# Annual Internal Audit Report 2021/22

KINGSMEAD PARISH COUNCIL (CH0228)

WWW.KINGSMEADPC.ORG.UK

**During** the financial year ended 31 March 2022, this authority's internal auditor acting independently and on the basis of an assessment of risk, carried out a selective assessment of compliance with the relevant procedures and controls in operation and obtained appropriate evidence from the authority.

The internal audit for 2021/22 has been carried out in accordance with this authority's needs and planned coverage. On the basis of the findings in the areas examined, the internal audit conclusions are summarised in this table. Set out below are the objectives of internal control and alongside are the internal audit conclusions on whether, in all significant respects, the control objectives were being achieved throughout the financial year to a standard adequate to meet the needs of this authority.

| Internal control objective | Yes | No* | Not covered** |
|---|---|---|---|
| **A.** Appropriate accounting records have been properly kept throughout the financial year. | ✓ | | |
| **B.** This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for. | ✓ | subject to issues in internal audit report. | |
| **C.** This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these. | ✓ | | |
| **D.** The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate. | ✓ | | |
| **E.** Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for. | ✓ | | |
| **F.** Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for. | N/A | no petty cash held | |
| **G.** Salaries to employees and allowances to members were paid in accordance with this authority's approvals, and PAYE and NI requirements were properly applied. | ✓ | | |
| **H.** Asset and investments registers were complete and accurate and properly maintained. | ✓ | | |
| **I.** Periodic bank account reconciliations were properly carried out during the year. | ✓ | | |
| **J.** Accounting statements prepared during the year were 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 debtors and creditors were properly recorded. | ✓ | | |
| **K.** If the authority certified itself as exempt from a limited assurance review in 2020/21, it met the exemption criteria and correctly declared itself exempt. *(If the authority had a limited assurance review of its 2020/21 AGAR tick "not covered")* | N/A | | ✓ |
| **L.** The authority publishes information on a free to access website/webpage up to date at the time of the internal audit in accordance with any relevant transparency code requirements | ✓ | | |
| **M.** The authority, during the previous year (2020-21) correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations *(evidenced by the notice published on the website and/or authority approved minutes confirming the dates set)*. | ✓ | | |
| **N.** The authority has complied with the publication requirements for 2020/21 AGAR *(see AGAR Page 1 Guidance Notes)*. | ✓ | | |

| **O. (For local councils only)** Trust funds (including charitable) – The council met its responsibilities as a trustee. | Yes | No | Not applicable |
|---|---|---|---|
| | | | ✓ |

For any other risk areas identified by this authority adequate controls existed (list any other risk areas on separate sheets if needed).

Date(s) internal audit undertaken: DD/MM/YYYY 07/06/2022

Name of person who carried out the internal audit: JOH BUSINESS SERVICES LTD

Signature of person who carried out the internal audit: [signature]

Date: 20/06/2022

*If the response is 'no' please state the implications and action being taken to address any weakness in control identified (add separate sheets if needed).

**Note: If the response is 'not covered' please state when the most recent internal audit work was done in this area and when it is next planned; or, if coverage is not required, the annual internal audit report must explain why not (add separate sheets if needed).

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The internal audit of Kingsmead Parish Council was carried out by undertaking the following tests as specified in the AGAR Annual Return for Local Councils in England:

- Checking that books of account have been properly kept throughout the year
- Checking a sample of payments to ensure that the Council's financial regulations have been met, payments are supported by invoices, expenditure is approved, and VAT is correctly accounted for
- Reviewing the Council's risk assessment and ensuring that adequate arrangements are in place to manage all identified risks
- Verifying that the annual precept request is the result of a proper budgetary process; that budget progress has been regularly monitored and that the council's reserves are appropriate
- Checking income records to ensure that the correct price has been charged, income has been received, recorded and promptly banked and VAT is correctly accounted for
- Reviewing petty cash records to ensure payments are supported by receipts, expenditure is approved and VAT is correctly accounted for
- Checking that salaries to employees have been paid in accordance with Council approvals and that PAYE and NI requirements have been properly applied
- Checking the accuracy of the asset and investments registers
- Testing the accuracy and timeliness of periodic and year-end bank account reconciliation(s)
- Year end testing on the accuracy and completeness of the financial statements

**Conclusion**
On the basis of the internal audit work carried out, which was limited to the tests indicated above, in our view the council's system of internal controls is in place, adequate for the purpose intended and effective, subject to the recommendations reported in the action plan overleaf.

As part of the internal audit work for the next financial year we will follow up all recommendations included in the action plan.

## JDH Business Services Limited

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| | **ISSUE** | **RECOMMENDATION** | **FOLLOW UP** |
|---|---|---|---|
| 1 | Business Continuity – The stability of staffing in the key positions of clerk/ RFO continues to be a significant issue for the council. A number of locum clerks have been in place recently and there is still no appointed permanent clerk/RFO.<br><br>In particular, between September and mid-November 2021 it is not clear whether an individual had been appointed in the minutes as the acting RFO to ensure there was a continual RFO function in place in accordance with the Local Government Act 1982 (s151). | *The council should carry out a review to identify and address the reasons why staff in the key position of clerk/RFO do not remain in post for the medium/long term.*<br><br>*The council should aim for medium term stability of staff resources to enable council functions to be delivered effectively. All new staff should be provided with a robust handover regarding detailed responsibilities, procedures, internal controls and other requirements.*<br><br>*The council should always ensure an individual has been appointed in the minutes as the acting RFO to ensure there is a continual RFO function in place in accordance with the Local Government Act 1982 (s151).* | **Noted**<br><br>**A permanent clerk has been appointed, with a contract start date of 01/08/2022** |
| 2 | The 2021/22 accounts have been prepared on an Income and Expenditure (I&E) basis with the 2020/21 accounts also restated on an I &E basis to ensure the comparatives in the AGAR are disclosed on a like for like basis. We have reviewed the I&E accounts for both years including Balance Sheet items such as debtors and creditors. | *The AGAR 2020/21 column should include the word 'RESTATED'* | **Implemented** |

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| | **ISSUE** | **RECOMMENDATION** | **FOLLOW UP** |
|---|---|---|---|
| 3 | The risk assessment does not address the risks of supplier fraud with mitigation actions such as:<br><br>- training for staff to alert them to the potential risks of providing sensitive company information, by phone or other means, especially contract and account information.<br><br>- establish a rigorous change of supplier details procedure - where a supplier has purported to have changed their bank details always call the supplier to check the veracity of a request, using details in your system, rather than those on any associated letter or email. A person should be authorised to approve a supplier bank account change after having reviewed the process undertaken to verify the supplier details change<br><br>- periodic review of supplier accounts should also be undertaken to remove any dormant accounts. This reduces the likelihood of any old supplier information being used to secure fraudulent payments. | *The risk assessment should be updated to include supplier fraud prevention including the adequacy of supplier onboarding controls.* | **Noted and should have been reviewed at an appropriate finance committee meeting.**<br><br>**The risk assessment has not been updated and will be actioned at a meeting of the finance committee in Sept. 2023.** |

| | ISSUE | RECOMMENDATION | FOLLOW UP |
|---|---|---|---|
| | - checking address and financial health details with Companies House<br><br>- checking samples of online payments to supplier invoices to ensure the payment has been made to the supplier bank account | | |
| 4 | Payroll and expense information provided indicated that for the employee expenses claim covering Aug/Sept 2021 there were no supporting records or information. | *Supporting information including vouchers should be provided and retained for all expenses claims.* | **Noted** |
| 5 | The council did not evidence that they carried out an annual physical verification of fixed assets recorded in the asset register as required by the following Financial Regulation:<br><br>14.6. …… The continued existence of tangible assets shown in the (Asset) Register shall be verified at least annually, possibly in conjunction with a health and safety inspection of assets.' | *Compliance with the Financial Regulations for fixed assets should be evidenced via a dated signature(s) showing when the annual asset verification check was carried out.* | **Noted**<br><br>**An annual asset verification will be instigated during the financial year.** |

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| | ISSUE | RECOMMENDATION | FOLLOW UP |
|---|---|---|---|
| **2020/21 internal audit** | | | |
| 1 | The precept disclosure of £200500 in the AGAR accounts is incorrect. The precept received in the year was £200550. | *The AGAR accounts should be amended as noted.* | **Implemented** |
| 2 | The council Financial Regulations require the following with respect to medium term financial planning :<br><br>*3.1. Each committee shall review its three year forecast of revenue and capital receipts and payments.*<br><br>*3.3. The council shall consider annual budget proposals in relation to the council's three year forecast of revenue and capital receipts and payments*<br><br>However, there is currently no three year rolling revenue and capital financial plan in place. | *The council should either establish a rolling three year financial plan for revenue and capital as required by the current Financial Regulations (FRs) or update FRs to reflect the current annual budget procedure.* | **Recommendation Outstanding**<br><br>**2021/22: The Council recognised that this had not been acted on.**<br><br>**The Finance Committee will review the relevant Financial Regulation and amend it to reflect the annual budget procedure.** |
| 3 | The risk assessment was not reviewed and approved by council during 2020/21. | *The updated risk assessment should be presented to full council each financial year for review and approval.* | **Implemented** |

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| | ISSUE | RECOMMENDATION | FOLLOW UP |
|---|---|---|---|
| 4 | The fidelity insurance of £200,000 does not cover maximum projected cash and bank balances, which is calculated as year end balances plus the next precept instalment. | *The council should review the adequacy of the fidelity insurance cover as part of annual risk assessment.* | **Implemented** |
| 5 | The fixed asset register value has changed from £134,311 in 2019/20 to £129,050. However, there is no reconciliation in the asset register identifying what the changes are between financial years in terms of additions and disposals. | *Movements in the asset register values between financial years should be clearly disclosed.* | **Implemented** |
| 6 | 2020/21 was the second financial year in succession the council has exceeded the £200,000 threshold for submitting income and expenditure accounts. | *If the £200,000 accounts threshold is exceeded in 2021/22 the council will have to submit income and expenditure accounts and restate the 2020/21 comparatives in the 2021/22 AGAR on the same basis.* | **Implemented** |
| **2019/20 internal audit** | | | |
| 1 | The accounts in the AGAR annual return are incorrect and do not agree to RBS ledger. The AGAR accounts cast to £34523, whereas the RBS ledger records net balances carried forward as £34325. The error is due to an misstatement of | *The AGAR accounts should be amended for errors to ensure agreement with the RBS ledger.* | **Clerk provided the correct final version of the AGAR. Issue resolved.** |

| | ISSUE | RECOMMENDATION | FOLLOW UP |
|---|---|---|---|
| | payments in the AGAR accounts. | | |
| 2 | The 2018/19 AGAR accounts have been amended. | *The word 'RESTATED' should be written at the top of the 2018/19 comparatives in the AGAR accounts.* | **Implemented** |
| 3 | The updated Financial Regulations refer in section 10.) to a Purchase Order (PO) system (which would also clearly evidence the authority to spend). However, no PO system is currently in place.<br><br>Section 4.) of the Financial Regulations for Authority to Spend require a Chair and the Clerk to certify expenditure up to £500 and a duly delegated committee of the council for items over £500 and less than £5000. However, it is not clear from our internal audit sample testing that the Authority to Spend requirements are applied to all expenditure. | *The council should establish a sequential Purchase Order system as required by the updated Financial Regulations and ensure Purchase Orders for expenditure up to £500 are signed by a Chair and clerk, and expenditure between £500 and £5000 include the minute reference on the PO evidencing the committee authority to spend.* | **Recommendation Outstanding**<br><br>**2021/22: A PO system is in operation** |
| 4 | A payment card is utilised by the council and the Financial Regulations (FRs) authorise this. However, the FRs do not set a translation limit and a total monthly limit on the use of the card. | *The council should set a transaction limit and maximum monthly limit of the payment card in the FRs.* | **Implemented - maximum limit of £500 is in place.** |

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| | ISSUE | RECOMMENDATION | FOLLOW UP |
|---|---|---|---|
| 5 | The council received an invoice for a supply with a VAT charge included but no VAT number. No VAT number was forthcoming from the supplier. The council has not claimed the VAT and has reported the issue to HMRC. | *In addition to querying the absence of a VAT number on an invoice, the council should also ensure the VAT number of suppliers is validated using the online verification system.* | **VAT verification process adopted.** |
| 6 | The council has established a significant number of working groups. A working group cannot make a decision or commit the council to expenditure. | *The Council should review the terms of reference for all working groups and ensure they stipulate that the group cannot make decisions, cannot commit the council to expenditure, and are advisory only.* | **Awaiting evidence of implementation from council.** |
| **2018/19 internal audit** | | | |
| 1 | Strict budgetary control during the year resulted in reserves increasing from £4142 to £12642, which is still a very low level. The council has taken concerted action to increase reserves over the medium term by increasing the precept by £15000 for each of the next three financial years to replenish general reserves. | *The council need to adhere to the medium term plan to replenish general reserves to adequate levels.* | **2019/20 follow up – year end balances have increased to £34325 so the council has made progress in replenishing general reserves to satisfactory levels. Sector guidance is that general reserves should be a minimum of 25% of the precept level which for 2019/20 is a minimum level of £46250.** |
| 2 | The AGAR Annual Return internal audit certificate had been completed by the council. This is not appropriate – this | *The internal audit certificate should not be provided to the internal auditor pre-completed in future* | **Implemented** |

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| | ISSUE | RECOMMENDATION | FOLLOW UP |
|---|---|---|---|
| | certificate has to be completed by the independent internal auditor. | | |
| 3 | The June and December 2018 payment authorisation schedules had been signed by two members, but not dated | *Authorisation schedules should be dated when they are signed to evidence the payments were authorised in advance of them being made* | **Implemented** |
| 4 | The year end VAT return from the RBS accounting system shows a reclaim amount of -£126.80, primarily due to previous overclaim errors. | *VAT should be completely and accurately recorded in the council accounting system* | **Implemented** |