



## **Horndean Parish Council**

*Internal Audit Report 2023-24 (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 2023-24 financial year both at our offices in advance of and during our two visits to the Council which took place on 6<sup>th</sup> November 2023 and 20<sup>th</sup> May 2024, together with work at our offices both in advance of and following those visits.

## **Internal Audit Approach**

In conducting our review for 2023-24 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 one minor matter was identified at our interim visit for the year warranting a recommendation, which we are pleased to note has been actioned, although we have identified one further Castle Water invoice (December 2023) where VAT has again been charged in error by the company. The RFO has agreed to follow this up accordingly.

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 and Sales Ledger and Bookings modules. Four bank accounts are in use currently: -

- ❖ Co-op Bank – used for all day-to day transactions;
- ❖ Co-op Select 14-day deposit - £50k deposited in 2023-24;
- ❖ Lloyds Bank – no transactions in year to date, other than the ongoing monthly £7 service charge;
- ❖ Cambridge and Counties Bank with monthly interest credited in 2023-24.

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

- Agreed the opening balances in the year's financial ledger with those in the 2022-23 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 2023, plus January and March 2024) cashbooks by reference to supporting bank statements;
- Checked and agreed detail of transactions on the other three account cashbooks for the full financial year due to their low volume again by reference to supporting bank statements;
- Agreed detail of the month-end bank reconciliations on all accounts at 30<sup>th</sup> April and September 2023, plus March 2024; 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 again 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 are also now being signed-off.

#### *Conclusions*

*We are pleased to record that no issues arise in this area this year 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 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 again been reviewed, both being re-adopted unchanged at the Annual Council meeting held in May 2023.

We have reviewed the full Council and Committee meetings' minutes for the year as posted on the website or provided during our onsite visit, 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 2022-23 AGAR without comment or qualification, also noting the appropriate publication of a Notice of Public Rights to examine the Council's financial records for the requisite 30 working days.

### **Conclusions**

*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 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 78 payments in the financial year, including all those individually in excess of £1,000, together with every 20<sup>th</sup> transaction as recorded in the cashbook in the year to date. Our test sample totals £256,250 equating to 63% by value of non-pay related expenditure in the year with no issues arising.

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 have also examined a tranche of the documentation relating to the Playground equipment replacement tender for Five Heads Rd Recreation Ground and are pleased to note, inter alia,

compliance with the requirement to publicise the tender on the Government's Contract Finder website with no issues arising from our limited review of the tendering process.

In examining our sample of payments at our interim visit, we noted an instance where VAT had been charged on a Castle Water invoice. As far as we are aware, the supply of water is a non-vatable service: consequent on identifying that apparent anomaly, we examined all Castle Water invoices paid to the date of our interim visit identifying one further invoice where VAT had been charged. We referred these to the RFO suggesting that Castle Water be contacted and the charging of VAT totalling £119.06 on the two invoices be queried. We are pleased to note that Castle Water amended the invoices accordingly: we have, however, identified a further invoice dated 8<sup>th</sup> December 2023 on which VAT was charged. We have drawn this to the attention of the RFO who has agreed to follow up accordingly.

We note that quarterly VAT reclaims continue to be prepared and have agreed detail of the reclaims for 2023-24 to the underlying Omega control account quarter-end balances with all repaid by HMRC accordingly, including the March 2024 quarter's which was repaid in early April.

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

***We are pleased to record that we have no significant concerns in this area, although as indicated above, we urge that Castle Water be challenged on the charging of VAT on the identified invoices...***

***R1. Castle Water should be contacted to establish the basis for charging VAT on the supply of water to Council premises on the two invoices where VAT is recorded. This has been actioned with Castle Water reimbursing the VAT element charged in error.***

## **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 2023-24 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 February 2024: 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 Groundsmen, who are certified to conduct playground inspections by RoSPA, also 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 2024-25, the Council approved and adopted at its December 2023 meeting the budget and precept setting the latter at £469,786 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 the related 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 £368,783 (£325,688 at the prior year-end): of that total, £185,615 is set aside in specified earmarked reserves (EMRs) including CIL moneys of £71,465. The residual General Reserve balance of £183,168 (£141,888 at 31<sup>st</sup> March 2023) equates to approximately 3 months' revenue spending at the 2023-24 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 arising from CIL monies, various grants and donations, VAT reclaims, bank interest, hire of the two halls and sports pitches, the last of which is based on annually agreed fees paid monthly, 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' bookings (commencing Monday 17<sup>th</sup> July 2023) as recorded in the booking system for both the Jubilee and Napier Halls ensuring that appropriately priced invoices have been raised and that they have been settled promptly: we are again pleased to note that the Finance Assistant records the payment receipt date on the invoices thereby providing a clear audit trail.

We have also reviewed the football pitch hire income as recorded in the Omega accounts ensuring recovery of the monthly agreed hire fees for the year also noting that two clubs are now hiring the pitches with both paying the fees due each month.

We have examined the Sales Ledger – “Unpaid invoices by date” report as at 31<sup>st</sup> March 2024 and are again pleased to note that apart from one invoice issued in February 2024, only invoices raised in March remained unpaid at the financial year-end. We have also 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 the Council 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 / payment with the monthly salaries.

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 2023 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 2023 payslips, detail of that month’s deductions for each employee in respect of tax, NI and pensions (where applicable), together with the respective employer’s contributions, by reference to the relevant current year’s HMRC tax & NI tables and the LG Pension scheme percentage rates.

We have at this final visit, ensured the accuracy of individual staff net salary payments and the total payments to HMRC and the Pension Fund Administrators as recorded in the cashbooks for October 2023.

### *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 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 AGAR 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 noted previously the comprehensive nature of the register, including photographic evidence of the individual assets' existence. We have examined the overall summary sheet which records detail of new in year acquisitions and disposals with the updated year-end value duly confirmed as accurately recorded in the AGAR at Section 2, Box 9.

### *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 in the earlier section of this report, placed surplus funds in two bank accounts, one of which receives monthly interest, whilst the other has only generated one interest receipt in the year. We are also pleased to note that the Council reviewed and re-adopted its Investment Policy at the May 2023 Council meeting, the content of which we have reviewed and consider remains appropriate for the Council's present requirements.

We have verified the two half-yearly repayments to the UK Debt Management Office of the Council's outstanding loan for 2023-24 as part of our above payment review and have now, at this final review visit, also ensured the accurate disclosure in the AGAR at Section 2, Box 10 of the residual loan liability at 31<sup>st</sup> March 2024 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.*

## **Statement of Accounts & AGAR**

The Council's annual Statement of Accounts is, 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 all 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, based on 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
<b>Review of Expenditure and VAT</b>		
R1	Castle Water should be contacted to establish the basis for charging VAT on the supply of water to Council premises on the two invoices where VAT is recorded.	<i>This has been actioned with Castle Water reimbursing the VAT element charged in error.</i>