

Hannington Parish Council

Internal Audit Report 2018-19, 2019-20 and 2020-21

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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 2018-19, 2019-20 and 2020-21 financial years, given that the Council has not sought an independent audit since 2017-18. Due to the continuing impact of the Covid-19 pandemic, we have undertaken our review for this period remotely: we wish to thank the Chair and Clerk for assisting the process, providing documentation in electronic format to facilitate completion of our review for the period and sign off of the Internal Audit Certificate in the 2020-21 AGAR. We have, obviously in the circumstances, reduced the volume of transactions examined, whilst still forming a supportable opinion on the strength of the Council's governance and financial controls.

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. In view of the volume of annual transactions we have undertaken an appropriate level of substantive testing of receipts and payments for the financial year, verifying detail to such underlying documentation as is available.

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

A draft Audit Report was issued to the Council on 22 July 2021, which was used to inform the Council Meeting on 27 July 2021. While at that time, a number of audit issues were outstanding, the Council chose to sign the 2020-21 AGAR, commence the Exercise of Public Rights, and submit the AGAR to External Audit.

While, therefore, this audit review cannot be regarded as satisfactorily concluded, it is clear that the Council has given serious consideration to the recommendations made in the draft Audit Report, and agreed actions to improve the Council's governance and financial circumstances. The basic audit objective of informing the Council of necessary corrective actions has therefore been achieved.

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

This report has been prepared for the sole use of Hannington Parish Council. To the fullest extent permitted by law, no responsibility or liability is accepted by Auditing Solutions Ltd to any third party who purports to use or rely, for any reason whatsoever, on this report, its contents or conclusions.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Clerk records the Council's accounting transactions using an Excel spreadsheet, which is adequate given the low level of transactions. 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 (where provided), with no issues arising. However, we have not been provided with a cashbook for 2019-20, and can therefore provide no assurance on the transactions in that year.

While there is some evidence in the Council's published Minutes of reporting of bank balances, these reports are inconsistent and do not properly represent sound bank reconciliation procedures. In particular there is no evidence of internal check by an independent Councillor (ie. one who is not a bank signatory) as is required by the most up-to-date version of Financial Regulations (see below).

Conclusions and recommendation

R1. An independent Councillor should be appointed to undertake periodic (at least quarterly and at the year-end) checks on bank balances, signing and dating the latest printout of the cashbook, and report the action to the next meeting of Council.

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 in each 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 January 2021. However, this was a readoption of the versions originally adopted in September 2017, with a minor amendment to allow for electronic banking. 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 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.

We have seen no evidence that the 2018-19 and 2019-20 Accounts were properly drawn up and advertised to Parishioners in accordance with the Exercise of Public Rights requirement. This is an important legal control. The deadline for commencing the 2020-21 Exercise, which should have started on or before 1 July 2020 and run for 30 working days (Monday to Friday, excluding Public Holidays) has already slipped (although an extension has been granted by External Audit), but should be commenced as soon as the Council has approved the 2020-21 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. In particular, the Council must publish its 2020-21 Accounts in accordance with the Exercise of Public Rights requirement without further delay.*

Review of Payments and VAT

We have test-checked a representative sample of payments during each year to reasonably determine whether the following criteria have been met:

- 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 supporting invoices have been provided for all transactions in the review sample, and the transaction has been properly 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.

From looking back at our historical audit records, and comparing them to the cashbooks for the 3 years under review, we can see no evidence that VAT payments have been reclaimed since September 2017. 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), with the provisos that (a) the charge is properly payable by the Council and (b) that, ideally, the invoice is issued in the name of the Council and not a Councillor or the Clerk (although this is

not always possible for small cash transactions). From a study of the sample testing of 2020-21 large value invoices alone, a total of £354.50 can be recovered relating to payments for grass cutting and the purchase of a new laptop. This figure can be significantly increased by a study of all payments made since the last claim in September 2017, with particular regard to the following transactions, all of which are likely to have a recoverable VAT element:

- purchase of a defibrillator cabinet (September 2020, for which only an order is currently available);
- license payments (all years)
- HALC subscription fees and training courses (all years)
- general repairs, eg. Noticeboards (all years), grass cutting (all years)
- miscellaneous expenses, eg. Printing.

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 previous 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).

The Council's insurance cover is arranged through BHIB Brokers, with a renewal date of 8 December 2021. 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 January 2021 show that the Council formally agreed the 2021-22 Precept at £6,974. There is no apparent approved budget to support this figure, and the cashbook does not show any segmental analysis of payments made against approved budget lines.

The Council's Minutes do not show that any Earmarked Reserves have been established for specific projects. Therefore, the bank balance at 31 March 2021 of £12,477 constitutes a General Reserve. This total represents 179% of the approved Precept, against a Best Practice figure of around 50% (ie. 6 months expenditure). It is, however, acknowledged that smaller Councils are unable to significantly change their level of balances in the short term.

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.*
- R10. *Council should regularly monitor and review its balances, with particular relevance to Precept-setting, and create specific Earmarked Reserves where appropriate.*

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 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 have given a negative assurance in the AGAR.

Conclusions and recommendation

R11. 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 approved an Asset Register in October 2020. This totals £13,557, which is a value substantially unchanged from earlier years with the exception of IT in use by the Clerk. Given that a new laptop was purchased in January 2021, this element of the Asset Register is likely to be incorrectly valued. We also feel that the Village Green, currently unvalued, should be given a nominal value of £1.

Conclusions and recommendation

R12. Council should review and confirm an appropriate Asset valuation as part of the 2020-21 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 now 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 or amended in the 2020-21 AGAR

Conclusion

We have duly signed-off the Internal Audit Certificate in the 2020-21 Annual Return assigning appropriate assurances in each relevant area.

Action Plan

Rec. No.	Recommendation	Response
Accounting Records and Bank Reconciliations		
R1	An independent Councillor should be appointed to undertake periodic (at least quarterly and at the year-end) checks on bank balances, signing and dating the latest printout of the cashbook, and report the action to the next meeting of Council.	
Corporate Governance		
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. In particular, the Council must publish its 2020-21 Accounts in accordance with the Exercise of Public Rights requirement without further delay.	
Payments and VAT		
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 previous 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.	
Management of Risk		
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		
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.	
R10	Council should regularly monitor and review its balances, with particular relevance to Precept-setting, and create specific Earmarked Reserves where appropriate.	
Salaries and Wages		
R11	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		
R12	Council should review and confirm an appropriate Asset valuation as part of the 2020-21 AGAR Accounting Statement (Section 2).	

Action Plan