

# Keith Robertson

## Internal Audit Services

### HELLINGLYPARISH COUNCIL

#### Internal Audit Report 2020-21

#### Introduction

In accordance with the Internal Audit Plan, Controls and Procedures have been tested. The tests were to the standards and practices defined in the Governance and Accountability for Smaller Authorities 2019 and meet the needs of the Council. I confirm that I do not have any role within the Council and have carried out my duties without bias.

#### **Summary**

The audit was completed on 10<sup>th</sup> May 2021 and confirmed that the financial controls are in an adequate order as at 31<sup>st</sup> March 2021 with some improvements still needed and defined in prior audits.

The controls in place are adequate but the audit trail to prove that the controls are being applied was difficult to establish. That can present risk because a lack of clarity and proof of control could be used to mask transactions. This difficulty is largely due to the data on the Council's web site for meetings and agendas not being up to date and with documents referenced in the minutes not being published and available. There was no evidence found to suggest the controls were not being effectively applied but the risk remains.

The budget process was confirmed in this audit as adequate, but only just adequate because while it did support the 2021-22 precept on the basis of a balanced budget and there were no short term cash flow issues it is not adequate for a Council with large reserves, large and ongoing medium term cash flows, (CiL funding for major projects). A simple balanced single year budget to fund day to day spend does not address the wider financial view and needs of this large Council. **This issue was raised in the Internal Audit in 2018-19 and 2019-20.** The risk here is that if the financing of the Council in total is not properly understood and addressed when planning, then outcomes may be foreseen. For example, General reserve levels held as at 31-3-21 are low, which was not something the budget addressed or considered just a few months earlier. Internal borrowing from a large reserve and the plan for repaying the internal loans was not included in the budget process or at least not transparently.

In terms of financial reporting there were several reports which when assembled produce a snapshot of the year end position. A single year end cohesive finance pack with all relevant reports would considerably assist in understanding and assessing the Council's finances as at year end or at any other point in time.

Covid-19 restrictions, the construction of the community hub and a change of website have all made communications difficult and diverted resource from day-to-day admin during 2020-21 and lead to some extent to control issues described. The issues do present risks and do need to be addressed in 2021-22.

The report below highlights the findings of the audit with reference to the Internal Control Objectives and Governance Statements in the Annual Return.

## Items reported in Audits from 2019-20

### **Internal Audit 2019-20.**

#### **Reporting.**

the quarterly reports to be amended to include a summary that includes actual opening, closing balances and movements for all reserves and that this is agreed to the Income and Expenditure and reserves in the financial systems as reported quarterly. **Partly completed.**

**Budget:** It was again recommended that the budget process is changed to formally consider and state the opening, closing balances and movements for all reserves (including general reserves) and that this agrees to the budgeted Income, Expenditure and Reserve movements. **Not completed.**

#### **VAT**

It is recommended that the Council take expert advice to review its treatment of VAT on hall hire. Completed and recover old VAT debts from HMRC. **Completed, or action taken as far as possible.**

**Limited Assurance Review.** No comments or issued raised by the Auditor.

## Internal Audit Report 2020-21

### **A. Appropriate Accounting Records.**

- A.1 The financial records are maintained in the RBS accounts package. The financial ledgers were up to date as of 31 March 2021.
- A.2 VAT was properly accounted for as at the year-end.
- A.3 Financial reports produced from the RBS system and reviewed by the Council agree to the financial records.
- A.4 I&E and Reserve Balances as at 31 March 2021 reported in RBS were correct. Summaries in Excel helped to communicate key data but did not agree in total to the AGAR and did not include all reserve balances. Partial reporting can lead to misunderstanding of finances and did not communicate why general reserve levels were low at year end.

It is recommended that all Income and Expenditure reports and all balances reported to the Council must agree to the accounts. A single accounts pack would help to ensure that all reports were cohesive and all as at the same period end date.

### **B. Financial Regulations, documentation and approvals.**

- B.1 The Standing Orders and Financial Regulations were readopted in May 2020.
- B.2 Expenditure Approval. All items in the sample audit were supported by documents and approved in the minutes referring to a list of items for approval, but the approval lists were difficult to find and evidence that these were reviewed in the meetings. These lists of payments were not all filed and some were only available from retrieving emails. It is important that the evidence of proper approval is easily found, transparent and available, or the risk for potential error or fraud will increase. This was noted in the prior year audit report. Also noted that meetings held via email in 2020-21 made communication difficult.

**It is recommended that list of payments approved in the minutes are added either as a table in the minutes or as an appendice to the minutes, filed with the minutes and on line.**

- B.3 VAT was properly accounted for and claims for prior period chased up for refund from HMRC.
- B.4 Noted that following a review of hall hire fees the Council was advised by an independent expert that no VAT is chargeable on hire and that the Council should de-register for VAT, which it has now has done.
- B.5 Agendas & Minutes are sent out in time are well presented but it was noted that not all of the minutes are published on the website, including the May meeting. This was in part due to Covid and meetings being held via email. This made approvals difficult and

relied on documents being emailed for approval. Sample testing confirmed the controls were applied. Post Covid this will be easier to manage with face to face meetings but it is important that the website is upto date to comply with Governance guidelines and audit regulations.

- B.5.1 The September meeting approved all payments from May- Sept but without the payment list available for audit.

### **C. Risk Assessment**

- C.1 A formal Risk Register was reviewed and approved.
- C.2 Internal Audit Effectiveness. The controls will be adequate if properly applied. Covid made this process difficult. It is important the post covid the controls are again properly applied and all documents filed and available for review.
- C.3 Insurance – The Parish Council’s Insurance in place is sufficient to cover its assets and financial risk.

### **D. Budgeting, Reporting & Precept**

- D.1 Budgetary Control – Annual budgets were prepared in support of the precept. The budget did consider spend for the coming year and the precept needed for a balanced budget but it did not consider the finances for the Council as whole and did not effectively deal with reserve balances or look forward for more than one year. The Community Hub project was funded in the short term by “borrowing” from other reserves which in terms of treasury management is appropriate and proper, but the implications for repayment were not transparently dealt with effectively by the simple budget process applied. This was raised as an audit point for the past 2 years and the text of the report from last year is repeated again in D2 & D3 below.
- D.2 *The budget is considered at detail and summary levels. The budget does not however include all Receipts, Payments and Reserves. The budget should also per the financial regs consider 3 years in summary. The Council has a bank balances in excess of £1 million pounds which is a significant sum. Cash flows and deposits of surplus funds should be part of its financial planning. It is again recommended that the budget process is changed to formally consider and state the opening, closing balances and movements for all reserves (including general reserves) and that this agrees to the budgeted Income, Expenditure and Reserve movements.*
- D.3 *Reporting. Monthly and Quarterly reports of actual vs budget for Quarters include a summary of R&P and comments to budget but did not show reserves or confirm that actual data agreed to finance records.*
- D.4 The balance of all reserves as at 31-3-21 is £1104K with a general reserve of £37K. This general reserve balance did not appear to be the planned position when setting the 2021-22 budget.

*It is recommended again that the quarterly reports are amended to include a summary that includes actual opening, closing balances and movements for all reserves and that this agrees to the Income and Expenditure movements and reserves in the financial systems. It should also clearly state the current status of any internal inter reserve “borrowing”*

There is clearly no short-term cash flow risk with current reserve levels and the precept was supported by the budget with an objective of producing a balanced one-year budget. On this basis I have concluded that the item D objective is confirmed as achieved, but it is a marginal decision.

## **E. Receipts**

- E.1 The precept recorded in the minutes agrees to the Council Tax authority's notification.
- E.2 Other income is banked as received.
- E.3 There is no VAT on income.

**F. Petty Cash** – The Council does not use or hold petty cash.

## **G. Employee Costs**

- G.1 Staff Wages – The Clerk and other employees have contracts of employment. The Payroll is managed by the Clerk via the HMRC on line systems. The process for Payroll controls was reviewed and is adequate. Payroll records sampled in the audit were correct.

## **H. Assets**

- H.1 Assets – An Asset register is maintained up to date and agrees to the value declared in the AGAR. The insurance cover is sufficient to cover asset values.

## **I. Bank Reconciliations.**

- I.1 Bank Reconciliations are completed on a monthly basis. The reconciliations are reviewed and signed off by one of the Councillors who initials these as seen. The approval is minuted. Samples checked in this audit were correct

## **J. Accounting Statements.**

- J.1 The accounts maintained based on an Income and Expenditure basis. The Annual Return agrees to the financial records.
- J.2 All of the items chosen in the sample of payments from the ledger were supported by invoices authorised for payment and approved in the minutes.
- J.3 The quarterly reports as noted above do not report the financial status of the Council in total. Other reports, when found do provide additional information. A single report pack of all financial data at quarter and year end would help.
- J.4 Reserves – Total reserves as 31 March 2021 were £1,104,110 with cash balances at £987,306. The VAT debtor being most of the difference.

Earmarked reserves total £1,066,628 of which £1,085,759 is a long-term reserve for maintenance of a Park of which -£157,536 is borrowed leaving £928,223 as the balance on that reserve. The borrowing must be repaid from other funding sources or the precept in the longer term. Income from the Hub may also contribute to the repayment but there is no defined cash flow projection to support that.

General reserves at £37,482 (28% of the precept) are low (50% is the guide). Planning to re-establish an appropriate reserve balance and possibly re-fund internal borrowing must be properly taken into account when budgeting for future years.

## **K. Limited Assurance Review Exemption.**

The Council did not exempt from a review in 2019-20

## **L. Transparency Code.**

The IA control defined by the AGAR refers to Councils with turnover under £25K which does not apply to this Council.

**It is noted** that the Council has turnover in excess of £200K and so must comply with the over £200K transparency code requirements but it did not publish any of the required documents and so did not comply with those regulations in 2020-21.

**M. Exercise of Public Rights.**

The Council did not publish on its website (or there is no evidence that it did) the notice of public rights for 2019-20 and there were no minutes to confirm that it did so. The Council therefor did not meet this control objective and must also answer NO to Box 4 on section 1 Governance on the 2020-21 AGAR.

**N. Publication of the required AGAR documents 2019-20.** The Council did correctly publish these documents on its website.

**O. Trust Funds.** The Council has confirmed that it does not act as the sole trustee or manage any trust funds.

It is noted that the figures have been produced by the Clerk in accordance with the requirements and all supporting documents have been produced for the Internal Auditor. The Clerk's co-operation aided considerably the work of this internal audit. Thank you.

Keith Robertson FCMA  
Internal Auditor  
20<sup>th</sup> May 2021