

Public Sector Audit

New Holland Parish Council

Internal Audit Report for the year ended 31 March 2023

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Introduction

Part 2, paragraph 5 (1) of the Accounts and Audit Regulations 2015 imposes a duty on Local Councils to “undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

Internal audit is a key component of the system of internal control. The purpose of internal audit is to review whether the systems of financial and other controls over a council's activities and operating procedures are effective.

At the request of the council I have conducted an Internal Audit review of the council's accounting records in respect of the financial year ended 31 March 2023. I have acted independently and, on the basis of an assessment of risk, carried out a selective assessment of compliance with relevant procedures and controls expected to be in place during the financial year.

The audit has been carried out in accordance with the council's needs and planned coverage. On the basis of the findings in the areas examined, the internal audit conclusions and recommendations have been recorded in the table below.

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Prioritisation of recommendations

In accordance with good internal audit reporting practice and the Governance and Accountability for Local Councils Practitioners Guide, the recommendations contained in this report have been prioritised. The following 'traffic light' system for the prioritisation of recommendations has been adopted: Page | 3

- Significant weakness in internal control requiring urgent attention.
- Moderate weakness in internal control requiring attention within the current year.
- Minor weakness in internal control, or matters of good practice the council may wish to consider, to be addressed within the current year.

Distribution List

Chairman of the Council

All Members of the Council

Clerk to the Council

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The findings of the audit are summarised below

	Test	Findings and Recommendations
1	Have appropriate books of account been properly maintained throughout the year?	<p><u>Appropriate accounting records</u></p> <p>Findings</p> <p>The cash book is maintained on spreadsheets on a receipts and payments basis and is arithmetically correct.</p> <ul style="list-style-type: none"> ➤ It is noted that a transfer of funds between the council's bank accounts has been included in the cash book as income. <p>It is analysed to provide all the information required for the completion of the Annual Governance and Accountability Return (AGAR).</p> <p>A year-end bank reconciliation has been performed and periodic reconciliations are presented to each meeting of the council.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● Transfers between accounts should not be recorded as income in the cash book.
2	Have the council's Financial Regulations and Standing Orders been formally adopted and complied with?	<p><u>Adherence to Financial Regulations and Standing Orders</u></p> <p>Findings</p> <p>The council's Standing Orders and Financial Regulations were reviewed and approved at the council meeting held on 18th May 2022. Both are the latest NALC Model.</p> <p>On the 21st December 2022, the Government increased the £25,000 threshold, under the Public Contracts Regulations, to £30,000. NALC has not yet amended its Model Standing Orders and Financial Regulations to take account of this legislative change.</p>

		<p>Recommendation</p> <ul style="list-style-type: none"> ● For clarity and transparency purposes the council should update Standing Orders (18.a.c) and Financial Regulations (11.1.b). to reflect the increase in the Government's procurement threshold under the Public Contracts Regulations.
3	<p>Are payment controls effective and VAT properly accounted for?</p> <p>Has the council recorded s137 expenditure separately and is it within the statutory limit?</p>	<p><u>Adequate payment controls</u></p> <p>Findings</p> <p>I have tested a large number of payments to the cash book and council minutes.</p> <p>I have reviewed the payments for occurrence, completeness, accuracy, correct year of account, classification within the council's accounts and compliance with Financial Regulations. The Clerk has provided evidence of quotations received for contracts undertaken during the year.</p> <p>I have checked to ensure that VAT has been correctly identified and recorded in the cash book for inclusion in the reclaim from HMRC.</p> <ul style="list-style-type: none"> ➤ A payment for email hosting included VAT that has not been recorded in the cash book for reclaim from HMRC. <p>A separate account is maintained for s.137 expenditure. The £1,300 spent during the year is appropriate expenditure and is well within the statutory limit.</p> <p>Payments have been made by BACS or Direct Debit and no cheques have been issued during the year.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● Care should be taken to ensure that all VAT incurred by the council is recorded in the cash book for reclaim from HMRC.

		<ul style="list-style-type: none"> ● The VAT that has not been recorded in the cash book during 2022/23 should be added to the next VAT reclaim from HMRC.
4	<p>Has the council assessed the significant risks in delivering its activities and services and regularly reviewed the adequacy of these assessments?</p> <p>Is insurance cover appropriate and adequate?</p> <p>Are financial controls documented and regularly reviewed?</p>	<p><u>Assessment of significant risks</u></p> <p>Findings</p> <p>The Council maintains Risk Assessments covering the notice board, council seats, parish owned and maintained land and a separate Financial Risk Assessment. They were reviewed and approved at the council meeting held on the 18th May 2022, together with the council's Health & Safety Policy.</p> <ul style="list-style-type: none"> ➤ It is noted that the council arranged for an annual fire alarm service for the Community Centre. Also, the fire extinguishers at the centre were serviced during the year. ➤ It is not known whether a detailed Fire Risk Assessment for the Community Centre was undertaken during 2022/23. ➤ The Clerk has confirmed that she has appointed a Handyman whose duties include playground inspections. The playground equipment will also be inspected by an independent company. <p>A detailed inspection sheet for September 2022, which identifies the inspection carried out at the Community Centre has been provided to audit for review and verification purposes.</p> <p>I have reviewed the council's insurance policy that was renewed on 1 June 2022 and the indemnity limits are considered to be adequate. The council's new play equipment has been added to the policy at no extra charge.</p> <p>The Clerk has confirmed that files are backed up weekly on an external hard drive which is stored in a metal cupboard. Previously the Clerk has confirmed that the council's computer is password protected.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● If a detailed Fire Risk Assessment for the Community Centre was not undertaken during 2022/23 this should be undertaken as a matter of urgency.

		<ul style="list-style-type: none"> ● All monthly inspection sheets for the Community Centre and the playground should be forwarded to audit for review and verification.
5	<p>Has the annual precept requirement resulted from an adequate budgetary process?</p> <p>Has progress against budget been regularly monitored and reported and were reserves appropriate?</p>	<p><u>Adequate budgetary process</u></p> <p>Findings</p> <p>The council is required to prepare a detailed an annual budget, in the recommended format in support of its 2022/23 Precept. I have not, however, been provided with a copy of the annual budget and Precept calculations as requested.</p> <p>The Clerk has confirmed that budget monitoring reports were presented to the council in May, July, and October 2022 and January 2023. I have not, however been provided with evidence of the monitoring reports.</p> <p>The council's balances at the 31st March 2023 were £62,119. The Clerk has confirmed that the council has earmarked reserves of £20,000 for 2023/24 in respect of election costs, the Community Centre, a contingency fund and general reserve. The remaining general balance of £42,119 is considered to be high for a council the size of New Holland Parish Council.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● A copy of the annual budget and precept calculations should be provided to audit to facilitate the completion of the Internal Audit Certificate on the AGAR. ● Budget monitoring reports should be provided to Internal Audit for review and verification purposes. ● Budget monitoring reports should be prepared in the recommended format to include the original budget for each cost centre, details of receipts and payments to date and the variance. ● When the council sets its 2024/25 budget and Precept it should have regard to the Government's guidance on the level of general reserves the council should hold. The guidance is provided in the latest Joint Practitioner's Advisory Group Accounting and Governance Guide 2023.

6	<p>Was all expected income fully received in accordance with the current scale of charges, properly accounted for and promptly banked?</p> <p>Were security controls over cash and cash equivalents effective?</p>	<p><u>Adequate income controls</u></p> <p>Findings</p> <p>The councils Precept of £14,000 and NLC grant of £85 were received on the 29th April 2022.</p> <p>The council also received a VAT refund from HMRC, cafe rent (including electricity charges), flat rent, grants from NLC in respect of verges/PROW cutting, In Bloom, the Jubilee, play equipment, sponsorship, sundry income, and a small amount of bank interest. Documentation has been seen in support of the majority of income received during the year.</p> <p>I have agreed the rent for the council's flat for the period March 2022 to February 2023 to the Tenancy Agreement dated 2nd September 2020 and the cash book. The rent received in March 2023, which was also for the correct amount, has, however, been entered into the cash book incorrectly.</p> <ul style="list-style-type: none"> ➤ The Scale of charges identifies that the café rent is £800 per month but the cash book records only £300/month (reducing to £200 in February). The Clerk has confirmed that the new Rental Agreement which commenced on the 1st October 2022 is for £800 per month. It is noted that the tenant is in arrears at the year-end. <p>The council's Scale of Charges was reviewed by the council in May 2022 and amended at the meeting held on the 16th November 2022.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● All income should be accurately entered in the cash book to facilitate the accurate construction of the year-end Accounting Statements. ● The position regarding overdue rent for the café should be closely monitored by the council and appropriate action taken if considered necessary.
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7	<p>Were petty cash payments appropriate and supported by receipts?</p> <p>Was all expenditure approved and reported to members?</p> <p>Has VAT been correctly accounted for?</p>	<p><u>Appropriate petty cash controls</u></p> <p>Findings A separate petty cash system is not maintained. All petty disbursements made by the Clerk and Members are reclaimed monthly and reimbursed through the payments system.</p> <p>VAT expenditure has been separately analysed and identified in the cash book.</p> <p>Petty disbursements are reported to council monthly together with all other council payments.</p>
8	<p>Do all employees have contracts of employment with clear terms and conditions?</p> <p>Are salaries to employees and all other payments and allowances paid in accordance with council approvals?</p> <p>Has PAYE and NI been correctly deducted and paid to HMRC?</p>	<p><u>Adequate payroll controls</u></p> <p>Findings The Clerk's contract of employment contains clear terms and conditions. The copy submitted to audit, however, has still not been signed by either the Clerk or the council as employer.</p> <p>I have checked the Clerk's gross salary payments throughout the year.</p> <ul style="list-style-type: none"> ➤ The first two months calculations of hours worked was incorrect, but this was corrected in the third payment of salary. ➤ The rate per hour, per the 2022/23 NJC pay award, was incorrectly paid until the March 2023 salary payment. ➤ Details of change in the Clerk's terms and conditions of employment, agreed at the council meeting on the 21st September 2022, was not provided to audit. I was unable, therefore, to verify the correctness of the hours paid from October 2022. <p>All other payments and allowances are reasonable and approved by the council.</p> <p>The Clerk has been subject to PAYE and NI regulations during the year and for the sample checked statutory deductions have been correctly paid to HMRC.</p>

		<p>Recommendations</p> <ul style="list-style-type: none"> ● As previously recommended contracts of Employment are legally binding documents and, as such, the contract for the Clerk should be signed by both the Clerk and the council. ● Contracts of Employment should be signed at the commencement of employment. ● Changes to NJC national pay scales should be implemented as soon as they are announced. ● Details of changes to the Clerk's terms and conditions of employment should be provided to audit to facilitate the completion of the Audit Certificate on the AGAR.
9	Is the Asset and Investment Register complete and accurate and reviewed on a regular basis?	<p><u>Appropriate recording of assets</u></p> <p>Findings</p> <p>The Asset Register is in the form of a spread sheet in the recommended format which identifies the assets held, their location, date purchased, cost and details of any disposals.</p> <p>The register was reviewed and approved by the Annual Council meeting held on the 18th May 2022.</p> <p>It is noted that one asset purchased during the year has not been added using the correct method of valuation, i.e., net cost, excluding VAT.</p> <ul style="list-style-type: none"> ➤ Ref 29 for CCTV £2824.56 on the register includes VAT. This still requires correction. <p>Two assets purchased during the year have not been added at the correct valuations. This was raised with the Clerk at the time of the audit and the register was amended accordingly.</p> <ul style="list-style-type: none"> ➤ Ref 6 for a planter and ref 24 for a seat are also incorrectly valued. <p>Recommendations</p> <ul style="list-style-type: none"> ● All assets purchased should be added to the register at the net cost, excluding VAT.

		<ul style="list-style-type: none"> ● All incorrect valuations on the Asset Register should be amended prior to the submission of the AGAR to the External Auditor.
10	<p>Were bank reconciliations performed on a regular and timely basis?</p> <p>Has a year-end reconciliation been performed and balanced?</p> <p>Have all bank reconciliations been reviewed by an appointed member and evidenced as such?</p>	<p><u>Adequate bank reconciliations</u></p> <p>Findings</p> <p>A year-end bank reconciliation has been performed and monthly reconciliations were presented to each meeting of the council. All reconciliations correctly include all three of the council's bank accounts.</p> <p>In accordance with best practice and as an important part of the council's internal financial control processes, the monthly bank reconciliations and the respective month-end balances on the bank statements have been initialled by the Chairman to signify that both are in agreement.</p>
11	<p>Were Accounting statements prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate, were debtors and creditors properly recorded?</p> <p>Has the previous Internal Audit Report been submitted to council and actioned as necessary?</p>	<p><u>Correct accounting basis and previous Internal Audit Report actioned</u></p> <p>Findings</p> <p>The year-end statements have been prepared on the correct accounting basis (Receipts and Payments) and, therefore, debtors and creditors have not been included.</p> <p>The statements are incorrectly stated in respect of the following:</p> <ul style="list-style-type: none"> ➤ Box 3, total other receipts, does not agree with the cash book provided to audit. This is owing to the flat rent received in March 2023 not being entered correctly in the cash book. ➤ Box 4, staff costs, does not agree with the cash book in respect of the Clerk's salary and tax deductions. ➤ Box 6, all other payments, does not agree with the cash book. <p>The cash book, as it is currently constructed, does not provide a clear audit trail to the year-end Accounting Statements; for example it needs to be adjusted in respect of transfers of funds between accounts before entering the figures on the AGAR.</p>

		<p>It was resolved to accept the 2021/22 Internal Audit report at the council meeting held on the 20th July 2023.</p> <p>It is again of concern that recommendations made in the previous years' Audit Reports have not been actioned during the following years. As brought to the council's attention last year:</p> <ul style="list-style-type: none"> ➤ Section 5.98 of the 2022 Accounting and Governance Practitioner's Guide identifies that; <i>"Authorities will receive reports from both their internal and external auditors. An authority should consider the matters included in these reports and decide what action it needs to take to prevent recurrence of the issues raised. The consideration and decisions should be included in formal minutes."</i> <p>The formal recording of the actions to be taken following the consideration of audit reports enable the council to provide a positive response to assertion 7 on the Annual Governance Statement on the AGAR. The assertion confirms that the council <i>"took appropriate action on all matters raised in reports from Internal and External Audit."</i></p> <p>Recommendations</p> <ul style="list-style-type: none"> ● Following the council's review of both Internal and External audit reports, an action plan should be prepared to record the decisions of the Committee and provide a timeline for the implementation of any agreed recommendations. ● The cash book should provide a clear audit trail to the year-end accounts to enable the auditor to positively respond to assertion "J" on the Annual Internal Audit Report on the AGAR ● Box 9, fixed assets, should be amended to reflect the updated total of the Asset Register as at 31st March 2023, in accordance with the findings in section 9 of the report.
12	If the council certified itself as exempt from an External Audit Limited Assurance Review last year,	<p><u>Exemption Certificate</u></p> <p>Findings</p> <p>The council, correctly, did not complete an Exemption Certificate under Section 9 of the Local Audit (Smaller Authorities) Regulations 2015.</p>

	has it met the exemption criteria and correctly declared itself exempt?	
13	Did the council correctly provide, during the summer, the proper opportunity for the exercise of public rights in accordance with the requirements of the Accounts and Audit Regulations 2015?	<p><u>Exercise of Public Rights</u></p> <p>Findings</p> <p>I have confirmed by a review of the council's website that, during the summer of 2022, the council did not provide the correct period for the exercise of public rights, in accordance with the requirements of the 2015 Accounts and Audit Regulations. The council's announcement date was the 22nd July, and the period of notice was the 25th July to the 9th September 2022.</p> <ul style="list-style-type: none"> ➤ The guidance dates provided by the External Auditor in their instructions for the year of audit (page 11, of the 21/22 Instructions) identify that: ➤ <i>The inspection period must include the first 10 working days of July, i.e., 1 to 14 July inclusive this year. In practice this means that public rights may be exercised:</i> ➤ <i>at the earliest, between Wednesday 1 June and Thursday 14 July 2022 (there are bank holidays on 2 & 3 June 2022) at the latest, between Friday 1 July and Thursday 11 August 2022.</i> <p>Recommendation</p> <ul style="list-style-type: none"> ● The council should complete the statutory form for the publication of Public Rights on its website in accordance with the Accounts and Audit Regulations 2015 and the detailed instructions issued by the External Auditor each year.
14	Did the council comply with the publication requirements for the previous year's AGAR?	<p><u>Publication Requirements</u></p> <p>Findings</p> <p>I have reviewed the council's website and confirmed that the council published a Notice of Public Rights, the Annual Governance Statement and the Accounting Statements. The council did not, however - as was the case last year - publish the Notice of Conclusion of Audit, as required by the Accounts and Audit Regulations 2015.</p>

		<p>Recommendation</p> <ul style="list-style-type: none"> ● The council must ensure that it publishes all the documents required in accordance with the Accounts and Audit Regulations 2015.
15	Has the council met its responsibilities as a Trustee?	<p><u>Trustee responsibilities</u></p> <p>Findings</p> <p>The Clerk has not confirmed, as requested, whether the council acts as sole trustee for and is responsible for managing Trust Funds or assets. I have seen no evidence that the council acts as a sole trustee, however, and no Trust figures have been included in the Accounting Statements.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● To facilitate the accurate completion of section "10" of the Annual Audit Certificate, the Clerk should confirm whether the council acts as sole trustee for and is responsible for managing Trust Funds or assets.

Executive Summary

This year's audit has again identified issues and areas of concern which require attention to ensure that the council's accounts and governance arrangements are satisfactory and in accordance with both statutory requirements and External Audit guidance. The priority given to the recommendations identifies the significance of the weaknesses in internal control and the urgency with which they should be addressed.

It is disappointing to note that recommendations made previously have not been addressed in a timely manner. If all of the above recommendations in this report are so actioned within the current financial year, the councils Governance and Accountability will be significantly improved and should result in an improved audit outcome for 2023/24.

The Internal Audit has been conducted in accordance with the Governance and Accountability for Local Councils – Practitioners Guide 2022.

I confirm that I have no relationship or interest, financial or otherwise, with any member or officer of the council.

Richard Dixon

Public Sector Audit

7th June 2023

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