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## **Hullbridge Parish Council**

*Internal Audit Report 2022-23 (Final update)*

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## **Background**

All town and parish councils are required by statute to arrange for an independent Internal Audit (IA) examination of their accounting records and systems of internal control and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR). The Council has complied with the requirements in terms of independence from the Council decision making process appointing us at Auditing Solutions Ltd to provide the service.

For a variety of reasons, we undertook the interim review remotely and are pleased to have been able to undertake this final update review on site at the Council's offices on 24<sup>th</sup> May 2023. We thank the Clerk and her staff for the assistance provided which has helped ensure the smooth completion of the year's IA review providing all necessary information in electronic or hard copy format.

## **Internal Audit Approach**

In undertaking our review for the year, we have again had regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts / AGAR. Our programme of cover has again been designed to afford appropriate assurance that the Council's financial systems remain robust and operate in a manner to ensure effective probity 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 facilitate our completion of the 'IA Certificate' in the AGAR, which requires independent assurance over a number of internal control objectives.

## **Overall Conclusion**

We are pleased to report that no major concerns arise from the work completed this year, although at our interim review we noted the limited action taken to that date to address issues raised in last year's report: consequently, we reiterated them in our interim report and are now pleased to acknowledge the actions taken / current status of each, as now reflected both in the main body of the following report and in the appended Action Plan.

Based on the overall satisfactory conclusions drawn from our programme of work for the year, we are pleased to report that we have signed off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area.

We take this opportunity to remind the Clerk & Council of the requirements of the guidance notes in the preface to the year's AGAR in relation to the documentation that should be displayed on the Council's website.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. The Clerk has again maintained the accounting records using the bespoke Rialtas Alpha accounting software. The main financial transactions are conducted through the Unity Trust Current bank account with surplus funds also currently on deposit with the Hampshire Trust Bank and Nationwide Building Society with separate cashbooks in the accounting software maintained for each, plus a separate cashbook to record petty cash transactions. We have: -

- Checked and agreed the opening trial balance detail for 2022-23 to the closing Trial Balance and certified AGAR for 2021-22;
- Ensured that the cost centre and nominal ledger coding structure remains appropriate for purpose;
- Ensured that the accounts remain “in balance” at the financial year-end;
- Checked and agreed all account transaction detail to the underlying bank statements for the financial year;
- Checked and agreed bank reconciliations on all accounts at 31<sup>st</sup> October 2022 and March 2023;
- Ensured that no long-standing unrepresented cheques or other anomalous entries exist;
- Noted that regular monthly bank reconciliations are undertaken on all bank accounts, detail being approved and signed off by a nominated member of Council; and
- Ensured the accurate disclosure of the combined cash and bank account balances in the AGAR at Section 2, Box 8.

The Council also operates a Corporate Lloyds debit / credit card to make various ad hoc purchases: the account is settled monthly with transaction detail recorded individually in the Alpha Current Account cashbook on the date of the transactions with a single settlement value being recoded on the bank statement. We have discussed this with the Clerk and suggested that, to simplify the recording and Current account bank reconciliation process a separate cashbook be set up in Alpha for the Lloyds card with individual entries recorded therein. The monthly payment to Lloyds should then be shown as a single gross payment for the full value of the monthly statement on the Lloyds card in the Current Account and as a receipt in the Lloyds card account, which should then balance to Zero excepting any subsequent transactions to be reimbursed the following month. We are pleased to note that appropriate action has been taken to simplify the recording of these transactions commencing on 1<sup>st</sup> April 2023.

### *Conclusions and recommendation*

***We are pleased to report that no issues of serious concern have been identified in this review area: we note that the month-end bank reconciliations continue to be reviewed by a nominated non-signatory councillor who initials the Alpha generated reconciliation statements. The Council’s adopted Financial Regulations (FR – para 2.2 refers) require that not only are the reconciliations signed-off, but that the bank statements are also signed-off: we understand that the Clerk is also printing off the Alpha month-end Trial Balance as suggested by us last year, with the reconciliations, original bank statements and Trial Balance duly signed-off and retained on file.***

R1. *To ease the month-end reconciliation process, consideration should be given to establishing a further Alpha cashbook to record individual Lloyds debit / credit card transactions with the monthly Lloyds statement settlement recorded as a single entry in the Current Account cashbook and as a receipt in the Lloyds Debit / Credit card account cashbook. **This has been set up and is being applied with effect from 1<sup>st</sup> April 2023.***

## **Review of Corporate Governance**

Our objective here is to ensure that the Council has robust corporate governance documentation and processes in place, and that, as far as we may reasonably be expected to ascertain as we do not attend Council or Committee meetings, all meetings are conducted in accordance with the adopted Standing Orders (SOs) and no actions of a potentially unlawful nature have been or are being considered for implementation.

We note that SOs and Financial Regulations (FRs) dated 2016 are in place, being further reviewed and adopted by Council during the course of 2022-23. Both are based on the NALC model documents, although we note that, whilst the SOs refer to the 2015 Public Contract Regulations, the FRs still refer to those dated 2006: as advised last year, the FRs should be updated to make appropriate reference to the 2015 Contract Regulations. We have provided the Clerk with the latest NALC model FRs to assist in ensuring that the Council adopts the current and relevant legislative detail. We also take this opportunity to advise the Clerk and Council of recent further clarification on the level at which tenders must be advertised on the Government's Contract Finder website: the value has been clarified at £30,000 including VAT and we suggest that the Council's SOs and FRs are both updated to reflect the clarified value.

We have reviewed the minutes of the full Council and standing committees for the year and to date in 2023-24 as posted on the Council's website to determine whether any issues exist that may have an adverse effect on the Council's future financial stability, either in the short, medium or longer term with no such issues apparent.

We are pleased to note that the 2021-22 AGAR was signed-off by the external auditors with no matters arising, also that the Council has posted an appropriately timed "Notice of Public Rights" to examine the financial records for 2021-22 in accordance with the Accounts and Audit Regulations 2015 for 30 working days.

### ***Conclusions and recommendation***

***We are pleased to report that no significant residual issues arise in this review area following due consideration and amendment of both SOs and FRs during the financial year. We shall continue to monitor the Council's approach to governance matters, also reading minutes of meetings at future visits.***

R2. *The Financial Regulations should be subjected to further review and update to ensure that they reflect current rather than historical legislation. **Actioned accordingly, with revised Financial Regulations adopted in March 2023.***

## **Review of Expenditure**

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;

- Payments are supported by appropriate documentation, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due and/or an acknowledgement of receipt, where no other form of invoice is available;
- Members are provided with, and subsequently authorise, all supplier payments and that appropriate details are recorded in the Council minutes;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct expense codes have been applied to invoices when processed; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have extended testing in this area, examining a sample of those payments individually in excess of £1,000, together with a more random sample of approximately every 20<sup>th</sup> cashbook transaction irrespective of value, for the financial year. Our test sample comprises 49 individual payments totalling £43,210 and representing 43% by value of all non-salary expenditure to that date.

We are pleased to note that, in the sample of invoices selected, each bore evidence of members' review. As last year, we suggested at our interim review that consideration be given to the acquisition of a suitably designed certification stamp, which should be affixed to each payment supporting document and are pleased to acknowledge the positive action taken with an appropriate stamp acquired and in use.

We also suggest that, in order to provide a clear audit trail between the cashbooks and supporting documentation the unique sequential reference number allocated to each invoice should also be recorded in the cashbook as though it were a cheque number with a "B", "D" or "S" prefix for BACS, Direct Debits and Standing Order transactions. We have discussed this further with the Clerk at this final review visit and agreed an appropriate cross-referencing methodology.

We have confirmed that VAT has been appropriately identified and coded to the control account for periodic recovery noting settlement of the 2021-22 reclaim and the first three quarterly reclaims for 2022-23 by HMRC. We shall ensure the appropriate submission and settlement of the final 2022-23 quarter's reclaim at our 2023-24 interim review.

We note that the Council also holds Trade Cards which are used by the Clerk and by the Council's Maintenance Officers. The use of these cards by the Maintenance Officers is authorised by the Clerk with all expenditure thereon authorised as part of the routine payment approval process.

### ***Conclusions and recommendation***

***We are pleased to report that no significant or residual concerns have been identified in this area of our review process: however, as last year, we suggested in our interim report that, as above, the unique sequential numbers allocated to each payment during the year be recorded as though it were a cheque number in the cashbook with the appropriate prefix again as indicated above.***

***R3. The Council should consider the acquisition and use of a suitably designed (as in the body of the report) certification stamp to be affixed to all payment supporting documentation. Agreed and actioned accordingly.***

R4. *Consideration should also be given to recording the sequential reference numbers on each payment in the cashbook as though they were cheque numbers with the appropriate prefix of “B”, “D” or “S”, as detailed in the body of the report. **Agreed and will be actioned accordingly in 2023-24.***

## **Assessment and Management of Risk**

Our aim here is 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 in order to minimise the opportunity for their coming to fruition.

We are pleased to note that the Council has reviewed and adopted a revised format of risk register at the March 2023 full Council meeting and consider the resultant document, based largely on the template document we provided to the Clerk following our interim review, is appropriate for the Council’s current and ongoing requirements.

We have reviewed the current year’s insurance schedule, as now provided by Zurich, noting that Public and Employer’s Liability are in place at £12 million and £10 million respectively together with Fidelity Guarantee cover at £250,000 and Business Interruption - “Loss of Revenue” cover in place at £10,000. We consider these levels of insurance appropriate for the Council’s present requirements, although have doubts about the need for Business Interruption – Loss of Revenue cover.

We have noted previously that a member of the Council’s maintenance team undertakes weekly inspections of play area equipment staff with an appropriate record retained in the office.

### **Conclusions**

***We are pleased to report that no issues have been identified in this area of our review process warranting formal comment or recommendation. We will continue to monitor the Council’s approach to risk assessments at our final review.***

## **Budgetary Control & Reserves**

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and level of precept to be drawn down from the District Council: also, that an effective reporting and monitoring process is in place. We also aim 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.

We note that, following due deliberation, the Council approved the budget for 2023-24 adopting the year’s precept at £220,883 at the January 2023 full Council meeting.

We note from our review of minutes that members continue to be provided with regular management accounting information, based on reports generated from the Alpha accounting system. We have reviewed the financial year-end Alpha budget report obtaining appropriate explanations for the few significant variances existing. Overall, total income equates to 103.7% of the annual budget, whilst expenditure stands at 103.9%, all of which is considered acceptable.

Total reserves at 31<sup>st</sup> March 2023- stand at £148,484 (£148,919 at the prior year-end) including earmarked reserves (EMRs) of £67,303 leaving a General Reserve Fund balance of £81,181, which equates to approximately 4½ months' revenue spending and sits comfortably within the generally accepted range of between three and six-months revenue spending.

### ***Conclusions***

***We are pleased to report that no concerns have been identified in this area of our review process warranting formal comment or recommendation.***

## **Review of Income**

In this review area, we aim to ensure that the Council has appropriate procedures in place to ensure that all income due is identified, invoiced (where appropriate), recovered and banked in a timely manner. The Council only has limited income sources in the form of the annual Precept, recoverable VAT, allotment income and miscellaneous small receipts and grants.

We note that members have considered, reviewed, and approved staged increases of the allotment fees and charges over the next three years as part of the annual budget determination process.

We note that bespoke Rialtas software is used to manage and control the recovery of allotment rental income, the allotment tenancy year running from 1<sup>st</sup> October annually. The Clerk has kindly provided us with detail of the tenancy records for 2022-23 and we are pleased to note that rents for all occupied plots have been recovered for 2022-23.

We have also examined the nominal income transaction reports in Alpha for the year to ensure that, as far as we are reasonably able, all income due to the Council has been received and banked in a timely manner and are pleased to record that no issues arise in this review area this year.

### ***Conclusions***

***We are pleased to report that no issues have been identified in this review area.***

## **Petty Cash Account**

The Council operates a formal petty cash account on an “imprest” basis with a float of £250, which is “topped-up” as and when required during the year: a separate cashbook is in use in Alpha and we have, as with general expenditure through the Unity bank account, selected a sample of 9 individual payments in the year to the date of our interim review totalling £191 and equating to 80% by value of the expenditure to mid-November 2022. The Clerk has kindly provided us with soft copies of the till receipts / invoices relating to the selected test sample together with the monthly summary reconciliations from the Unity account, which we are pleased to note are also duly reviewed, initialled and dated by a nominated councillor approving the reimbursement.

We also note that any VAT incurred is also being coded in the Alpha cashbook for appropriate recovery.

### ***Conclusions***

***We are pleased to record that no issues arise in this area this year.***

## **Review of Staff Salaries**

In examining the Council's payroll function, we aim to confirm that current legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HMRC legislation relating to the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the Local Government pension scheme. Consequently, we have: -

- Reviewed the Council's payroll preparation procedures;
- Ensured that the Council has reviewed and approved pay scales for staff for 2022-23, noting that the 2022-23 nationally agreed pay award has, together with arrears due from 1<sup>st</sup> April 2022, been paid with the November 2022 salaries;
- Noted that the Clerk processes the payroll "in house" using the HMRC Basic PAYE Tools software;
- Confirmed, by reference to the October & November 2022 plus March 2023 payslips, that each member of staff has received the correct gross salary in line with the Council's approved rates;
- Checked to ensure that Income Tax and NIC deductions have been applied appropriately by reference to the relevant HMRC tables for October and November 2022;
- Ensured that the resultant deductions and contributions have been paid over to HMRC in a timely manner;
- Checked to ensure that the appropriate employee percentage deduction rates have been applied in respect of pension contributions; and
- Verified that the appropriate net pay has been paid to each employee for October and November 2022 in accordance with the payslip detail provided by the Clerk.

### **Conclusions**

*We are pleased to report no issues have been identified in this area of our review process warranting formal comment or recommendation. However, in discussion with the Clerk, we understand that overtime is occasionally worked by staff, detail being recorded electronically and retained on file. We also understand that these are not subjected to management confirmation and signed approval. The Clerk has agreed to implement the independent scrutiny and approval of the time sheets in future and we will, consequently, check the position at our next review visit.*

## **Fixed Asset Registers**

The Accounts and Audit Regulations 1996 (as amended periodically) require all Councils to maintain a Register of Assets. We are pleased to note that the Clerk maintains an appropriate Register which includes appropriate detail of new acquisitions during 2022-23 less any disposals: the register was formally approved by Council at its meeting in March 2023. We have ensured the accurate reporting of the updated year-end asset value in the register in the year's AGAR at Section 2, Box 9.

### **Conclusions**

*We are pleased to report that no issues have been identified in this area of our review process warranting formal comment or recommendation.*



## Investments and Loans

Our objectives here are to ensure that the Council is “investing” surplus funds, be they held temporarily or on a longer term basis in appropriate banking and investment institutions, 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.

We have previously noted that the Council opened a bond with the Hampshire Trust Bank and have ensured the appropriate receipt and recording of the accrued interest in September 2022: we have also noted the £25,000 addition to the Nationwide building Society account in May 2022 again ensuring the appropriate recording of earned interest received during the year.

We are, as recorded last year, pleased to note that the Council has reviewed and re-adopted its Investment Policy at their meeting in April 2022.

The Council has no outstanding loan liabilities having repaid the previous PWLB loan fully in 2021-22. The Council has no loans repayable to it.

### *Conclusions*

*We are pleased to report that no issues have been identified in this review area this year: we shall, as above, ensure the appropriate recording of any further interest income on the two deposit accounts.*

## Statement of Account and AGAR

The 1996 Accounts and Audit Regulations required all Councils to prepare annually a detailed Statement of Accounts, together with supporting statements identifying other aspects of the Council’s financial affairs. Such reporting has been superseded by implementation of the “Limited Assurance” review process with the aforementioned AGAR recording each year’s financial transactions detail of which is provided to the appointed external auditor for review and certification.

We have reviewed the AGAR Section 2 detail generated directly by the Alpha accounting software, together with the asset value as reported above, with no obvious errors or anomalies in the detailed content.

### *Conclusions*

*We are again pleased to record that no issues have been identified in relation to the verification of detail in the Statement of Accounts and AGAR this year.*

*On the basis of our detailed work during the course of the year on the Council’s systems of financial control and content of the detailed Statement of Accounts and that summarised detail set out in the AGAR, we have signed off the IA Certificate in the AGAR assigning positive assurances in each relevant area.*

Rec. No.	Recommendation	Response
<b>Review of Accounting Records and Bank Reconciliations</b>		
R1	To ease the month-end reconciliation process, consideration should be given to establishing a further Alpha cashbook to record individual Lloyds debit / credit card transactions with the monthly Lloyds statement settlement recorded as a single entry in the Current Account cashbook and as a receipt in the Lloyds Debit / Credit card account cashbook.	<i>This has been set up and is being applied with effect from 1<sup>st</sup> April 2023.</i>
<b>Review of Corporate Governance</b>		
R2	The Financial Regulations should be subjected to further review and update to ensure that they reflect current rather than historical legislation.	<i>Actioned accordingly, with revised Financial Regulations adopted in March 2023</i>
<b>Review of Expenditure</b>		
R3	The Council should consider the acquisition and use of a suitably designed (as in the body of the report) certification stamp to be affixed to all payment supporting documentation.	<i>Agreed and actioned accordingly.</i>
R4	Consideration should also be given to recording the sequential reference numbers on each payment in the cashbook as though they were cheque numbers with the appropriate prefix of “B”, “D” or “S”, as detailed in the body of the report.	<i>Agreed and actioned accordingly.</i>