

Keith Robertson Internal Audit Services

HELLINGLY PARISH COUNCIL

Internal Audit Report 2019-20

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.

The audit was completed on 28th May 2020 and confirmed that the financial controls are in an adequate order as at 31st March 2020, with some improvement needed in financial reporting. No major issues were found that require noting on the annual return but the recommendations in the attached report do need to be specifically addressed by the Council. The report below highlights the findings of the audit with reference to the Internal Control Objectives and Governance Statements in the Annual Return.

Summary of findings.

Hellingly Parish Council has grown and is growing from substantial receipts of CiL funding. This changes the dynamic of the Council and requires, in context, its controls and financial reporting to be robust and sufficient for the needs of a Council of its size. This was noted in the 2018-19 Internal Audit report which highlighted the need to improve budgeting and financial reporting to include all Receipts and Payments and all Reserves and to ensure that the financial reports produced during the year clearly agreed to the financial records. The Council's financial regulation 3.2 defines that all sources of funding and all R&P are to be included in the budget and that the budget shall consider "broadly" 3 years.

The budget for 2020-21 did properly examine the expenditure to be funded by the precept but it did not include all receipts and payments, or reserves and did not clearly agree (current year) to the financial records. The budget was valid in context of the precept but the risk from incomplete reporting in disguising error or fraud remains if plans and financial reports do not transparently represent the financial position of the Council in total. Similarly, financial reports presented during the year to Council did highlight key financial data but did not have totals and were not clearly shown to agree to the financial records. The Council may want to consider the above when assessing its response to assertions in Boxes 1 and 7 in its Governance statement.

The above may have required a negative response to boxes D & J on page 3 of the annual return but it is noted that as of 31 March 2020 the financial records and the financial reports in the Annual return did agree, included total reserves. I have therefore reported Yes to all of the IA checks but may not consider doing so in the future if the Council does not address these issues during 2020.

Items reported in Audits from 2018-19

Internal Audit.

D. Budgeting & Precept

D. 2. Annual Budget. It was recommended that the budget process was 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 receipts, payments and bank balances. **Not completed.**

D.2 Annual Budget. Several significant income streams were expected in 2019-20 but have not been budgeted for. It was recommended that ALL receipts and payments expected are budgeted for and that any flows into reserves or subsequent spending is also budgeted for. **Not completed.**

D.3 Reporting. It was recommended 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 receipts, payments and bank balances in the financial systems as reported quarterly. **Not completed.**

I. Bank reconciliations. It was recommended that bank recs are made available for review, if needed, at meetings of the Council. **Completed** and it is noted that an assigned Councillor does review and sign off payments after the Council meeting.

External Audit – No comments or items for action.

Internal Audit Report 2019-20

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 2020 and the ledger and bank balances were updated during the year. The data held for each transaction sampled was correct; the cash book and ledger was arithmetically correct as of 31 March 2020. I was not able to establish if the same were true for all accounts at all points during the year (and that is not within the scope of the audit) but it is noted that there were many journals required prior to the year-end completion to enable the VAT and reserve balances to be correctly reported.
- A.2 VAT was properly accounted for as at the year-end subject to some refunds identified as not being processed and will require further work during 2020.
- A.3 The transition to I&E reporting from R&P reporting should make the treatment of VAT within the ledger simple and the Clerk will take advice from RBS on the new procedures needed to accounts for I&E including the posting and reclaim of VAT. Financial reports produced agree to the financial records (limited to the partial records reported) but did not include totals and so could not be proven to agree to the financial records. It is noted that the RBS system and the nominal ledger code structure in place does provide the tools needed for detail and summary financial reporting.
- A.4 Reserve Balances as at 31 March 2020 were correct but given the number of correcting journals needed at year end probably I cannot conclude that the balances were correct during the year (in the ledger).

It is recommended that all Income and Payments and all reserve balances reported to the Council are checked by the Council to agree to the ledger. The RBS system can produce these reports including an I&E summary and a Balance sheet. The Council will also as usual need review the financial data in terms of operational management of its finances.

B. Financial Regulations, documentation and approvals.

- B.1 The Standing Orders and Financial Regulations were readopted in May 2019 and were presented again for review in November 2019.
- B.2 Expenditure Approval. All items in the sample audit were supported by documented approval in the minutes referring to a list of items for approval. The list however was not filed and so not available during the audit. There is therefore no documented audit trail through the financial records confirming if the payments were approved. It is recommended that the approved list is attached as an appendix within the minutes or added to the face of the minutes.
- B.3 VAT accounting needs some attention to confirm that the VAT postings using an I&E system are properly understood. There was some under claim of refunds as at 31 March 2020 with a closing debtor of approx. £90K. The Q4 claim had not been processed at the time of the audit and so the scale of any underclaim could not be established. The Clerk/RFO is aware of the process changes needed and will take advice from RBS. **It is recommended that the Council reviews the VAT treatment and VAT due with the Clerk on a quarterly basis during 2020.**
- B.4 The Council is VAT registered but does not charge VAT on the hire of the Hall. This may be correct if the activity is non business and there are exemptions where the level of “sales” is low. The levels of income from the current hall exceed these limits and the new hall will add to the income. If the income is determined to be exempt there may be some further review of a partial exemption on VAT refunds to be considered. It is noted that the Clerk has asked HMRC to confirm if the Council is compliant but the response seen during the audit does

not confirm compliance or noncompliance. [It is recommended that the Council take expert advice to review its treatment of VAT on hall hire.](#)

B.5 Agendas & Minutes are sent out in time are well presented.

C. Risk Assessment

C.1 A formal Risk Register was reviewed and approved in April 2020.

C.2 Internal Audit Effectiveness. The agenda from May 2020 includes a review of controls. If these controls are properly applied, they will be adequate but the Council must check that these controls are applied during the year. The controls include checks and approval of payments and bank reconciliations and review of financial reports and Risk.

C.3 Insurance – The Parish Council's Insurance in place is sufficient to cover its assets and financial risk.

D. Budgeting & Precept

D.1 Budgetary Control – Annual budgets are prepared in support of the precept; actual expenditure is compared with the budget and any significant variances are explained. The budget is considered at detail and summary levels. The 2020-21 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 balance as at 31 March 2020 of £1.1 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.2 Reporting. Monthly and Quarterly reports of actual vs budget for Q2 and Q3 2019 were reviewed. The Q2 report showed a summary of R&P and comments to budget but did not show reserves or confirm that actual data agreed to finance records. Q3 reports showed good detail but no summary/totals, no reserves and did not confirm if actual data agreed to financial the records. Changes to reporting were recommended at the last Internal Audit. It is not clear if the Council has considered if these changes were needed or not but given the levels of receipts, payments and reserve values not reported it is difficult to understand how the Council can use these reports to know the financial position of the Council in total. It is noted that the year-end actual reports produced did agree in total to the financial records and did reports all reserves. [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 Income and Expenditure and reserves in the financial systems as reported quarterly.](#)

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. VAT refund receipts are correctly accounted for subject to notes above B3 and B4.

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. No payroll records were sampled in the audit.

H. Assets

H.1 Assets – An Asset register is maintained updated as at 16th April 2020. The Assets recorded now include the Hall build costs to 31st March 2020. It is noted that the Hall build is insured by the builder. The asset register agrees to the Annual Return (final copy not seen). 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 not presented to the Council at the monthly meetings for review because the Council has stated it does not want to see the bank reconciliations. One of the Councillors separately reviews the reconciliations and statements and initials these as seen.

J. Accounting Statements.

- J.1* The accounts were maintained on a Receipts and Payments basis during 2019-20 and restated by the RBS support team to represent an I&E basis before the year end close. Final reports for 2019-20 are on the I&E basis. The Annual Return (draft copy) 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, but without sight during the audit of the actual list of items approved referred to in the minutes.
- J.3* Reserves – Earmarked reserves total £1.1 million and are identified by project. Two reserves are reporting as negative which is correct and represents amounts spent before confirmed income is received, the funding being from other reserves that are not required in cash flow terms before the receipt of other receivable reserves. General reserves are £112K being just less than 1 year of precept.

K. Limited Assurance Review Exemption.

The Council did not exempt itself in 2018-19

L. Exercise of Public Rights.

The Council properly reported the item required including the notice of public rights for the 2018-19-year end.

M. Trust Funds. The Council has confirmed that it does not act as the sole trustee for 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
01 June 2020