

**John P Watson & Co**

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**Barling Magna Parish Council**

**Internal Audit Report 2022-23**

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## **Introduction**

Legislation introduced from 1<sup>st</sup> April 2001, requires all Town and Parish Councils to implement an independent internal audit examination of their accounts and accounting processes annually. The following report complies with these requirements.

This report sets out the work undertaken in relation to the 2022-23 financial year, during the course of the audit, which was completed on 19th July 2023.

It is sadly noted that, due to the illness and death of the permanent Clerk during the year under review, certain aspects of the management of the Council have been below the standard that would have been expected.

## **Internal Audit Approach**

The basis of the review is that regard should be given to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts/AGAR. The programme of cover has been designed to afford appropriate assurance that the Council's financial systems remain robust and operate in a manner to ensure effective control 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 assist the completion of the 'Internal Audit Report' as part of the Council's AGAR process, which requires independent assurance over several internal control objectives.

## **Overall Conclusion**

We thank the Locum Clerk/RFO and her staff for their assistance during this internal audit review of the 2022-23 financial year, which has ensured the smooth progress of our work.

We have completed and signed the 'Annual Internal Audit Report' in the year's AGAR, having concluded that, in all significant respects, the Internal Control Objectives set out in that report, (with the exception of Internal Control Objectives 'A', "C", "H", "I" and "J" as described later in the Report), were being achieved throughout the financial year to a standard adequate to meet the needs of the Council.

This report has been prepared for the sole use of Barling Magna Parish Council. To the fullest extent permitted by law, no responsibility or liability is accepted by John P Watson & Co to any third party who purports to use or rely on, for any reason whatsoever, this report, its content or conclusions.

# 1 Accounting Records & Bank Reconciliations

## a) Objective

To ensure that the accounting records are being maintained accurately and currently and that no incorrect or inexplicable entries appear in cashbooks or financial ledgers.

## b) Detail

- i. There are two active bank accounts in operation being the Co-op Bank Current Account and the Co-op Bank Deposit Account. Additionally an account was opened with the Nationwide Building Society during the year. It is noted that the extant accounts with HSBC and Santander still appear to be open although assurance was received by last year's auditor that the balance on these accounts was nil.
- ii. The Council maintains their accounting records on the Scribe Accounting System which is more than adequate for a Council of this size.
- iii. The opening Scribe cashbook balances for 2022-23 have been reconciled to the 2021-22 closing Statement of Accounts and the certified AGAR detail.
- iv. There is a receipts and payments coding analysis structure in place in the accounting system which is more than adequate and remains appropriate for purpose.
- v. VAT is identified separately in the accounts coding structure.
- vi. All transactions in the Co-op Bank Current Account and the Co-op Bank Deposit Account were checked for the full year. It is noted that fifteen payments were entered in the accounts system cash book but were not on the bank statements. Additionally twelve payments were listed on the bank statements but were not entered in the accounts system cash book. These entries covered the whole year. Furthermore ten receipts were entered in the accounts system cash book but were not on the bank statements. One item was listed on the bank statement but had not been entered in the cash book. This was a receipt of bank interest and its omission will impact the completion of the end of year AGAR and will be dealt with later in this Report. It is recommended that the cash book be written up each month and reconciled to the bank statements, any outstanding entries being identified and entered in the cash books on a monthly basis.
- vii. It is noted from the minutes and documents supplied that bank reconciliations were provided to Council for the three months to 30th June 2022 and for the three months to 30th September 2022 although hard copy reconciliations have only been provided for the five months to 31st August. It is noted that these reconciliations were incomplete and it has not been possible to check their accuracy. No reconciliations were prepared for the remainder of the year (except for a closing reconciliation as at 31st March 2023). This will result in a negative response in respect of Internal Control Objectives 'A', 'I' and 'J' as mentioned previously in this report.

It is recommended that bank reconciliations be carried out for all bank accounts on a monthly basis.

- viii. It is noted that the accounting software suppliers conduct regular backups of the accounting system and the Council records are backed up by means of Office 365
- ix. The accounts were not “in balance” at the end of the period under review and this will be dealt with later in this Report.

**c) Conclusion**

- i. It is recommended that the cash book be written up each month and reconciled to the bank statements, any outstanding entries being identified and entered in the cash books on a monthly basis.
- ii. It recommended that bank reconciliations be carried out for all bank accounts on a monthly basis.

## 2 Corporate Governance

**a) Objective**

To ensure that the Council has a robust regulatory framework in place, that Council meetings are conducted in accordance with the adopted Standing Orders and that, bearing in mind we do not attend Council or Committee meetings, no actions of a potentially unlawful nature have been or are being considered for implementation.

**b) Detail**

- i. The Council Minutes have been reviewed for the year to date by reference to the Council’s website and to hard copies supplied, to identify whether any issues arise that may have an adverse effect on the Council’s future financial stability, either in the short, medium or longer term. It is noted that loading the minutes on the Council website has been sporadic and the website is not complete.
- ii. Standing Orders and Financial Regulations were last reviewed on 10th March 2022 (minutes 22.49.b refers). It is noted that these are a composite document and have not been updated in the year under review. It is recommended that the Clerk regularly reviews any amendments issued by NALC and updates the Council’s documents accordingly.
- iii. It is noted that the Council went out to tender for services and supplies in the year under review.
- iv. The Council’s precept on Rochford District Council was agreed by the Finance Committee in the sum of £63,231.95 at their meeting on 20th November 2022 (minute 6.b. (ii) refers). The final precept on Rochford District Council was amended and approved by Council in the sum of £64,226 at their meeting on 8th December 2022 (minute 22.242.b refers).
- v. The Council has correctly provided the proper opportunity for the exercise of public rights following the audit for 2021-22 in that the requisite Notice was posted on appropriate notice boards and on the Council’s website. Although this is not within the remit of this audit it has been identified that the notice regarding the proper opportunity for the exercise of public rights in respect of 2022-2023 is incorrect. This

will result in a negative response in respect of the appropriate Internal Control in the Annual Internal Audit for 2023-2024.

**c) Conclusion**

- i. It is recommended that the Clerk regularly reviews any amendments to Standing Orders and Financial Regulations issued by NALC and updates the Council's documents accordingly.

### 3 Expenditure

**a) Objective**

To ensure that the Council follows good practice when making payments.

**b) Detail**

- i. All payments in excess of £300 together with every approximately 20th non-salary payment in the cash books have been checked. The value of the items checked is £44,621 which is 67% of non-salary payments made in the year.
- ii. All Payments were supported by appropriate documentation, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due.
- iii. It is noted that Members of Council are initialling invoices to indicate their approval of the payments. It is recommended that the Councillors signing cheques initial the invoices to indicate approval of the payment.
- iv. All discounts due on goods and services were taken where appropriate.
- v. The correct expense codes had generally been applied to all payments although it is noted that not all expense claims had been analysed correctly.
- vi. VAT has been appropriately identified and coded to the control account for periodic recovery.
- vii. Payments by Debit Card are approved by Council as part of the normal payment process.
- viii. VAT Returns have been submitted to HMR&C for recovery for the quarter to 30th June 2022 but not subsequently. It is recommended that VAT Returns are submitted to HMRC for recovery on a quarterly basis.

**c) Conclusion**

- i. It is recommended that VAT Returns are submitted to HMRC for recovery on a quarterly basis.

### 4 Risk

**a) Objective**

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.

**b) Detail**

- i. It is noted that Council have not reviewed their Risk Assessment in the year. The Clerk and Members are reminded of the Governance and Accountability Manual - Practitioners Guide (2014 edition) mandatory requirement that Risk Assessments are reviewed and re-adopted formally by the Council each year. This will result in a negative response in respect of Internal Control Objective 'C' as mentioned previously in this report. It is recommended that Risk Assessments are carried out annually.
- ii. It is understood that the Hall Manager undertakes regular inspections of the Council Play Area(s), any matters of concern being reported to and actioned as appropriate. It is understood that a permanent record is kept of these inspections. Council is reminded that it is a statutory requirement to retain all playground inspection reports for a period of eighteen plus three years, twenty-one years in total, and to ensure that a reasonable and proportionate Playground Management Policy is in maintained. It is strongly recommended that a detailed inspection check list be introduced and that the reports on the monthly inspections are filed in the office. It has not been possible to ascertain whether the member of staff responsible for inspecting the Play Area has attended a training course on the subject. It is therefore recommended that a member of staff attend a Play Area Health and Safety Course.
- iii. An annual inspection is undertaken of the Council Play Areas by a RoSPA accredited Inspector.
- iv. Council's insurance is with Zurich. The current policy expires on 31st May 2024 with Employers and Public Liability being set at £10m and Fidelity Guarantee being set at £100k.

**c) Conclusion**

- i. It is recommended that Risk Assessments are carried out annually.
- ii. It is strongly recommended that a detailed inspection check list for the Play Area be introduced and that the reports on the monthly inspections are filed in the office.
- iii. It is further recommended that a member of staff attend a Play Area Health and Safety Course.

## 5 Precept Determination

**a) Objective**

To ensure that the Council has the appropriate procedure in place for identifying and approving its future budgetary requirements and level of precept to be drawn down from the District Council.

**b) Detail**

- i. It is noted that a detailed budget in respect of 2023/2024 was agreed by the Finance Committee at their meeting on 20th November 2022 (minute 6.b. ii refers) and ratified by Council at their meeting on 8th December 2022 (minute 22/242.a) refers).

- ii. As mentioned previously in this Report, the Council's precept was agreed in the sum of £64,226 at their meeting on 8th December 2022 (minute 22/242.b) refers).

**c) Conclusion**

- i. There are no matters to be commented on in this area of the Report.

## 6 Budget Control

**a) Objective**

To ensure that Council has an effective reporting and monitoring process is in place and also to ensure that the Council retains appropriate funds in general and earmarked reserves to finance its ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

**b) Detail**

- i. It is noted from our review of the minutes that in the first part of the year members were provided with regular management accounting information based on reports from the accounting system. Unfortunately this was not continued during the latter part of the year.
- ii. It is further noted that, because of the poor maintenance of accounting records during the year, it has not been possible to quantify any significant unexplained variances.
- iii. As mentioned previously in this Report a detailed budget in respect of 2023/2024 was agreed by the Finance Committee at their meeting on 20th November 2022 (minute 6.b. ii refers) and ratified by Council at their meeting on 8th December 2022 (minute 22/242.a) refers).
- iv. It is noted that Total Reserves at the year end were £100,923. The Council does not appear to have quantified earmarked Reserves. The balance of General Reserves at £100,923 equates to over twelve months average revenue expenditure which is above the currently accepted guideline of between three and six months average revenue expenditure. It is recommended that the Council quantify any required Earmarked Reserves

**c) Conclusion**

- i. It is recommended that the Council quantify any required Earmarked Reserves

## 7 Income

**a) Objective**

To ensure that Council has appropriate procedures in place to ensure that all income due is identified, invoiced (if necessary), recovered and banked in a timely manner.

**b) Detail**

- i. The sources of income available to the Council are the precept, hall hire, rents, quarterly VAT recovery and occasional grants and donations. Additionally during the year the Council received a PWLB loan.
- ii. It is noted that hall rental fees were reviewed by Council at their meeting on 9th June 2022 (minute 22.115. (a) refers)
- iii. The Hall booking diary was not provided and the rental invoices provided only covered the period from April 2022 to December 2022.
- iv. The Hall rental income for the quarter to 31st June 2022 has been checked with no obvious issues arising.
- v. It is noted that the accounting software incorporates a hall booking system which automatically issues invoices. It is recommended that this system be utilised going forward.

**c) Conclusion**

- i. It is recommended that this accounting system hall booking software be utilised going forward.

## 8 Petty Cash

**a) Objective**

To ensure that the Council follows good practice when making cash payments.

**b) Detail**

- i. Council does not operate a petty cash account.

**c) Conclusion**

- i. There are no matters to be commented on in this area of the Report.

## 9 Salaries

**a) Objectives**

To confirm that current Employment Law is being appropriately observed together with the requirements of HM Revenue and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the Council's pension scheme, to which employees contribute.

**b) Detail.**

- i. The Clerk prepares the Council's payroll for its employees using HM Revenue & Customs' (HMRC) PAYE Tools software.
- ii. The payroll has been checked for all members of staff for the month of March 2023 with no issues arising other than a possible de minimus overpayment due to a rounding error.
- iii. It is noted that not all required payments have been made to HMRC in respect of PAYE/NI deductions in a timely manner. It is understood that this has now been rectified. It is recommended that

payments in respect of deductions of tax/NI be made to HMRC on a quarterly basis.

**c) Conclusion**

- i. It is recommended that payments in respect of deductions of tax/NI be made to HMRC on a quarterly basis.

## 10 Asset Register

**a) Objective**

To ensure that the Council develops and maintains a register of assets identifying detail of all land, buildings, vehicles, furniture and equipment owned by the Council as required by the Governance and Accountability Manual.

**b) Detail**

- i. The Council maintains a formal Asset Register which has been prepared using purchase cost uplifted or decreased to reflect the acquisition or disposal of any assets (where applicable) during the financial year.
- ii. It is noted that additions to the Asset Register for the first part of the year under review have apparently been added to the Asset Register in the incorrect year column. It is recommended that this be amended.
- iii. It is further noted that no additions to the Asset Register have been made for the second part of the year under review. It is recommended that this be reviewed and adjust in the ensuing financial year. This failure to update the Asset register will result in a negative response in respect of Internal Control Objective 'H' as mentioned previously in this report.
- iv. In view of the comments at 10. b) iii above it is not possible to confirm that the correct figure of Fixed Assets has been reported in the AGAR.
- v. It is noted that the Council currently maintains a photographic record of its assets. It is suggested that this be expanded as photographic evidence can be useful in the event of an insurance claim in respect of an asset.

**c) Conclusion**

- i. It recommended that additions to the Asset Register in the first part of the year under review be correctly recorded on the Register.
- ii. It is recommended that the possible addition of Fixed Assets to the Asset Register in the second half of the year under review should be reviewed and amended as necessary
- iii. It is suggested that the photographic record of all fixed assets be expanded.

## 11 Investments and Loans

**a) Objective**

To ensure that the Council is “investing” surplus funds, be they held temporarily or on a longer term basis in appropriate banking and investment accounts; that an appropriate investment policy is in place; that the Council is obtaining the best rate of return on any such investments made; that interest earned is brought to account correctly and appropriately in the accounting records and that any loan repayments due to or payable by the Council are transacted in accordance with appropriate loan agreements.

**b) Detail**

- i. It is pointed out that where “investments” including cash at bank are held in excess of £100,000 a formal Investment Policy must be in place. It is noted that the Council’s “investments” do exceed this threshold at certain times of the year It is recommended that Council prepare an Investment Policy annually and that this Investment Policy be loaded on their website.
- ii. It is noted that Council have invested the sum of £20,000 with the Nationwide Building Society and that this investment may be a twelve month investment with interest being credited at the end of the term. It is noted that a statement as at 31st March 2023 or at 8th April 2023 (the assumed end of the investment term) has not been received. It has been now been verified that the interest in respect of this deposit was credited to this account on 31st March 2023. This interest has not been credited to the bank account before the year end and this will result in a negative response in respect of Internal Control Objective ‘H’ as mentioned previously in this report. It is recommended that Council obtain statement(s) in respect of this account at 31st March each year.
- iii. Council holds no long-term investments.
- iv. Council does not have any loans with external bodies repayable by or to it.

**c) Conclusion**

- i. It is recommended that Council prepare an Investment Policy annually and that this Investment Policy be loaded on their website.
- ii. It is recommended that Council obtain statement(s) in respect of the Nationwide account at 31st March each year.

## 12 Statement of Account and AGAR

**a) Objective**

To ensure Council meets the requirements of the 1996 Accounts and Audit Regulations in that they must prepare annually a detailed Statement of Accounts, together with supporting statements identifying other aspects of the Council’s financial affairs.

**b) Detail**

- i. It is noted that accuracy of detail contained in the above documentation is failing in several aspects.

- ii. The reports have been checked against prime documentation, and it is noted, as detailed in the Report, that the Council's accounting records do not accurately record the 2022-23 financial year's transactions.

**c) Conclusion**

- i. There are matters arising in this area of our review warranting formal comment. The closing balance as reflected in the AGAR does not reflect the actual balance of funds held by the Council by virtue of the closing bank reconciliation being out of balance. It is recommended that Council employ an independent accountant to review and correct the postings made in the year to identify and correct the closing balance as at the year end.
- ii. On the basis of the work undertaken during the course of our review for the year, the Internal Audit Certificate in the Annual Return has been completed and signed assigning positive assurances in all areas with the exception of Internal Control Objectives 'A', "C", "H", and "I" as previously mentioned in this Report.

**19th July 2023**