

INTERNAL AUDIT REPORT
SHAVINGTON-CUM-GRESTY PARISH COUNCIL
2021/22

The internal audit was carried out by undertaking the following tests 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. The recommendations included in the action plan should to be implemented promptly.

JDH Business Services Limited

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	ISSUE	RECOMMENDATION	FOLLOW UP
1	<p>We were informed that the cleaning contract has been extended by reference to section 11.1 a iv of the Financial Regulations to exempt the contract from the standard procurement requirements of the Financial Regulations for contracts in excess of £3000 where three quotations are required.</p>	<p><i>The council should note that all contracts in excess of £3000 should be periodically subject to the market testing requirements of the Financial Regulations.</i></p>	
2	<p>The village hall prices are not published on the council website and there is no section on the website noting that there is a village hall for hire.</p> <p>Sample testing of income identified that the hire time, date, unit hire price and number of hires are frequently not included in the hire invoice so there is lack of audit trail from the booking schedules to the customer invoice. In addition, the lack of this information in a customer invoice makes it difficult for a customer with a number of hires to identify which hires they are paying for.</p>	<p><i>The village hall hire prices approved by council should be clearly published on the council website.</i></p> <p><i>Hire invoices should always include the hire time, date, unit hire price and number of hires so the customer is provided with the necessary information about their hire and there is a full audit trail from bookings to invoices issued</i></p>	
3	<p>The risk assessment does not address the risks of supplier fraud via appropriately robust policies and procedures. Examples of</p>	<p><i>The risk assessment should be updated to include supplier fraud including the adequacy of supplier onboarding</i></p>	

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	<p>prevention actions include:</p> <ul style="list-style-type: none"> - 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. - 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 - 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. - checking address and financial health details with Companies House - checking samples of online payments to supplier invoices to ensure the payment has been made to the supplier bank account 	<p><i>controls.</i></p>	

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2020/21 internal audit			
1	The 2019/20 accounts comparatives in the 2020/21 AGAR are incorrect. £21,217 has been disclosed as staff costs instead of £20,217. In addition, a number of rounding changes have been made.	<i>The 2019/20 accounts which were certified by the external auditor must be disclosed accurately in the 2020/21 AGAR.</i>	Implemented
2	The cash book was balanced to the incorrect bank statement date in the year end bank reconciliation. The statement balance as at March 29 th 2021 was used which resulted in a number of cheques being disclosed as 'unpresented' in the bank reconciliation when in fact they had cleared the bank account by March 31 st , 2021.	<i>The year end bank statement balance must be used in the year end bank reconciliation.</i>	Implemented
3	The council did not comply with Regulation 15 of the Accounts and Audit Regulations 2015 as amended by SI 2020/404 the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 as it failed to make proper provision for the exercise of public rights for the 2019/20 accounts. The public notice inspection period covered a 29 working day period instead of 30 days as no account was taken of the fact that August	<i>The council must comply with the requirements of the Accounts and Audit Regulations 2015 with respect to the notice for the exercise of public rights.</i>	Implemented

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	31 st 2020 was a bank holiday.		
4	The VAT return produced by the SCRIBE system contains no supplier VAT registration numbers. No VAT reclaims were received in the year.	<i>VAT must be reclaimed on a timely basis. The VAT return needs to be populated with all supplier VAT registration numbers before submission to HMRC.</i>	Implemented
5	Two laptops were purchased during the year but had not been added to the fixed asset register.	<i>The council must ensure that all capital additions during the year are identified and recorded in the fixed assets register.</i>	No issues identified in 2021/22 fixed asset testing.
2019/20 internal audit			
1	The initial budget setting process for 2019/20 failed to take account of the full year projected PCSO costs resulting in a shortfall in the initial budget of £13000.	<i>The budgeting process that underpins the setting of the precept must be improved to take account of all known expenditure.</i>	Implemented
2	A £3000 transfer between bank accounts had incorrectly been included in payments in the AGAR annual return accounts. Therefore, the year end balances and other payments were incorrectly stated.	<i>The Other Payments figure in the Annual Return should be reduced by £3000 and the year end balances. The year end balances should equate to £58977 (rounded).</i>	Implemented
3	The council did not comply with Regulation 15 of the Account and Audit Regulations	<i>The council must ensure that it makes proper provision for the exercise of</i>	See 2020/21 internal audit

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	2015 as it failed to make proper provision for the exercise of public rights in Summer 2019 for the 2018/19 accounts as the approval date of the accounts in the AGAR annual return was after the start date of the period for the exercise of public rights.	<i>public rights for every financial year</i>	
4	<p>We reported in 2018/19 that Minute 289 of the March 2019 meeting appeared to delegate various authorities relating to the village hall to a single member, which includes the ability to commit the council to expenditure and to make decisions for the council. The council resolved in 2019/20 that these functions would revert to the clerk, however, from review of the 2019/20 records it appears that councillors have undertaken roles in hall administration and committed the council to expenditure for the hall.</p> <p>Under s101 (1), (5) and (6) of the Local Government Act 1972 a parish council may arrange for any of its functions to be discharged by a committee, sub-committee or officer. S101 does not permit the council to delegate its functions to a single member. Therefore, the council may be currently operating in breach of the Local</p>	<p>RECURRING RECOMMENDATION <i>The council need to resolve this situation urgently and ensure functions are delegated only to a committee, sub-committee or an officer and that no councillor commits to council to orders or contracts for expenditure.</i></p>	<p>The council clerk has confirmed individual councillors can no longer commit the council to expenditure</p>

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	Government Act 1972.		
5	Income systems for the village hall could not be tested as no supporting documentation such as diaries/booking forms/invoices and receipts were provided. The clerk had requested the items from the councillor managing the bookings system but these had not been received at the date of the internal audit. It is likely that the pandemic and subsequent lockdown has impacted on the clerk ability to secure all the income information required	<i>The council need to urgently re-establish effective internal controls over hall hire and ensure all hall hire documentation is retained and made available for internal audit.</i>	Implemented
6	The fixed asset register value is incorrect as it does not cast correctly. An asset purchased in 2019/20 has been added, but the register is maintained as a WORD document rather than a spreadsheet so the total has not changed. In addition, there is a statement on the asset register about a recommendation from internal audit from 2017/18 that was never actually made. Finally, the clerk having corrected the final 2018/19 asset register disclosure on the AGAR annual return, has this year made the same error again and included a recent valuation figure(s) for assets.	<p><i>The fixed asset register should equate to last year's figure from the AGAR annual return plus the one addition in the year. Therefore, the register needs to be amended and the Annual Return disclosure.</i></p> <p><i>The invalid statement about internal audit recommendations from 2017/18 must be removed from the asset register.</i></p> <p><i>The asset register should be maintained as an excel spreadsheet.</i></p>	Implemented, however, see 2020/21 issues

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		<p><i>The Practitioners' Guide requires that assets should be valued at purchase cost or an insurance proxy if that isn't known (that doesn't change over time), therefore, the only movement in fixed assets each year should be for additions and disposals and all additions should be at purchase price.</i></p> <p><i>The Council need to review the asset register and disclose the correct value in the AGAR Annual Return which should equate to the value for fixed assets disclosed in the 2018/19 AGAR annual return plus additions at cost less disposals at cost.</i></p>	
7	<p>The information provided for internal audit indicated that VAT had not been reclaimed on Direct Debits. The material VAT issue raised in 2018/19 has still not been addressed.</p>	<p><i>VAT on Direct Debits should be separately analysed and reclaimed</i></p> <p><i>Issue 4 of the 2018/19 report relating to VAT and partial exemption must be addressed.</i></p>	<p>Recommendation Outstanding</p> <p>2021/22 follow up – VAT returns include VAT reclaimed on Direct Debits</p>
8	<p>Sample testing identified an expenses claim for £189.97 from a councillor with no receipts provided.</p>	<p><i>Expenditure invoices/vouchers must be provided for all expense claims. VAT cannot be reclaimed on standard rated expenditure that is not supported by a</i></p>	<p>No further expenses issues identified in 2020/21</p>

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		<i>VAT invoice.</i>	
9	We raised a number of important issues last year but most have not been addressed.	<i>The council should urgently review all issues from 2018/19 internal audit and the 2019/20 internal audit and take prompt action to implement the recommendations.</i>	See internal audit issues below
2018/19 internal audit			
1	<p>A budget of £180595 has been set for 2019/20 to be financed by £129000 precept and the remainder from the entirety of forecast general reserves at the end of 2018/19. This approach to the 2019/20 budget would potentially either level the council with a critically low level of reserves, or no reserves so that any overspend could mean the council running at a deficit in funds.</p> <p>Therefore, the budget set for the 2019/20 financial year does not take into account of 'an amount that the council estimates will be appropriate to meet future estimated expenditure' (ie to hold in reserves). This is</p>	<p><i>The council should urgently improve budgetary control and budget setting:</i></p> <ul style="list-style-type: none"> • <i>The Council should review their budget analysis and ensure that they can balance the budget for 2019/20. The items in particular that need to be reviewed are the £10000 unallocated sum and the £20000 budget for a purchase of parcel of land. These two budgets may be needed instead to ensure general cash reserves are in place at the year end.</i> • <i>The council must ensure that they are carrying an adequate</i> 	<p>See 2019/20 issues.</p> <p>2020/21 follow up - implemented</p>

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	a requirement of the Local Government Finance Act 1992.	<p><i>general reserve. Sector guidance is that this should be between 3 and 12 months of the precept level</i></p> <ul style="list-style-type: none"> • <i>Budgetary control reports detailing spend to date against budget should be regularly reported during 2019/20</i> 	
2	<p>Minute 289 of the March 2019 meeting appears to delegate various authorities relating to the village hall to a single member, which includes the ability to commit the council to expenditure and to make decisions for the council.</p> <p>Under s101 (1), (5) and (6) of the Local Government Act 1972 a parish council may arrange for any of its functions to be discharged by a committee, sub-committee or officer. S101 does not permit the council to delegate its functions to a single member. Therefore, the council may be currently operating in breach of the Local Government Act 1972.</p>	<p><i>The council need to resolve this situation urgently and ensure the functions listed in minute 289 are delegated only to a committee, sub-committee or an officer.</i></p>	<p>Recommendation outstanding – see 2019/20 issues.</p> <p>2020/21 follow up – council clerk has confirmed individual councillors can no longer commit the council to expenditure</p>
3	Income systems for the village hall could not be tested as there was no audit trail from	<p><i>The council need to urgently re-establish effective internal controls over</i></p>	<p>Recommendation outstanding – see 2019/20 issues.</p>

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	diaries to booking forms to invoices and to bankings. We could identify no booking forms, invoices, booking diaries or price lists. We understand that bookings were maintained on a personal computer by a councillor but that this information is not now available. The clerk has carried out an exercise to record all entries in the receipt books (total £3740) and to match with actual deposits into the bank (£3425), but this differs by £315.	<p><i>hall hire and ensure all hall hire documentation is retained and made available for internal audit.</i></p> <p><i>The council should investigate the shortfall in hall hire bankings of £315.</i></p>	2020/21 follow up - implemented
4	We previously recommended that the council should secure VAT advice on the impacts of the significant works to the town hall on the amount of VAT that can be reclaimed, due to the £7500 partial exemption threshold. No VAT specialist advice has been secured and no VAT reclaim has been submitted for 2018/19 nor any received during 2018/19 relating to previous periods.	<i>The council need to urgently secure guidance from the SLCC VAT advice function to determine to what extent the VAT incurred on the village hall can be reclaimed. A VAT reclaim then need to be submitted promptly as the VAT will be needed to contribute to the cash reserves in 2019/20.</i>	Recommendation outstanding – see 2019/20 issues
5	The council have revalued the village hall and reflected the new value in the fixed asset register.	<i>The Practitioners' Guide requires that assets should be valued at purchase cost or an insurance proxy if that isn't known (that doesn't change over time), therefore, the only movement in fixed</i>	See 2019/20 issues

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		<p><i>assets each year should be for additions and disposals and all additions should be at purchase price.</i></p> <p><i>The Council need to review the asset register and disclose the correct value in the AGAR Annual Return which should equate to the value for fixed assets disclosed in the 2018/19 AGAR annual return plus additions at cost less disposals at cost.</i></p>	
6	S137 payments are recorded in the minutes but there is no separate analysis in the cash book so the cumulative level of S137 can be recorded against statutory limits.	<i>A separate analysis of S137 payments should be maintained in the cash book.</i>	<p>Recommendation outstanding .</p> <p>2020/21 follow up – clerk has identified the s137 payments</p>