

Erlestoke Parish Council

Internal Audit Report 2021-22

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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 Annual Governance and Accountability Return (AGAR).

This report sets out our work undertaken in relation to the 2021-22 financial year. We have, this year, undertaken our review based on submissions by the Clerk and also study of prime documentation, which has increased the amount of substantive testing we can do. We wish to thank the Clerk in assisting the process, responding to any issues raised to facilitate completion of our review for the year and sign off of the Internal Audit Certificate in the year's AGAR.

Internal Audit Approach

In undertaking the review for the year, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts / AGAR. Our programme of cover has been designed to afford appropriate assurance that the Council's financial systems are 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 'Internal Audit Certificate' in the Council's AGAR, which requires independent assurance over several internal control objectives.

Overall Conclusion

We are pleased to acknowledge continued improvements in internal control by the Council and the Clerk. While we have made a single recommendation and a number of observations for further improvement, these do not significantly detract from what is essentially a reasonable system of financial control.

We would ask that Council now carefully consider this report, and return the completed Action Plan in due course.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliation

The Council operates two bank accounts with Lloyds (Treasurer's and Business Instant, although the latter is seldom used), with transaction detail recorded in a spreadsheet cashbook, which we consider more than adequate given the level of annual transactions.

We have test-checked cashbook entries to the original bank statements, with no issues arising.

We are pleased to note that the bank reconciliations prepared and recorded in the cashbook at the end of each quarter are now being scrutinised by an independent Councillor in accordance with Financial Regulation 2.2.

Conclusions

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

Review of Corporate Governance

Our objective here is to ensure that the Council has a robust regulatory framework in place; that Council meetings are conducted in accordance with the adopted Standing Orders (SOs) and that, as far as we are reasonably 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 note that the Council reviewed its Standing Orders and Financial Regulations in March 2022, in line with the latest NALC Model Forms, with the tendering levels maintained at £5,000 in both documents as previously agreed.

We have examined the Council Minutes for the year 2021-22 as posted on the Council's website to determine whether any issues exist that may have either a legal or financial impact on the Council and its future financial stability. We noted two instances where the meeting was not legally quorate, although any decisions made were ratified at the next Council meeting. We have referred these instances to the Clerk.

We are pleased to note a good level of compliance on the Council's website with the requirements of the Transparency Code for Smaller Authorities, which became mandatory from 1st April 2015.

We have checked the Exercise of Public Rights in relation to the 2020-21 accounts, agreeing the statutory dates with no issues arising.

Finally, we note that the Clerk has recently obtained the CiLCA qualification, and the Council is therefore able to adopt the General Power of Competence (GPoC) over Section 137 of the Local Government Act 1972. We understand that this will be adopted during 2022-23.

Conclusions

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

Review of Payments and VAT

We have reviewed all transactions for the year to determine whether the following criteria were met:

- Payments are supported by a trade invoice or acknowledgement of receipt
- Councillors are scrutinising all payments and evidencing their review accordingly
- VAT has been calculated correctly and is recovered at appropriate intervals
- The Council at a Council meeting approved each payment, and
- Payments have been correctly analysed in preparation of the year-end Statement of Accounts.

While we have found no general issues of note, we are concerned that a Councillor was given a large reimbursement in April 2021 for fencing materials. While this was properly approved, it is generally not good practice to expect Councillors, or the Clerk, to make significant purchases from their own funds. It also raises the issue of correctly reclaiming VAT from invoices that are not clearly made out to the Council. We would suggest that the Council give consideration to setting up a Corporate Credit Card for such transactions, processing the invoice in the same manner as normal payments. This is increasingly the practice by other Parish Councils.

We note that the last VAT reclaim was made in February 2021. This should be the subject of at least an annual reclaim.

Conclusions

No issues arise in this area warranting formal comment or recommendation, other than our observations about large reclaims and the outstanding VAT reclaim.

Assessment and Management of Risk

We are pleased to note that the Council maintains a Risk Register, last approved at the March 2022 meeting. This meets the requirement of Financial Regulations for at least an annual review.

The Council is insured by Zurich: we have examined the insurance schedule and consider the level of cover afforded to be appropriate for the Council's current requirements with Employer's and Public Liability cover both in place at £10 million and Fidelity Guarantee cover set at £25,000.

We have seen no records in the Minutes that, apart from the annual RoSPA inspection, regular visual safety inspections are being undertaken of the Council's playpark. We have discussed this with the Clerk, and understand that this procedure will be reviewed during 2022-23.

Conclusions

No issues arise in this area warranting formal comment or recommendation, other than our observation about regular playpark safety inspections.

Budgetary Control and Reserves

We note that the Council has determined its budgetary and Precept requirements for 2022-23, formally approving and adopting the latter at £6,849 at the December 2021 Full Council meeting.

The cash balances at 31 March 2022 total £12,300. The Council has approved Earmarked Reserves of £4,000 for Election costs and playground repairs (we have discounted the £1,000 for 6 months expenditure, as this double-counts against the General Reserve), leaving a balance of £8,300 which represents the General Reserve. This represents over 1 years Precept against a Best Practice recommendation of 50% (6 months transactions). While we acknowledge that small Councils have a reduced ability to flex their balances within a short timeframe, the level of balances should be kept under review, particularly at the annual budget setting meeting.

Conclusions

No issues arise in this area warranting formal comment or recommendation, other than our observation about excessive balances.

Review of Income

The Council has very limited income sources other than the annual Precept, recovered VAT, occasional grants and very limited amounts of bank interest. We have checked and agreed all cashbook transactions to bank statements for the financial year with no issues arising.

Conclusions

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

Petty Cash Account

No petty cash account is in use at the Council with any out-of-pocket expenses incurred by the Clerk reclaimed and paid as part of her monthly salary payment.

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.

While we note that the Clerk uses the HMRC Basic PAYE Tools software to report monthly totals, we are concerned to note that the Council pays the Clerk gross, making her responsible for paying over any statutory deductions to HMRC. It is the duty of the Employer to deduct any tax at source, and properly pay deductions over to HMRC.

We have test-checked the 2021-22 pay records for the Clerk with other no issues arising. However, we note that the monthly salary claim includes a Working from Home Allowance, and occasional printing and stationery reimbursements, which require different treatment on the AGAR. We have referred to this in more detail below.

Conclusions and recommendation

R1. The Council must deduct any tax due from the Clerk's salary at source, paying the Clerk the net figure and accounting directly to HMRC for any deductions.

Fixed Asset Registers

Government Accounting rules require all Councils to maintain a record of all assets owned, valued at either original cost price or, where this cannot be ascertained, an appropriate valuation which can be a nominal £1.

We have reviewed the Council's current Asset Register and, following previous comments, we are now happy that it meets the legal requirement.

Conclusions

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

Investments and Loans

The Council has no funds held in investments (other than the Lloyds Bank accounts), nor does it have any loans in existence repayable either by or to itself.

Statement of Accounts and AGAR

The AGAR Section 2 now provides the Council's statutory Accounts subject to external audit certification: however, as the annual turnover is below £25,000, the Council has again opted for exemption from an external audit.

We have reviewed the financial information at Section 2 of the AGAR as presented for our examination: as referred to above, we have determined that £416.05 of non-payroll costs have been incorrectly recorded in Box 4 (Staff Costs) where they should properly be added to Box 6 (All other payments). However we do not feel that this is material enough to warrant an additional meeting to approve a revised AGAR, although it will require restatement on the 2022-23 AGAR. We have discussed this with the Clerk with regard to the correct treatment of such costs in 2022-23 and beyond.

Conclusions

No additional issues arise in this area warranting formal comment, and we have duly signed off the Internal Audit Report in the year's AGAR assigning appropriate assurances in each relevant area.

Rec. No.	Recommendation	Response
Review of Staff Salaries		
R1	The Council must deduct any tax due from the Clerk's salary at source, paying the Clerk the net figure and accounting directly to HMRC for any deductions.	