

## **Horndean Parish Council**

*Internal Audit Report 2021-22 (Final update)*

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## **Background and Scope**

Statute requires all town and parish councils to arrange for an independent Internal Audit (IA) examination of their accounting records and systems of internal control and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR).

This report sets out the work undertaken in relation to the 2021-22 financial year, during our two visits to the Council, which took place on 29<sup>th</sup> November 2021 and 9<sup>th</sup> May 2022.

## **Internal Audit Approach**

In undertaking our review for 2021-22 in accordance with the requirements of the IA Certificate in the AGAR and the latest edition of the JPAG Practitioner's Guide we have paid due regard to the materiality of transactions and their susceptibility to potential misrepresentation in the Accounts / AGAR, together with examining the overall governance framework. Our aim is to ensure that the Council continues to operate robust control systems and that transactions are, as far as we are reasonably able to ascertain, processed in accordance with national and locally approved legislation.

## **Overall Conclusion**

We again wish to acknowledge the high quality of documentation prepared and maintained by the Clerk and her staff, which significantly assists our review process: we are pleased to record that only a few relatively minor matters were identified at our interim visit for the year warranting formal comment or recommendation. Consequently, this final update report for the year includes the Council's reactions and responses to the few issues raised in that interim report both in its body and in the appended Action Plan. One additional issue has arisen at this final review, detail of which we have discussed with the RFO and agreed the necessary action prior to adoption of and submission to the external auditors the year's AGAR.

Based on the overall satisfactory conclusions drawn from our review programme and testing of transactions for the year we have signed off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area. As above, we have agreed with the RFO the necessary amendment to the financial information reported in the year's AGAR.

We also take this opportunity to draw the Clerk's attention to the guidance notes in the preface to the year's AGAR in relation to the documentation that should be displayed on the Council's website, together with the need to ensure compliance with the timing requirements for publication of the Notice of Public Rights to examine the Council's documentation for the financial year.

## Detailed Report

### Review of Accounting Records & Bank Reconciliations

Our objective here is to ensure that accounting records are being maintained accurately and currently and that no anomalous entries appear in the cashbooks, also that effective controls are in place to confirm the accuracy of that detail. The Council uses the Rialtas Omega software to maintain its accounting records, also using the Purchase, Sales Ledger and Bookings modules. Three bank accounts are in use currently: -

- Co-op Bank – used for all day-to day transactions;
- Lloyds Bank – no transactions in year to date, other than a monthly £7.00 service charge;
- Cambridge and Counties Bank – monthly interest credited.

To ensure compliance with the above objective, we have: -

- Agreed the opening balances in the year’s financial ledger with that in the 2020-21 Statement of Accounts and certified Annual Return;
- Ensured that an appropriate Cost Centre and Coding structure remains in place;
- Checked and verified detail of four months’ transactions on the Co-op Current account (April & October 2021, plus January and March 2022) cashbooks by reference to supporting bank statements;
- Checked and agreed detail of transactions on the other two account cashbooks for the full financial year, again by reference to the supporting bank statements;
- Agreed detail of the month-end bank reconciliations as of 30<sup>th</sup> April and 31<sup>st</sup> October 2021, plus 31<sup>st</sup> January and March 2022 on all accounts;
- Reviewed the arrangements for processing and verifying the content of journals raised on the software; and
- Ensured the accurate disclosure of the combined year-end bank account balances in the year’s agar at Section 2, box 8.

We are pleased to note that a councillor continues to review and sign off bank reconciliations generally once a quarter, also noting at our interim review that only the bank reconciliations were being physically signed off. Ideally, the checking councillor should also examine and sign-off the Omega cashbook and bank statement where the month-end balances are recorded as evidential confirmation of the values recorded on the bank reconciliation.

#### *Conclusions and recommendations*

*We are pleased to record that no significant concerns arise in this review area, although we suggested in our interim report that, as above, the supporting cashbook month-end balances should also be signed-off confirming agreement of the bank reconciliation values for the bank account and cashbooks. We have discussed this with the RFO suggesting that the combined account reconciliation that can be generated automatically at any time of the year in the “Management Accounts > Annual Return” section of the Omega software would save having to print off the three separate account reconciliations each month: Also, were the first page of the Trial Balance printed off when the month’s accounts are closed down, it would provide detail of the month-end cashbook balance on each account, rather than having to print off the cashbooks in full.*

***We also suggested that consideration be given to closure of the Lloyds account or placement of the funds held therein in an alternative banking institution without the monthly £7 “penalty” for retaining the account.***

- R1. *Consideration should be given to closure of the Lloyds bank account with the possibility of placing funds in another banking institution where no monthly fee is payable for retaining the funds. Members have declined to act on this recommendation.*
- R2. *The councillor checking bank reconciliations periodically should, ideally, also be confirming agreement of the month-end cashbook balances, ideally, signing-off the printed month-end Trial Balance accordingly in addition to the bank reconciliations and statements. Agreed and implemented in part, although members do not consider it necessary to evidence their confirmation of cashbook balances by signing-off the cashbooks or Trial Balance.*

## **Review of Corporate Governance**

Our objective here is to ensure that the Council has a robust regulatory framework in place; that Council and Committee meetings are conducted in accordance with the adopted Standing Orders (SOs) and that, as far as we can reasonably ascertain as we do not attend meetings, no actions of a potentially unlawful nature have been or are being considered for implementation.

We are pleased to note that the Council’s SOs and Financial Regulations (FRs) have been subjected to further review, both being re-adopted unchanged at the Annual Council meeting held in May 2021.

We have reviewed minutes of the full Council and Committee meetings for the financial year as posted on the website, or on site where not yet posted, excluding those pertaining to Planning issues, to ensure that no issues exist affecting the Council’s financial stability either in the short, medium or long term.

We are also pleased to note that the external auditors signed-off the 2020-21 AGAR without comment or qualification.

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

***We noted at our interim review that the Council had awarded a few grants during the year, detail being appropriately recorded in the minutes as approved, although the minutes did not, at the time of our interim review, identify the powers relied on for their approval. We reminded members and officers that, as the Council was not currently eligible to adopt the General Power of Competence, the powers relied on for approval should be considered and recorded accordingly in the approving minutes. We are pleased to note that appropriate recording has occurred in minutes subsequent to our interim review.***

***We shall continue to monitor the Council’s approach to governance at future visits, also continuing our review of minutes.***

- R3. *The appropriate power(s) relied on for approval of donations and grants should be formally recorded in the approving minute. Agreed and now being applied.*

## Review of Expenditure & VAT

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Payments are supported by appropriate documentation, either in the form of an original trade invoice or other form of document confirming the payment as due;
- Members take an active role in reviewing supporting documentation and approving expenditure for release;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure any applicable discount;
- The correct analysis has been applied to invoices when processed; and,
- Expended VAT is appropriately identified for recovery through reclaims prepared and submitted to HMRC quarterly.

We note that an official ordering system continues in place which we consider affords the Council an effective control over procurement with copies of purchase orders married to resultant trade invoices. To ensure compliance with the above criteria, we have now examined an extended sample of 57 payments in the financial year, including all those individual payments in excess of £1,500, together with every 20<sup>th</sup> transaction as recorded in the cashbook in the year. Our test sample totals £157,550 equating to 67% of non-pay related expenditure in the year.

We are also pleased to note the continued use of the certification stamp that is affixed to each purchase invoice also noting that these are initialled by the Chief Officer approving the payment. We also note that a schedule of payments is provided to members at the monthly Council meeting for review and sign-off by two councillors. In discussion with the RFO, we understand that the pre-Covid member review and sign-off of individual invoices has, understandably, not taken place and urged in our interim report that appropriate action be taken to re-implement the check as it affords a greater degree of protection to staff and the Council against any potential erroneous payments occurring.

We note that quarterly VAT reclaims continue to be prepared and have agreed detail of the final 2020-21 and four reclaims for 2021-22 to the underlying Omega control account quarter-end balances with all repaid by HMRC accordingly, including the final quarter reclaim for 2021-22.

### *Conclusions and recommendations*

*Whilst we have no significant concerns in this area, we urged in our interim report that the former process whereby members reviewed and signed-off invoices be reinstated, noting members' decision not to reimplement this additional control.*

*R4. The previously in operation process whereby a nominated councillor formally reviews and signs-off" the purchase invoices should be reintroduced. Members have declined to act on this recommendation.*

## Assessment and Management of Risk

Our aim here is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks to minimise the opportunity for their coming to fruition.

We have examined the Council's insurance cover, which continues to be provided by Zurich Municipal, with Public and Employer's cover in place at £15 million and £10 million respectively, together with Hirer's Liability cover of £2 million and Fidelity Guarantee cover of £1 million, all of which we consider appropriate for the Council's present requirements. We also note that Business Interruption – "Loss of Revenue" cover is in place at £52,000, which we again consider appropriate given the current potential annual level of income at both halls.

We are pleased to note that the formal Risk Register has been subjected to further review with the resultant document adopted by the Council at its meeting in November 2021: we have reviewed the content of the document and consider it appropriate for the Council's present requirements.

We have previously discussed the council's inspection regime for its playground and recreation facilities noting that RoSPA conducts an annual inspection on each of the council's facilities with a separate inspection of outdoor gym equipment where installed. Additionally, the Caretaker and Groundsmen, who are certified to conduct playground inspections by RoSPA, conduct inspections of each facility with detailed written reports produced, together with photographic evidence, detail of which is given to the Health & Safety officer for retention.

### Conclusions

*There are no matters arising in this area of our review warranting formal comment or recommendation. We shall continue to monitor the Council's approach to risk management issues at future visits reporting our conclusions accordingly.*

## Review of Budgetary Control & Reserves

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and the level of precept to be drawn down from the parent Council: also, that an effective reporting and monitoring process is in place. We also aim to ensure that the Council retains appropriate funds in general and earmarked reserves to finance its revenue spending plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

We are pleased to note that, following due deliberation of the Council's budgetary requirements for 2022-23, the Council approved and adopted at its December 2021 meeting a precept of £391,817 for the year.

We note that members continue to routinely be provided with the latest budgetary position, as generated by the Omega Accounts software and have examined the year's final budget outturn report following up on any significant variances. We are pleased to record that appropriate explanations have been identified for these, none of which require further enquiry.

We have also considered the ongoing appropriateness of the Council's overall retained reserves which have reduced marginally to £322,824 (£332,418 at the prior year-end): of that total,

£170,858 is set aside in specified earmarked reserves (EMRs) including CIL moneys of £39,000. The residual General Reserve balance of £153,966 (£94,192 at 31<sup>st</sup> March 2021) equates to approximately 4 months' revenue spending at the 2021-22 level and sits comfortably within the generally recognised holding of between 3 and 12 month's revenue spending.

### ***Conclusions***

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

## **Review of Income**

The Council has relatively limited sources of income in addition to the annual precept primarily from CIL monies, various grants and donations, VAT reclaims, bank interest, hire of the halls and sports pitches: the latter are based on an annually agreed sum, paid monthly by direct credit to the Council's current bank account.

We have assessed the controls in place over the booking of the two halls, noting use of the Rialtas electronic bookings system. We have duly examined a sample of two weeks (end of October 2021) recorded bookings for both the Jubilee and Napier Halls ensuring that each was supported by a signed booking form and that fees and charges have been levied and recovered in accordance with the approved scale of fees and charges.

In discussion with the RFO we understood that hall hirers were not signing any formal hire agreement confirming acceptance and understanding of the terms of hire and suggested that, to afford further protection to the Council in the event of any damage to either venue, either wilful or accidental, an appropriately designed agreement form should be signed by all hirers: regular hirers would only require signing either on a change in organiser or at annual intervals.

We reviewed the football pitch hire agreements previously considering the terms and conditions appropriate with no issues arising: we have, at this final update review, ensured recovery of the monthly agreed hire fees for the year for the clubs hiring the venue.

We have examined the Sales Ledger – “Unpaid invoices by date” report at the financial year-end and are pleased to note that there are no long-standing debts (i.e., more than 2 months' old) at that date.

We are pleased to note that hall deposits are coded appropriately as a liability pending their repayment, also noting that a separate control record is maintained identifying depositors and the refunds: we also note that the control record has been appropriately reconciled to the Omega control account at the financial year-end.

Finally in this area, we have also examined the Rialtas detailed income transaction reports for the financial year, to ensure that, as far as we are able, no apparent mis-postings have occurred and that all income due to date has been brought to account appropriately.

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

***Whilst no significant concerns have been identified, we consider that hirers of the halls should sign an appropriately designed Hire Agreement form confirming understanding and acceptance of the Hire Terms and Conditions.***

- R5. *Consideration should be given to ensuring that all hirers sign a formal hire agreement confirming their understanding and acceptance of the Council' Terms and Conditions of hire. The following sentence was agreed for inclusion in the hire Ts & Cs. "In providing payment of the hall hire deposit, it is deemed to be your acceptance of the Terms and Conditions".*

## **Petty Cash Account**

*The Council does not operate a petty cash account, any incidental expenses incurred by staff being reclaimed and repaid monthly or as appropriate: consequently, we shall assign a "Not applicable" response to this section of the year's IA Certificate in the AGAR.*

## **Review of Staff Salaries**

In examining the Council's payroll function, we aim to confirm that extant legislation is observed appropriately 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.

The Council continues to outsource the preparation of the monthly payroll to a local company, Watling & Hirst, who provide a full service including the provision of appropriate supporting detail of individuals' gross monthly payments due, including overtime, etc. and tax, NI and pension deductions applying. Officers prepare a monthly summary schedule of any overtime or enhanced payments due to individual officers, which is provided to the payroll bureau for production of the monthly payroll.

We thank the RFO for providing a detailed schedule of each staff member's basic gross salary, contracted working hours and other relevant detail, which we have used to verify the accuracy of detail in the October 2021 payroll run documentation.

We have also verified, by reference to the October 2021 payslips, detail of that month's deductions for each employee in respect of tax, NI and pensions, together with the respective employer's contributions, by reference to the current year's HMRC Database and LG Pension scheme detail of percentage rates.

We have also ensured the accuracy of individual staff net salary payments and total payments to HMRC and the Pension Fund Administrators as recorded in the cashbooks for October 2021 by reference to payroll bureau provider's records

### **Conclusions**

*We are pleased to record that no issues arise in this review area warranting formal comment or recommendation.*

## **Fixed Asset Register**

The Governance and Accountability Manual requires councils to develop and maintain a register of all assets. The Annual Return requires disclosure of the value of assets retained by the Council as at 31<sup>st</sup> March, annually, with a revision to the reporting detail issued in 2010 that requires asset values to be reported at cost price or, where that value is unknown, the prior year Annual Return value updated to reflect the cost of any new acquisitions or deletions / disposal.



The Council continues to manage its Asset Register in an Excel spreadsheet as developed by the RFO. We have previously commented on the exceptional quality of this register and note that this system continues to be used accurately and effectively.

We have ensured that the overall asset values for 2021-22 have been correctly reported for in Box 9, Section 2 of the Accounting Statements in accordance with the RFO's detailed spreadsheet records after accounting for new acquisitions in the year and any disposals.

### ***Conclusions***

***We are pleased to report that there are no matters arising in this area of our review warranting formal comment or recommendation.***

## **Review of Investments and Loans**

The Council has, as indicated above, placed surplus funds in two bank accounts, one of which received monthly interest, whilst the other only reflects the monthly £7 bank charge with no other transactions occurring in the year on that account. Consequently, we have suggested that consideration be given to possible alternative banks for holding surplus funds where no charges might arise, although we are aware that High St banks are not being very pro-active currently in assisting the opening of new bank accounts.

We note that the Council has re-adopted its Investment Policy at the August 2021 Council meeting and have reviewed its content considering that it remains appropriate for the Council's present situation.

We note repayment of the two half-yearly loan repayments to the UK Debt Management Office of the Council's outstanding loan for 2021-22 and have also, at this final review, verified the accurate disclosure of the residual loan liability in the AGAR at Section 2, Box 10.

### ***Conclusions***

***There are no additional issues arising in this area of our review warranting formal comment or recommendation, other than that set out in R1 above, which we note members have declined to action.***

## **Statement of Accounts & AGAR**

The Council's annual Statement of Accounts have, as in previous years, been prepared from the Rialtas accounting software. We have checked and agreed, by reference to the accounting system's closing Trial Balance and other relevant documents, the content of the Statement of Accounts as set out in Section 2 of the AGAR.

### ***Conclusions***

***We are pleased to record that no issues arise in this area and, on the basis of the work undertaken during the course of our review for the year, we have "signed off" the IA Certificate in the year's AGAR assigning positive assurances in all areas.***

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Rec. No.	Recommendation	Response
<b>Review of Expenditure and VAT</b>		
R1	Consideration should be given to closure of the Lloyds bank account with the possibility of placing funds in another banking institution where no monthly fee is payable for retaining the funds.	<i>Members have declined to act on this recommendation.</i>
R2	The councillor checking bank reconciliations periodically should, ideally, also be confirming agreement of the month-end cashbook balances, ideally, signing-off the printed month-end Trial Balance accordingly in addition to the bank reconciliations and statements.	<i>Agreed and implemented in part, although members do not consider it necessary to evidence their confirmation of cashbook balances by signing-off the cashbooks or Trial Balance.</i>
<b>Review of Corporate Governance</b>		
R3	The appropriate power(s) relied on for approval of donations and grants should be formally recorded in the approving minute.	<i>Agreed and now being applied.</i>
<b>Review of Expenditure &amp; VAT</b>		
R4	The previously in operation process whereby a nominated councillor formally reviews and signs-off? the purchase invoices should be reintroduced.	<i>Members have declined to act on this recommendation.</i>
<b>Review of Income</b>		
R5	Consideration should be given to ensuring that all hirers sign a formal hire agreement confirming their understanding and acceptance of the Council' Terms and Conditions of hire.	<i>The following sentence was agreed for inclusion in the hire Ts &amp; Cs. "In providing payment of the hall hire deposit, it is deemed to be your acceptance of the Terms and Conditions".</i>