

Hannington Parish Council

Internal Audit Report 2023-24

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*For and on behalf of
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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 AGAR.

This report sets out the work undertaken in relation to the 2023-24 financial year. We have again undertaken our review for this period remotely: we wish to thank the Chair and the new Clerk for assisting the process, providing some documentation in electronic format to facilitate our review for the period and sign off of the Internal Audit Certificate in the 2023-24 AGAR. We note that, as this report has necessarily been concluded after the official reporting date of 30 June, the Council has received an extension of time from the External Auditor.

Internal Audit Approach

In undertaking our review we have had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts. Where we have not been able to obtain clear documentary evidence we have relied on the assurances of the Council Chairman.

This report summarises our conclusions on each of the key areas set out in the Internal Audit Report that is required under the Annual Return arrangements. Issues requiring attention have been detailed throughout this report.

Overall Conclusion

We have noted improved governance and control by the Council during 2023-24 against earlier years, although we still note some significant concerns resulting in two negative assurances (relating to the Exercise of Public Rights and the annual risk review), which the Council is required to acknowledge in its AGAR Governance Statement (Section 1). These are issues that we have commented on in earlier years.

On balance, we have decided not to make any formal recommendations this year. However, this report contains a number of observations designed to improve the Council's governance procedures, which we would advise Council to take careful note of and properly action.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Clerk records the Council's accounting transactions (cashbook) using an Excel spreadsheet. A single Current Account is in operation with Lloyds Bank, although excess funds were moved into a Fixed Term Deposit Account during the year (see below). Given the small number of transactions, we have verified all cashbook transactions to the bank statements with no issues arising.

The cashbook is kept at a very basic level, providing little detail of transactions. We would again suggest that a columnar analysis is introduced, to enable Council to clearly see progress against approved budgets, and support calculation of the annual AGAR Accounting Statement.

We note sufficient evidence in the Council's Minutes to show that regular bank reconciliations are undertaken. We also note that the cashbook pages entered on the Council's website show evidence of approval by Councillors.

Conclusions

No issues arise in this area warranting formal comment or recommendation, other than our observation about improved analysis of cashbook transactions.

Review of Corporate Governance

Our objective here is to ensure that the Council has a robust regulatory framework in place to ensure that Council meetings are conducted in accordance with the adopted Standing Orders and that, as far as we are 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 have reviewed the Council's Minutes for meetings held during the financial year to determine whether or not any issues exist or may be developing that might have an adverse effect on the Council's future financial stability, whilst also ensuring that no decisions have been made or are being considered that might result in *ultra vires* expenditure being incurred.

We note that Standing Orders were reviewed in May 2024, and are now based on the NALC Model Form. However, the Financial Regulations are still based on an out-of-date version, and the current version should be obtained from Hampshire ALC, reviewed and approved. With regard to tendering levels, Standing Order 18a(v) shows a level of £25,000, which is the NALC default figure and is inappropriate for a Council of this size. We would suggest that a figure of £5,000 would be more appropriate, which needs to be mirrored in Financial Regulation 10.1h.

The Council is subject to the requirements of the Transparency Code 2015 for Smaller Authorities. We note a reasonable level of compliance with this Code on the Council's website, including cashbooks, copies of approved invoices, relevant Policies and an Asset Register.

We have concluded that the Exercise of Public Rights with regard to the 2022-23 Accounts was incorrectly undertaken during the year, as it only covered the first 10 working days of July and not the full 30-day period. This requires the Council to (again) make a negative assurance at Section 1 (Governance Statement), Assertion 4 of the 2023-24 AGAR.

Conclusions

No issues arise in this area warranting formal comment or recommendation, other than our observation about updating Financial Regulations, applying more appropriate tendering limits, and ensuring that the Exercise of Public Rights is properly undertaken.

Review of Payments and VAT

We seek to ensure that the following procedures have been met:

- Payments were supported by a trade invoice or acknowledgement of receipt;
- VAT has been calculated correctly and is recovered at appropriate intervals.
- The Council has approved each payment.
- Payments have been correctly analysed in preparation of the year-end Statement of Accounts.
- Section 137 payments have been identified in the cashbook and are within the Council's spending limit.

We note evidence on the Council's website of paid invoices, showing certification by Councillors.

We note that a VAT reclaim was submitted during the year in the sum of £757.73, covering transactions from September 2021 to November 2023. We presume that the Council has concluded that outstanding VAT transactions before September 2021 are irrecoverable due to a lack of supporting documentation – if this is the case, the decision should be formally minuted.

We have not indentified any relevant expenditure against Section 137 of the Local Government Act 1972 in our review of payments made during 2023-24.

Conclusions

No issues arise in this area warranting formal comment or recommendation, other than our observation about formally writing off any recovery action over unclaimed VAT before September 2021.

Assessment and Management of Risk

While we have been informed that the Council has considered a Risk Assessment during the year under review, we can see no evidence in the Council's Minutes that such a review has been formally concluded and approved. An annual review, as a minimum, is a requirement of Financial Regulations, and is a key assertion on the AGAR (Section 1, Assertion 5), which the Council must report as a negative.

The Council's insurance cover is arranged through Clear Councils, with a renewal date of 8 December 2024. We have reviewed the renewal schedule noting that Employer's and Public Liability cover are each in place at £10 Million respectively, Fidelity Guarantee cover at £50,000, and Officials Indemnity cover set at £500,000, all of which we consider appropriate for a Council of this size. We again note, however, that there is no cover provided for the Council's assets.

Conclusions

No issues arise in this area warranting formal comment or recommendation, other than our observation about the lack of a formal risk review during 2023-24, and the need to ensure that the Council's assets are properly insured (which we referred to in our 2022-23 report).

Budgetary Control and Reserves

The Council's Minutes for December 2023 show that the Council formally agreed the 2024-25 Precept at £7,324. While a detailed budget is available on the Council's website, as commented above the cashbook does not show sufficient analysis to manage spend against agreed budget lines.

The agreed budget shows Earmarked Reserves (5 items) of £10,000. Given the bank balance at 31 March 2024 of £17,086, this leaves a General Reserve of £7,086 for unforeseen expenditure. This represents 96.75% of the approved Precept, against a Best Practice figure of around 50%, and has been steadily increasing for some years. This increasing level of Reserve needs to be kept under review.

Conclusions

No issues arise in this area warranting formal comment or recommendation, other than our observation about keeping the Council's balances under review to ensure that they remain appropriate to the Council's needs and plans.

Review of Income

The Council received no income during 2023-24 apart from the annual Precept, a VAT reclaim, and a small payment from the Borough Council for which no supporting information is available. These have all been reconciled to the bank account.

Conclusions

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

Petty Cash Account

The Council does not operate a petty cash account. Therefore, no issues arise in this area warranting formal comment or recommendation.

Salaries and Wages

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the requirements of HMRC in the deduction and payment over of income tax and NI contributions.

We note that the new Clerk runs her own business, and invoices the Council for her services at a rate of £1,000 per quarter, which is paid gross. This leaves the Council vulnerable should such staffing costs not be properly declared for tax purposes to HMRC. We understand that the Council has received an indemnity from the Clerk that appropriate declarations will be made, and we will confirm this as part of our 2024-25 review.

Conclusions

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

Asset Register

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. These need to be valued at net cost or, where this cannot be identified, using a suitable valuation method that can be a nominal £1.

We have been provided with an Asset Register as at 31 March 2024. We believe this register broadly meets the requirement, although we note that some assets are still recorded at zero value. We also note that the laptop held by the previous Clerk has been written off as irrecoverable.

We have noted above our concern about the lack of insurance for the Council's assets.

Conclusions

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

Investments and Loans

During the year the Council invested £13,000 of surplus funds in a Lloyds Bank Fixed Term Deposit, which we have confirmed to the accounting records.

Conclusions

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

Statement of Accounts and Annual Return

The Accounts and Audit Regulations, as amended periodically, require all councils to prepare annually a Statement of Accounts, which is in the form of the Annual Governance and Accountability Return at Section 2, which is, together with the Annual Governance Statement at Section 1, subject to independent external audit examination and certification.

We have noted above areas of concern which should be reflected in the 2023-24 AGAR Governance Statement (Section 1).

We note that the Clerk has calculated the Section 2 (Accounting Statement) totals of the 2023-24 AGAR to the penny, whereas Government Accounting requires calculation to the nearest £1. Care should be taken to ensure that the figures agree in total, taking account of rounding errors.

Conclusion

We have duly signed-off the Internal Audit Certificate in the 2023-24 Annual Return assigning appropriate assurances in each relevant area.

Action Plan

Rec. No.	Recommendation	Response
No Formal Recommendations made		