

Erlestoke Parish Council

Internal Audit Report 2022-23

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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 2022-23 financial year. We have, as in previous years, 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 a reasonable and sustained level of internal control by the Council and the Clerk. We have not seen the need to make any formal recommendations this year, although we note that the single recommendation we made last year (concerning HMRC deductions from payroll) has yet to be fully implemented. We have, however, made a number of observations throughout this report which should be carefully considered by the Council.

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 have been assured that the bank reconciliations prepared and recorded in the cashbook at the end of each quarter are being scrutinised by an independent Councillor in accordance with Financial Regulation 2.2, although this should be evidenced by the Councillor's signature on the appropriate statement, and a clear minuted report to Council.

Conclusions

No issues arise in this area warranting formal comment or recommendation, other than our observation about providing clear evidence of bank reconciliations.

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 January 2023, in line with the latest NALC Model Forms, with the tendering levels maintained at £5,000 in both documents.

We have examined the Council Minutes for the year 2022-23 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, with no such issues arising.

We continue 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 confirm that the Exercise of Public Rights in relation to the 2021-22 accounts was properly undertaken in accordance with the Accounts and Audit Regulations.

We note that the Council properly adopted the General Power of Competence (GPoC) at its May 2022 meeting, but lost it in January 2023 due to the resignation of an Elected Councillor. Therefore the Council must again rely on Section 137 of the Local Government Act 1972 for discretionary items of expenditure, which need to be specifically recorded in both the Minutes and the cashbook.

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.

We note the high level of detail on approved payments recorded in the Minutes. We have found no issues of note.

We have previously noted that the last VAT reclaim was made in February 2021. While no reclaim was made in 2022-23, we note that a claim for £635.84, covering the period October 2020 to March 2023 was made and paid in May 2023. We have, however, been unable to reconcile this claim to the cashbook totals, and have referred some anomalous entries to the Clerk for investigation and correction with HMRC.

Conclusions

No issues arise in this area warranting formal comment or recommendation, other than our observations about the incorrect reconciliation of the May 2023 VAT reclaim.

Assessment and Management of Risk

We note that the Council's Risk Policy, which includes a Risk Register, was approved at the January 2023 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, with sufficient All Risks cover for the Council's assets.

We have still seen no records in the Minutes that, apart from the annual RoSPA inspection, regular visual safety inspections are being undertaken of the Council's playground. This is an increasing requirement by insurers to provide a defence against vexatious claims. A Playground Inspection Policy was agreed in September 2022, requiring reports from the Chair at each meeting, but we can see no evidence of implementation.

Conclusions

No issues arise in this area warranting formal comment or recommendation, other than our observation (which we made last year) about regular playground safety inspections.

Budgetary Control and Reserves

We note that the Council has determined its budgetary and Precept requirements for 2023-24, formally approving and adopting the latter at £7,114.12 at the January 2023 Council meeting.

The cash balances at 31 March 2023 total £15,989. 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 £11,989 which represents the General Reserve. This represents over 1.5 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. Therefore, no issues arise in this area warranting formal comment or recommendation.

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.

We have reconciled the Clerk's claims for 2022-23 (which are based on monthly timesheets) to the appropriate NJC pay scale with no issues arising.

We again note that the Clerk uses the HMRC Basic PAYE Tools software to report monthly totals, but is paid the gross amount by the Council 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 been informed that this has been complicated in 2022-23 by the Clerk's registered tax account with HMRC, but is intended to be established during 2023-24.

We are pleased to note that, in the 2022-23 AGAR, the Clerk's Working from Home Allowance has been properly recorded as an expense rather than a payroll cost.

Conclusions

No issues arise in this area warranting formal comment or recommendation, other than our concern about the proper deduction and payment to HMRC of statutory deductions, which we will review again during our 2023-24 audit.

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 are confident 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, with no issues arising.

Conclusions

No 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
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No Recommendations made
