

Horndean Parish Council

Internal Audit Report 2022-23 (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 2022-23 financial year both at our offices in advance of and during our two visits to the Council which took place on 31st October 2022 and 5th June 2023.

Internal Audit Approach

In conducting our review for 2022-23 and in accordance with the requirements of the IA Certificate in the AGAR and the latest edition of the JPAG Practitioner's Guide we have again 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 officers, which 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: we note that these have been considered by the Council, with the decision again taken to retain the Lloyds bank account.

Based on the overall satisfactory conclusions drawn from our review programme and testing of transactions for the year we have duly signed off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area.

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 therein, 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 remain in use currently: -

- ❖ Co-op Bank – used for all day-to day transactions;
- ❖ Lloyds Bank – no transactions in year, other than a monthly £7.00 service charge;
- ❖ Cambridge and Counties Bank – only monthly interest credited in 2022-23.

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

- Agreed the opening balances in the year's financial ledger with that in the 2021-22 Statement of Accounts and certified AGAR;
- 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 & September 2022, plus January and March 2023) cashbook 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 supporting bank statements;
- Agreed detail of the month-end bank reconciliations on all accounts at 30th April and September 2022 and 31st March 2023; 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 quarterly, also noting that, following our previous recommendation, the bank statements and Omega Trial Balance are also now being printed and signed-off

Conclusions and recommendations

We are pleased to acknowledge that , following our interim report, appropriate action is now being taken to review and sign-off both bank reconciliations and the Omega Trial Balance periodically during the year.

We also note that members have again rejected our recommendation that the Lloyds bank account be closed thereby saving the taxpayer £84 per annum in bank charges.

R1. Further consideration should be given to closure of the Lloyds bank account, which is effectively lying dormant and costing the Council / taxpayer £84 per annum to retain. Members have reconsidered this matter and determined to retain the account.

R2. The councillor checking bank reconciliations periodically should also be verifying / agreeing the month-end cashbook balances by reference to the Trial Balance at that time, ideally also signing-off that document in addition to the bank reconciliations and statements. This is now being actioned accordingly.

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 2022. We take this opportunity to advise the Council of recent clarification on the financial value at which tenders must be formally advertised on the Government's Contract Finder website. That value has now been clarified as £30,000 including VAT; we urge that the Council updates its SOs and FRs accordingly when they are next reviewed.

We have reviewed the full Council and Committee meetings' minutes for the year and to date in 2023-24 as posted on the website and provided in hard copy format during our final visit, excluding those pertaining to Planning issues, to ensure that no matters 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 2021-22 AGAR without comment or qualification and that the Council complied with the disclosure requirements in relation to publicising the Notice of Public Rights to examine the Council's financial records.

Conclusions

We note that the Council has awarded a number of grants in the year to date, detail being appropriately recorded in the minutes as approved under Section 137 of the LG Act 1974.

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

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 are pleased to 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 examined a sample of 69 payments in the financial year, including all individual payments in excess of £1,500, together with every 20th transaction as recorded in the cashbook in the year to that date. Our test sample totals £132,100 equating to 57% of non-pay related expenditure in the year.

We are also pleased to note the continued use of the certification stamp which is affixed to each purchase invoice also noting that the Chief Officer initials these approving the payment. We also note that a schedule of payments continues to be provided to members at the monthly Council meeting for their review and sign-off, which is clearly evident from the filed documentation provided for our examination.

We note that quarterly VAT reclaims continue to be prepared and have agreed detail of the final 2021-22 and all reclaims for 2022-23 to the underlying Omega control account quarter-end balances with all repaid by HMRC accordingly.

Conclusions

We are pleased to record that no issues arise in this area this year warranting formal comment or 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 schedule with Zurich for 2022-23 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 also consider appropriate.

We are again pleased to note that the Council's Risk Register has been subjected to further review and re-adoption by the Council at its meeting in January 2023: we have reviewed the content of the document and consider that it remains 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 fitted. 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

We are pleased to report that there are no issues arising in this review area this year: 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 2023-24, the Council approved and adopted at its December 2022 meeting a precept of £449,189 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 by reference to those Omega nominal account codes. 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 increased marginally to £325,688 (£322,824 at the prior year-end): of that total, £183,800 is set aside in specified earmarked reserves (EMRs) including CIL moneys of £39,196. The residual General Reserve balance of £141,888 (£153,966 at 31st March 2022) equates to approximately 3½ months' revenue spending at the 2022-23 level and sits 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 two halls and sports pitches, the last of which 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 (commencing Monday 19th September 2022) recorded bookings for both the Jubilee and Napier Halls ensuring that appropriately priced invoices have been raised and that they have been settled promptly: the Finance Assistant records the payment receipt date on the invoices: we are pleased to record that none of our test sample remain unpaid at the financial year-end.

In discussion with the RFO we understand that hall hirers are not signing any formal hire agreement confirming acceptance and understanding of the terms of hire and suggest that, to afford further protection to the Council in the event of any damage occurring to the venues, either wilful or accidental, an appropriately designed agreement form should be signed by all hirers. We note that, following our prior year recommendation, the following sentence has been agreed for inclusion in the hire Terms & Conditions - "In providing payment of the hall hire deposit, it is deemed to be

your acceptance of the Terms and Conditions”. We consider this an appropriate alternative form of wording.

We have also reviewed the football pitch hire income as recorded in the Omega accounts at this final update review ensuring recovery of the monthly agreed hire fees for the year, also noting that one of the two hirers had neglected to update their standing order before the financial year-end to reflect the revised charges applying from 1st January 2023. We understand that they have now amended their monthly payment, also settling the arrears due from 1st January. .

We have examined the Sales Ledger – “Unpaid invoices by date” report as at the financial year-end and are pleased to note that no invoices remain unpaid for an undue length of time. Finally in this area, we have examined the Rialtas detailed income transaction reports for the financial year, to ensure that, as far as we are reasonably able, no apparent mis-postings have occurred and that all income due to date has been brought to account appropriately.

Conclusions

No issues have been identified in this area currently warranting formal comment or recommendation.

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.

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 who provide a full service including the provision of appropriate supporting detail of individuals’ gross monthly payments due, including overtime, etc. together with detail of tax, NI and pension deductions applying.

Employees working overtime and / or claiming mileage expenses complete a monthly time / mileage sheet which is reviewed and signed-off by the Chief Officer confirming appropriateness for payment. The RFO then prepares a monthly summary schedule of any such overtime or enhanced payments due to individual officers, together with payable mileage, which is provided to the payroll bureau for inclusion 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 2022 payslips provided by the bureau, also agreeing any enhanced / overtime hours and mileage expenses to the supporting monthly time / expense sheets.

We have also verified, by reference to the October 2022 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.

Conclusions

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

Fixed Asset Registers

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 31st 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 / disposals.

The Council continues to manage its Asset Register in an Excel spreadsheet. We have previously commented on the quality of this register and note that this system continues to be used accurately and effectively with the register also including photographic evidence of the individual assets existence.

We have ensured that the overall asset value recorded in the asset register as at 31st March 2023 has been correctly reported in Box 9, Section 2 of the AGAR in accordance with the RFO's detailed spreadsheet record taking account of the year's new acquisitions 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 receives monthly interest, whilst the other with Lloyds attracts a monthly £7 service charge with no other transactions occurring during the financial year. Consequently, we again suggested in our interim report for the year that consideration be given to possible alternative banks for holding surplus funds where no charges might arise. We have noted at other clients the recent increases in interest now being earned on deposits in appropriate banks such as the Hampshire Trust Bank and CCLA Deposit Fund and urge that the Council continues to monitor investment opportunities. We again suggest that the Council considers the placement of part of the available surplus funds in alternative banking institutions thereby attracting a reasonable rate of interest.

We noted last year that the Council re-adopted its Investment Policy at the August 2021 Council meeting and reviewed its content considering that it remained appropriate for the Council's present situation.

We have verified the two half-yearly repayments to the UK Debt Management Office of the Council's outstanding loan for 2022-23 as part of our above review of a sample of payments and have now, at this final review visit, ensured the accurate disclosure in the AGAR at Section 2, Box 10 of the residual loan liability at 31st March 2023 by reference to the UK Debt Management Office "audit advice" notification.

Conclusions

We are pleased to record that there are no issues arising in this area of our review warranting formal comment or recommendation, although we urge that the Council continues to monitor investment opportunities whilst endeavouring to avoid wasteful monthly bank charges on the effectively dormant Lloyds bank account.

Statement of Accounts & AGAR

The Council's annual Statement of Accounts are, as in previous years, generated automatically by the Rialtas Omega accounting software, together with the accounting detail for inclusion in the AGAR at Section 2, excluding the asset and outstanding loan liability values. We have, consequently, ensured the accurate recording of those values for submission to the external auditors by reference to the underlying Omega and other records, as reported above in this report.

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.

Rec. No.	Recommendation	Response
Review of Expenditure and VAT		
R1	Further consideration should be given to closure of the Lloyds bank account, which is effectively lying dormant and costing the Council / taxpayer £84 per annum to retain.	<i>Members have reconsidered this matter and determined to retain the account.</i>
R2	The councillor checking bank reconciliations periodically should also be verifying / agreeing the month-end cashbook balances by reference to the Trial Balance at that time, ideally also signing-off that document in addition to the bank reconciliations and statements.	<i>This is now being actioned accordingly.</i>