

## **Hurst Green Parish Council**

*Internal Audit Report 2020-21*

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## **Background**

The Accounts and Audit Regulations introduced from 1<sup>st</sup> April 2001 require all Town and Parish Councils to implement 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).

Due to the impact of the Covid-19 pandemic, we have again undertaken our review for the year remotely: we wish to thank the newly appointed Responsible Financial Officer (RFO) for assisting the process, providing all necessary documentation in electronic format to facilitate completion of our review for the year and sign-off of the IA Certificate in the year's AGAR. We have, as in previous year's reviews, ensured that the Council's governance and financial controls remain effective.

This report sets out the work undertaken in relation to the 2020-21 financial year during the course of our audit which has been completed on 23<sup>rd</sup> June 2021.

## **Internal Audit Approach**

In undertaking our review, 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 again been designed to afford appropriate assurance that the Council's financial systems remain 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 'IA Certificate' in the Council's AGAR, which requires independent assurance over a number of internal control objectives.

## **Overall Conclusion**

We have concluded that, based on the generally satisfactory conclusions drawn from our review programme, the Council has again operated adequate and effective internal control arrangements during the year.

We have duly completed and signed the IA Certificate in the year's AGAR, having concluded that, in virtually all significant respects, the control objectives set out in that report were being achieved throughout the financial year to a standard adequate to meet the needs of the Council. However, we have been unable to verify that the 2019-20 AGAR and signed external audit certificate / report were posted on the Council's website or that the Notice of Public Rights to examine the Council's records for that year have similarly been posted and will, consequently, have to assign negative assurances at Boxes M & N of the IA Certificate.

We therefore take this opportunity to remind officers and councillors of the mandatory requirement, as set out in the preface to the year's AGAR to post all relevant information on the website in accordance with the timelines set out therein.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

The Responsible Financial Officer (RFO) former and recently appointed have maintained the Council's accounting records in spreadsheet format, which we consider an appropriate media given the level of annual transactions, although with the ever-increasing activity and volume of transactions the Council may wish to consider acquiring appropriate accounting software such as the RBS Rialtas or Scribe systems, both of which are used by a significant proportion of local councils nationally. The Council has continued to operate three bank accounts with HSBC during the year. Consequently, we have: -

- Checked and ensured the accuracy of the year's opening balance in the 2020-21 cashbook with that reported in the certified AGAR for 2019-20 and closing bank reconciliation for that year;
- Ensured that appropriate use is made of analysis columns in the cashbook to facilitate budget monitoring and reporting, together with providing information for disclosure in the year's AGAR;
- Ensured that the accounts remain 'in balance' at the financial year-end;
- Checked and agreed all transactions in the spreadsheet cashbook for the financial year to supporting bank statements;
- Noted that the Council hold three bank accounts with HSBC;
- Checked that bank reconciliations are prepared on a regular basis;
- Verified the accuracy of detail in the bank reconciliation as at 31<sup>st</sup> March 2021; and
- Ensured the accurate disclosure of the combined bank accounts in the AGAR at Section 2, Box 8.

### Conclusions

*We are pleased to report that there are no significant issues arising in this area of our review process this year. We are pleased to note that, in accordance with the recently adopted revised Financial Regulations (FRs) the newly appointed RFO is providing members with a raft of financial information at each meeting, including bank reconciliations which are duly reviewed and signed-off. We suggest that, in addition to signing-off the reconciliations, the relevant bank statements should also be signed-off and date confirming their appropriate examination by the reviewer.*

- R1. In addition to reviewing and signing-off the bank reconciliations, the supporting bank statements should also be signed and dated as evidence of their examination and agreement to the bank reconciliations Adopted FRs para 2.2 refers).*
- R2. Given the increasing volume of transactions, the Council should consider acquiring an appropriate accounting package such as those provided by RBS Rialtas or Scribe, which are used by a majority of Councils nationally.*

## 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 may ascertain as we do not attend meetings, no actions of a potentially unlawful nature have been or are being considered for implementation.

We have examined the minutes of Council meetings for the financial year and to date in 2021-22, as posted on the Council's website to ensure that no issues either exist currently or are developing that may have an adverse effect on the Council's financial standing: we have also sought to ensure that, as far as we are reasonably able to ascertain as we do not attend meetings, no actions are planned or have taken place that may be of an ultra vires nature and place the Council at risk of criticism or possible financial penalty.

We have noted previously that both SOs and Financial Regulations (FRs) were reviewed and readopted by Council at their meeting in July 2017. We are pleased to note that both have been subject to detailed scrutiny and now brought into line with the latest NALC model documents, both being re-adopted at the Annual Meeting held in May 2021. We are also pleased to note that both incorporate the requirements of the Public Contracts Regulations with regard to the advertising of contracts exceeding £25,000 on the Government's Contract Finder website.

We note that the 2019-20 external audit report includes various references to non-compliance with the timing of relevant disclosure requirements for that year indicating that the Council will have to give a negative response at Box 4 of the 2020-21 Governance Statement in this year's AGAR. We have examined the Council's website noting that financial information in respect of 2018-19 and prior years is posted, but with no information relating to 2019-20 posted, nor is posting of the Notice of Public Rights in evidence. We therefore remind officers and councillors of the need to ensure compliance for 2020-21 with the mandatory disclosure requirements as set out in the preface to the year's AGAR and will, consequently, also have to assign negative assertions at Boxes M & N of the IA Certificate in the year's AGAR.

We understand that the Council has been experiencing difficulties in getting the new website up and running in an appropriate manner to ensure that all financial information is disclosed appropriately, which, together with the impact of Covid has also affected the Council's ability to comply with all necessary disclosure requirements. We also note that work to update the website is ongoing.

### *Conclusions and recommendations*

***As indicated above, the Council will have to give a negative assertion at Box 4 of the 2020-21 Governance Statement, as will we at Boxes M & N of the IA Certificate.***

- R3. The Council must ensure compliance with the advertising and timing requirements for publishing the Notice of Public Rights to inspect the Council's records in its website.*
- R4. The Council must also ensure that all relevant financial detail is appropriately disclosed in the website in future years, also ideally, posting information in relation to 2019-20 as soon as practicable.*

## Review of Payments

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 appropriate form of document confirming the payment as due and/or an acknowledgement of receipt, where no other form of invoice is available;
- Members have met their fiduciary duties approving release of each payment in accordance with extant legislation;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct analysis has been applied in the spreadsheet cash book to invoices when processed; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have examined the transactions in the cash book for the whole year to ensure compliance with the above criteria and are pleased to record that the above criteria have been met appropriately.

We have previously expressed our concern that paid invoices contain no evidence of member review and, with this in mind, we again recommend that a suitably designed rubber authorisation stamp be acquired and is placed on each and every payment voucher with members duly signing off the certificate confirming both their review of the invoices and also approval for release of the payments. The clerk or RFO should also initial the stamp confirming receipt of the goods or serves and indicating confirmation of the arithmetic accuracy of the invoice. We consider the use of such a certification stamp not only a useful tool for members to demonstrate the effective exercise of their fiduciary responsibilities, but also to afford a degree of security for officers in the event that any fraudulent activity may occur on the Council's bank account, especially following the move to electronic banking, as such an eventuality might initially result in the finger of guilt being pointed at the Clerk and / or RFO.

We are pleased to note that the RFO has submitted manual VAT reclaims to HMRC for the year to 31<sup>st</sup> December 2020. We have checked and agreed these submissions to the underlying cashbook and control account balance, noting that no VAT has been identified for recovery on the monthly Eon electricity and gas invoices in respect of the Old Church. As the invoices are made out in the name of the Council, we believe that the Council should be able to reclaim all VAT incurred in these payments, although we urge that a formal VAT invoice is obtained from the provider each month.

We have also noted a few instances where costs were recorded in the incorrect column in the spreadsheet cashbook, only one of which has an impact on the AGAR with the clerk's annual SLCC subscription of £126 incorrectly recorded as a Staff cost. Consequently, the AGAR Section 2 Boxes 4 & 6 entries as presented to us will require amendment, the former being reduced by £126, and the latter increased by that same amount.

### ***Conclusions and recommendations***

***We reiterate our previous recommendation that, in line with good working practice and to afford a further degree of evidencing of members meeting their fiduciary responsibilities, a suitably designed certification stamp should be acquired and affixed to each invoice with members duly signing to confirm their review of the documents and approval for the payments to be processed. We also, as above, suggest that the VAT incurred on the Eon invoices in respect of the Old Church be identified for recovery.***

*R5. The Council should, in line with best practice, acquire a suitably designed certification stamp to be affixed to every invoice and signed-off by the cheque signatories when reviewing the invoices, signing cheques and approving the payments.*

*R6. The VAT incurred on Eon invoices in respect of the Old Church should be identified and included in the VAT reclaims submitted to HMRC for recovery.*

*R7. The AGAR values at Boxes 4 & 6 require amendment, the former being increased by £126, and the latter reduced by the same amount.*

### **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 noted in last year's report that risk register was last approved by Council at their meeting on 26<sup>th</sup> March 2019: we also noted that, whilst a further review was scheduled to be undertaken at Council at their February 2020 meeting, this did not happen due to the Covid situation. From our review of minutes, we note that the register was reviewed eventually in the latter stages of 2020-21 and was presented to the March 2021 Council meeting for formal adoption. Formal adoption at that time was deferred due to questions raised by one councillor, with the document finally being formally adopted at the April 2021 meeting.

We appreciate the difficulties faced by all councils during 2021-22 with the various Covid restrictions and lockdowns and have taken a pragmatic view on the lack of formal adoption between 1<sup>st</sup> April 2020 and 31<sup>st</sup> March 2021 and, based on the fact that the document was actually reviewed during the financial year, we do not consider a negative assertion appropriate for 2020-21 in the AGAR. We do, however, remind the clerk and members of the requirements of the Governance and Accountability Manual – "The Practitioner's Guide", that the risk register must be reviewed and re-adopted formally by Council at least once a year.

We have reviewed the content of the adopted risk register and consider that it is appropriate for the Council's present requirements.

The Council continues to be insured by Zurich Municipal and we have duly examined the year's insurance schedule noting that Public and Employers Liability cover stand at £12 million and £10 million respectively, together with Fidelity Guarantee (FG) cover at £500,000, all of which we consider appropriate for the Council's ongoing requirements.

We also note that the play area is inspected annually by a RoSPA accredited contractor with visual inspections undertaken by the Clerk on a regular basis, also understanding that written reports are prepared and retained following these inspections.

### **Conclusions**

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

## **Budgetary Control and Reserves**

We aim in this area of our work to ensure that the Council has appropriate procedures in place to determine its future financial requirements leading to the adoption of an approved budget and formal determination of the amount to be precepted on the District Council, that effective arrangements are in place to monitor budgetary performance throughout the financial year and that the Council has identified and retains appropriate reserve funds to meet future spending plans. To meet this objective, we have:

- Noted from our review of the minutes that members continue to be provided with regular management accounting information;
- Noted that a working party meets to discuss the forthcoming year's budget making recommendations to Council for the level of precept required, resulting in a reduced precept being approved for 2021-22 at the January 2021 full Council meeting, the value being set at £43,435;
- Considered the appropriateness of the level of general reserves to meet the Council's ongoing revenue spending requirements noting that the year-end balance has increased significantly to ££79,554 (£29,913 as at 31<sup>st</sup> March 2020) which equates to in excess of a year's spending at the 2020-21 level. The increase is primarily due to receipt of a grant towards development of the Neighbourhood Plan of £57,000 of which less than 1/3<sup>rd</sup> was spent during the year; and
- Noted that there are no specified earmarked reserves in place at present.

### **Conclusions**

*We are pleased to report that there are no issues arising in this area of our review process warranting formal comment or recommendation, although we suggest that the Council considers the set aside / establishment of specific reserves to provide identified funding for future repair, replacement and development aspirational costs.*

## **Review of Income**

The Council has very limited sources of income comprising the annual precept, bank interest and recovered VAT, together with occasional miscellaneous receipts arising by way of grants and donations.

### **Conclusions**

*We have agreed all income reported in the cashbook to bank statements and underlying records for 2020-21, no issues being identified.*

## Petty Cash Account

*The former RFO operated a small petty cash account recording his “out-of-pocket” expenses with detail of cash advances from the current account and payments made being recorded in a suitable spreadsheet record. The account has now been closed following his retirement. Consequently a “not applicable” response will be given in the AGAR IA Certificate at Box*

## Review of Staff Salaries

In examining the Council’s payroll function, we aim to confirm that legislation is being appropriately observed as regards adherence to the requirements of HMRC with regard to the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme where applicable. To meet this objective, we have:

- Reviewed the Council’s payroll preparation procedures noting that the RFO utilises HMRC “PAYE Tools” software;
- Noted approval for implementation of the 2020-21 nationally agreed pay award applicable from 1<sup>st</sup> April 2020, which was duly applied in September 2020, together with arrears from 1<sup>st</sup> April;
- Checked and agreed the amounts paid to the Clerk and the RFO by reference to the approved pay rates, examining payments made in a sample of 6 months during 2020-21;
- Ensured that PAYE deductions have been made accurately (both employees’ earnings are below the NI threshold) by reference to the HMRC Basic PAYE Tools software, also ensuring that the correct payments are made to HMRC each quarter;
- Ensured that the correct pension deductions have been made where appropriate and paid over to the appropriate authorities; and
- Ensured the correct net pay has been processed each month for both employees.

### Conclusions

*We are pleased to report that there are no significant issues arising in this area of our review process warranting formal comment or recommendation. However, see R7 above in relation to the Staff cost value to be reported in the AGAR.*

## Fixed Asset Registers

The Practitioner’s Guide requires all councils to maintain a record of all assets owned. We have checked and agreed the principles used in the detail, as recorded in the Asset Register, noting that it has been prepared using purchase cost values or, where that value is unknown, at the previous year’s AGAR level. We note the acquisition of a laptop computer for the new RFO on her appointment (£433.28 net of VAT), which should, but has not been added to the Asset Register provided for our examination, nor included in the AGAR Section 2, Box 9 value, which should duly be revised to read £17,845 for 2020-21, with the new acquisition value to also be added to the asset register.



Several of our clients have also developed photographic records of assets such as street furniture, etc, which they have found to be of assistance in progressing insurance claims in the event of any accidental or malicious damage occurring.

### ***Conclusions and recommendations***

***The RFO will need to update the asset register to record detail of the new laptop acquired during the financial year, also adding the value, net of VAT to the AGAR Section 2, Box 9. As indicated above we suggest that consideration be given to the development of a photographic register of street furniture, etc.***

*R8. The Fixed Asset Register should be amended to include the new laptop PC acquired during 2020-21 at a cost of £433.*

*R9. The Council should consider the development of a photographic register of its assets, which may be of assistance in the event of any accidental or wilful damage to property and equipment requiring an insurance reclaim.*

## **Investments and Loans**

The Council owns no investments, all funds being held in the three HSBC bank accounts.

The Council currently has one PWLB loan repayable annually at half-yearly intervals: we have agreed the two repayments made in 2020-21 to the PWLB statements, also agreeing the residual loan liability balance as at 31<sup>st</sup> March 2021 to be disclosed in the AGAR at Section 2 Box 10 by reference to the PWLB / UK Debt Agency website where detail of all local government debts is reported annually.

### ***Conclusions***

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

## **Statement of Accounts and AGAR**

The 1996 Accounts and Audit Regulations required all Councils to prepare annually a detailed Statement of Accounts, together with supporting statements identifying other aspects of the Council's financial affairs. The AGAR now forms the Council's statutory accounts subject to external audit review and certification.

### ***Conclusions***

***We are pleased to report that, other than the absence of detail posted on the Council's website in relation to the 2019-20 AGAR and Notice of Public Rights, no significant issues arise, although the minor amendments to financial detail in Section 2 affecting Boxes 5, 6 & 9 should be amended and signed off by the Council prior to submission to the external auditors.***

***We have duly signed off the IA Certificate in the AGAR assigning positive assurances in each relevant area excepting in relation to the need to publish relevant detail on the Council's website as set out in the preface to the year's AGAR.***

Rec. No.	Recommendation	Response
<b>Review of Accounting Arrangements and Bank Reconciliations</b>		
R1	In addition to reviewing and signing-off the bank reconciliations, the supporting bank statements should also be signed and dated as evidence of their examination and agreement to the bank reconciliations Adopted FRs para 2.2 refers).	
R2	Given the increasing volume of transactions, the Council should consider acquiring an appropriate accounting package such as those provided by RBS Rialtas or Scribe, which are used by a majority of Councils nationally.	
<b>Review of Corporate Governance</b>		
R3	The Council must ensure compliance with the advertising and timing requirements for publishing the Notice of Public Rights to inspect the Council's records in its website.	
R4	The Council must also ensure that all relevant financial detail is appropriately disclosed in the website in future years, also ideally, posting information in relation to 2019-20 as soon as practicable.	
<b>Review of Payments and VAT</b>		
R5	The Council should, in line with best practice, acquire a suitably designed certification stamp to be affixed to every invoice and signed-off by the cheque signatories when reviewing the invoices, signing cheques and approving the payments.	
R6	The VAT incurred on Eon invoices in respect of the Old Church should be identified and included in the VAT reclaims submitted to HMRC for recovery.	
R7	The AGAR values at Boxes 4 & 6 require amendment, the former being increased by £126, and the latter reduced by the same amount.	
<b>Fixed Asset Registers</b>		
R8	The Fixed Asset Register should be amended to include the new laptop PC acquired during 2020-21 at a cost of £433.	
R9	The Council should consider the development of a photographic register of its assets, which may be of assistance in the event of any accidental or wilful damage to property and equipment requiring an insurance reclaim.	