted on individual invoices, which can be facilitated by using a suitably designed rubber stamp.

We have mentioned above our concern that the Council has potential outstanding VAT reclaims going back to at least 2017. In our 2020-21 report, from limited sampling, we identified a total of at least £354.50, and highlighted other areas of potential reclaim. From the cashbook, no VAT reclaim has been made during 2021-22. The Council, as a Public Body, has the ability to recover the VAT element of any payment made against a proper VAT invoice (ie. one including a correct VAT reference)

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

- R5. *Individual payments should be clearly approved and evidenced by Council review, the details to be noted on the actual invoice or other source documentation. This is particularly important with regard to electronic banking release approvals.*
- R6. *Council should undertake an urgent review of all expenditure items since September 2017, to identify supportable and justifiable transactions to be included in a substantial VAT reclaim. Subsequent claims should be made on at least an annual basis.*

## **Assessment and Management of Risk**

We have seen no evidence in the Council's Minutes that a review of the operational risks it faces has been undertaken since 2017-18. An annual review, as a minimum, is a requirement of Financial Regulations, and is a key assertion on the AGAR (Section 1, Assertion 5). We have given the Council guidance on how to create and maintain an appropriate Risk Register.

The Council's insurance cover is arranged through BHIB Brokers, with a renewal date of 8 December 2022. We have reviewed the renewal schedule noting that Employer's and Public Liability cover are each in place at £10 Million respectively, Fidelity Guarantee cover at £50,000, and Officials Indemnity cover set at £500,000, all of which we consider appropriate for a Council of this size. We note, however, that there is no cover provided for the Council's assets, in particular seating, noticeboards, and IT equipment used by the Clerk.

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

- R7. *Council should ensure that a risk review is undertaken on at least an annual basis, in accordance with Financial Regulations.*
- R8. *Council should review the need for property insurance of certain assets.*

## **Budgetary Control and Reserves**

The Council's Minutes for November 2021 show that the Council formally agreed the 2022-23 Precept at £6,974, which has been unchanged for some years. While a detailed budget was agreed in February 2022, as commented above the cashbook does not show sufficient analysis to manage spend against agreed budget lines.

The agreed budget shows Earmarked Reserves of £9,600 (discounting those items noted as 'General Reserve'). Given the bank balance at 31 March 2022 of £13,518, this leaves a General Reserve of £3,918 for unforeseen expenditure. This represents 56% of the approved Precept, against a Best Practice figure of around 50% (ie. 6 months expenditure), which is an acceptable level.

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

*R9. Council should set an approved budget each year in support of its Precept, and regularly monitor expenditure against approved budget lines, to be detailed in the cashbook.*

## **Review of Income**

The Council receives no income apart from the annual Precept and occasional grants. The need to make periodic VAT reclaims (at least annually) has already been noted. The Council earns no interest on its balances.

### ***Conclusions***

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

## **Petty Cash Account**

*The Council does not operate a petty cash account. Any out-of-pocket expenses incurred by the Clerk in connection with her work for the Council are reclaimed periodically and paid by separately, which are minuted and approved as with ordinary trade invoices.*

## **Salaries and Wages**

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

We have, as in 2020-21, not been given any records relating to payroll, to confirm the appropriate basis for payments to the Clerk, or any appropriate deductions and payments to HMRC. Therefore, we are unable to give any assurance in this area, and are required to give a negative assurance on this important area in the AGAR.

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

*R10. Council must ensure that its payroll is properly managed, controlled, and accounted for to Statutory Bodies such as HMRC and the Pensions Regulator.*

## **Asset Register**

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. These need to be valued at net cost or, where this cannot be identified, using a suitable valuation method that can be a nominal £1.

We note that Council reviewed its Asset Register in February 2022. Some amendments were approved (relating to the defibrillator and Wellhead), but we have not been provided with any detail on how these would affect the 2020-21 published figure of £13,557. We also identified other issues in our 2020-21 report that are likely to affect this total.

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

*R11. Council should review and confirm an appropriate Asset valuation as part of the 2021-22 AGAR Accounting Statement (Section 2).*

## **Investments and Loans**

*The Council does not hold any long-term investments or loans warranting disclosure in the Annual Return, all balances being held in its Lloyds Bank account.*

## **Statement of Accounts and Annual Return**

The Accounts and Audit Regulations, as amended periodically, require all councils to prepare annually a Statement of Accounts, which is in the form of the Annual Governance and Accountability Return at Section 2, which is, together with the Annual Governance Statement at Section 1, subject to independent external audit examination and certification.

We have noted above areas of concern which should be reflected in the 2021-22 AGAR.

### ***Conclusion***

*We have duly signed-off the Internal Audit Certificate in the 2021-22 Annual Return assigning appropriate assurances in each relevant area.*

# Action Plan

Rec. No.	Recommendation	Response
<b>Accounting Records and Bank Reconciliations</b>		
R1	Improvements need to be made to the Council's cashbook to improve budget monitoring, aid VAT reclaims, and improve statutory reporting.	
<b>Corporate Governance</b>		
R2	Council must review its Standing Orders and Financial Regulations, to ensure that they meet all current and future legal requirements in accordance with the NALC Model Forms, as a priority.	
R3	Council should review and enhance its compliance with the requirements of the Transparency Code 2015 with regard to Public Accountability.	
R4	Council must review its procedures with regard to proper reporting of the Annual Accounts and Governance Statements in the AGAR, which is a requirement of the Accounts and Audit Regulations approved by HM Government.	
<b>Payments and VAT</b>		
R5	Individual payments should be clearly approved and evidenced by Council review, the details to be noted on the actual invoice or other source documentation. This is particularly important with regard to electronic banking release approvals.	



# Action Plan

Rec. No.	Recommendation	Response
R6	Council should undertake an urgent review of all expenditure items since September 2017, to identify supportable and justifiable transactions to be included in a substantial VAT reclaim. Subsequent claims should be made on at least an annual basis.	
<b>Management of Risk</b>		
R7	Council should ensure that a risk review is undertaken on at least an annual basis, in accordance with Financial Regulations.	
R8	Council should review the need for property insurance of certain assets.	
<b>Budgetary Control and Reserves</b>		
R9	Council should set an approved budget each year in support of its Precept, and regularly monitor expenditure against approved budget lines, to be detailed in the cashbook.	
<b>Salaries and Wages</b>		
R10	Council must ensure that its payroll is properly managed, controlled, and accounted for to Statutory Bodies such as HMRC and the Pensions Regulator.	
<b>Asset Register</b>		
R11	Council should review and confirm an appropriate Asset valuation as part of the 2021-22 AGAR Accounting Statement (Section 2).	