

Hannington Parish Council

Internal Audit Report 2022-23

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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 2022-23 financial year. We have again undertaken our review for this period remotely: we wish to thank the Chair and the new 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 2022-23 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 have again noted the poor level of governance and internal control at Hannington Parish Council. However, we note the determination of the Council to rectify the situation, by the agreement of an Action Plan (based on previous Internal Audit recommendations) and the appointment of a new Clerk.

While, therefore, we are required to note significant weaknesses in our report, we hope that a much improved position can be generated during 2023-24. Of necessity we have had to repeat many of our previous recommendations.

Clerk's Note (with permission) - the review summarised in this report, was prepared in advance of final submissions made by HPC in support of the 2022/2023 AGAR.

Amended 30th June 2023.

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 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, due to the unavailability of the former Clerk, the public record of 2022-23 Minutes is incomplete.

We note that Standing Orders were reviewed in May 2023, and are now based on the NALC Model Form. We have not seen any evidence of a similar review of Financial Regulations. With regard to tendering levels, Standing Order 18a(v) shows a level of £25,000, which is the NALC default figure and is inappropriate for a Council of this size. We would suggest that a figure of £5,000 would be more appropriate, which needs to be mirrored in Financial Regulation 11.1h (when established).

We note a Statement of Compliance on the Council's website with regard to the Transparency Code 2015. However, we can find insufficient evidence on the Council's website that any of the Code requirements have been met for 2022-23 at the time of audit.

We have not been provided with any evidence that the Exercise of Public Rights was properly undertaken, in accordance with the Accounts and Audit Regulations, with regard to the 2021-22 accounts. This requires the Council to make a negative assurance at Section 1 (Governance Statement), Assertion 4 of the 2022-23 AGAR.

Conclusions and recommendations

- R2. *Council must review its Financial Regulations, to ensure that they meet all current and future legal requirements in accordance with the NALC Model Forms, as a priority. At that time the tendering limits in both Standing Orders and Financial Regulations should be reviewed to a more appropriate level.*
- R3. *Council should review and enhance its compliance with the requirements of the Transparency Code 2015 with regard to Public Accountability.*

Review of Payments and VAT

We have not been able to review 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 some 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 2022-23. The 2022-23 cashbook shows a reclaimable VAT total of £477.37. 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

- R4. 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.*
- R5. 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

While we have seen evidence in the Council's Minutes that a review of the operational risks was discussed in March 2023, we have seen no actual Register arising from this. An annual review, as a minimum, is a requirement of Financial Regulations, and is a key assertion on the AGAR (Section 1, Assertion 5).

The Council's insurance cover is arranged through BHIB Brokers, with a renewal date of 8 December 2023. 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.

Conclusions and recommendations

- R6. Council should ensure that a risk review is undertaken on at least an annual basis, in accordance with Financial Regulations.*
- R7. Council should review the need for property insurance of certain assets.*

Budgetary Control and Reserves

The Council's Minutes for February 2023 show that the Council formally agreed the 2023-24 Precept. While no figure was formally minuted, it was noted as 'unchanged' which we take to mean a Precept of £6,974 was approved. While a detailed budget is available on the Council's website, as commented above the cashbook does not show sufficient analysis to manage spend against agreed budget lines.

The agreed budget shows Earmarked Reserves of £9,240. Given the bank balance at 31 March 2023 of £14,958, this leaves a General Reserve of £5,718 for unforeseen expenditure. This represents 82% (56% as at 31 March 2022) of the approved Precept, against a Best Practice figure of around 50%. This increasing Reserve needs to be kept under review.

Conclusions and recommendation

R8. *Council should ensure that the level of Reserves is directly related to expenditure plans, regularly monitored, and are maintained at a reasonable level.*

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. Therefore, no issues arise in this area warranting formal comment or recommendation.

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 earlier years, 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.

We note, however, that a new Clerk has been appointed from April 2023, and that an external payroll service has been appointed. Therefore, we reasonably expect this position to improve in 2023-24.

Conclusions

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

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 have been provided with an Asset Register as at 31 March 2023. However, this does not accord with the total value shown at Section 2, Box 9 of the 2022-23 AGAR, and shows some evidence of revaluation. Therefore, we are unable to give any level of assurance in this area.

Conclusions and recommendation

R9. Council should review and confirm an appropriate Asset valuation as part of the 2023-24 AGAR Accounting Statement (Section 2), and appropriately restate the 2022-23 total.

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 2022-23 AGAR.

While reconciling Section 2 (Accounting Statements) of the 2022-23 AGAR, we have identified an error in the figure shown at Box 6 (All other payments) which includes the Staff costs figure already shown at Box 4. The correct Box 6 figure, which balances to the bank account and cashbook, should be £3,634.

It should be noted that the majority of conclusions and recommendations in this report are repeated from our 2021-22 report. However, we note that the Council has established an Action Plan to recover the situation, based on previous Internal Audit recommendations, and appointed a new Clerk, with a view to correcting the weaknesses identified during 2023-24.

Conclusion

We have duly signed-off the Internal Audit Certificate in the 2022-23 Annual Return assigning appropriate assurances in each relevant area.

Action Plan

Rec. No.	Recommendation	Response
Accounting Records and Bank Reconciliations		
R1	Improvements need to be made to the Council's cashbook to improve budget monitoring, aid VAT reclaims, and improve statutory reporting.	
Corporate Governance		
R2	Council must review its Financial Regulations, to ensure that they meet all current and future legal requirements in accordance with the NALC Model Forms, as a priority. At that time the tendering limits in both Standing Orders and Financial Regulations should be reviewed to a more appropriate level.	
R3	Council should review and enhance its compliance with the requirements of the Transparency Code 2015 with regard to Public Accountability.	
Payments and VAT		
R4	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.	
R5	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.	

Action Plan

Rec. No.	Recommendation	Response
Management of Risk		
R6	Council should ensure that a risk review is undertaken on at least an annual basis, in accordance with Financial Regulations.	
R7	Council should review the need for property insurance of certain assets.	
Budgetary Control and Reserves		
R8	Council should ensure that the level of Reserves is directly related to expenditure plans, regularly monitored, and are maintained at a reasonable level.	
Asset Register		
R9	Council should review and confirm an appropriate Asset valuation as part of the 2021-22 AGAR Accounting Statement (Section 2), and appropriately restate the 2022-23 total.	