Annual Internal Audit Report 2022/23

LOGGER HEADS PARISH COUNCIL

https://www.loggerheadsparishcouncil.co.uk

During the financial year ended 31 March 2023, 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 2022/23 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.		✓*	
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.			✓
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 2021/22, it met the exemption criteria and correctly declared itself exempt. *(If the authority had a limited assurance review of its 2021/22 AGAR tick "not covered")*			✓
L. The authority published the required information on a website/webpage up to date at the time of the internal audit in accordance with the relevant legislation.	✓		
M. In the year covered by this AGAR, the authority correctly provided for a period for the exercise of public rights as required by the Accounts and Audit Regulations *(during the 2022-23 AGAR period, were public rights in relation to the 2021-22 AGAR evidenced by a notice on the website and/or authority approved minutes confirming the dates set).*	✓*		
N. The authority has complied with the publication requirements for 2021/22 AGAR *(see AGAR Page 1 Guidance Notes).*		✓*	

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

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: 22/05/2023

Name of person who carried out the internal audit: MR LEWIS ANDERSON

Signature of person who carried out the internal audit: Lewis Anderson

Date: 19/06/2023

***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).

Annual Internal Audit Report 2022/23

Loggerheads Parish Council

Supplementary Report to Page 3 of the Annual Governance and Accountability Return (AGAR) 2022/23

Prepared by Mr Lewis Anderson

Please ensure that this Supplementary Report is read and published alongside Page 3 of the AGAR. Together, these form the Annual Internal Audit Report 2022/23, and as such, should be published on the website and submitted to the External Auditor together.

Introduction

As instructed, I confirm the conclusion of my Internal Audit Report for Loggerheads Parish Council's 2022/23 financial year. This report has been prepared in respect to the assertions as set out by Page 3 of the AGAR, and with respect to the advice notes of the Practitioners' Guide and resources available through membership of the Internal Audit Forum. I note that all assertions, statements, and recommendations henceforth are on the basis of the information presented to me, and as such, is conditional with the accuracy of this.

I would like to note that I was not notified until 28th March 2023 of my appointment as Internal Auditor, and as such, I was unable to view or advise on the Council's procedures within the financial year whilst current. The Council should ensure they appoint an Internal Auditor for the 2023/24 financial year swiftly following the submission of the AGAR for 2022/23 to ensure that Interim Audits throughout the present financial year can take place.

Background & Overriding Issues

I understand from the Clerk, and in reading the Internal Auditor's Report for 2021/22, that the Council had existing issues with its accounting practices, partially as a result of a delayed handover of documents. It is clear that the Council has undertaken a significant amount of work in order to improve its accounting practices, but it is clear that there are still many areas in which the Council can improve. I note successes in responding to issues noted in the previous Internal Auditor's Report, including in regard to concerns regarding a potential "disguised employee" and in gaining access for the Clerk to all Council bank accounts, but the Council should seek to prioritise the remediation of the issues raised below.

Internal Control Objectives

The headings below mirror the internal control objectives answered as per AGAR Page 3. I have included a summary of my findings below.

A. Appropriate accounting records have been properly kept throughout the year.

1. A month's sample of financial transactions were inspected in each quarter due to the size and circumstances of the Council. There were no material issues in regard to the nature of these invoices inspected, or the cashbook record. I note that the Independent Member Review, which has conducted a full sample review, identified missing invoices in its first review which took place in January, and there is a record of these concerns being actioned and resolved before my review. Similarly, a second review was conducted following the conclusion of the financial year. I understand that the Council has plans to continue these reviews quarterly.

2. In regard to the roll forward of the prior year cashbook balance, the figure recorded in the AGAR previously has not been taken forward due to the use of estimated figures in the 2021/22 AGAR. During the course of the audit, I have been presented with at least four different figures which proport to be the opening balance for the financial year across the cashbook, accounting statement drafts and transaction lists, which varied up to £12.000. As I was informed that there were no unpresented transactions following the conclusion of 2021/22, and as such the cashbook opening balance recorded on the final draft Accounting Statement that I have reviewed is equivalent to the bank balances of the Council. Whilst resolved during the course of the Audit, it is clear that incorrect cashbook balance figures have been recorded in the during the financial year, underpinning an inherent weakness in the accounting records throughout the year.

3. Whilst reviewing the accounting statement, a variance was initially registered, which was attributed to the errors in the opening balance, as well as a limited number of cashbook inaccuracies detailed in Section J. Whilst these isolated errors have since been rectified during the course of the audit to a level under the level of materiality recorded in the AGAR Accounting Statement (figures rounded to the nearest £1), they, alongside the significant opening balance discrepancy, have been carried forward across the financial year, highlighting a weakness in the accounting records during 2022/23, reflecting in the "No" response. It is worth noting again that these errors have since been addressed, and as such, I see no reason why this internal control objective cannot be met fully by the Council in 2023/24.

B. This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT appropriately accounted for.

1. Whilst the Council has a good level of financial controls detailed in its Financial Regulations, there is evidence of the processes described in the document not being followed, which means there are significant weaknesses in the Council's internal controls.

2. I understand that the bank account requires only single authorisation, and the Clerk submits and authorises all payments online, meaning there is no separation as detailed in the Financial Regulations (Section 6, Paragraph 9).

3. Furthermore, the Clerk holds a debit card on behalf of the Council, where I understand there are no limits or caps on use which have been put in place, contradicting Section 6, Paragraph 18 of the Financial Regulations.

4. I understand the last VAT claim was made in the 2021/22 financial year. It is best practice to ensure a claim is made within each financial year as a minimum, but I understand that the next claim will be submitted within the first six months of the next financial year, so all outstanding reclaimable VAT should be recoverable with no material loss due to the delay.

C. This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.

1. I understand the last risk register approved by Full Council was in 2021, but the Clerk has redrafted a new register in January 2023. This is not adopted by the Council, and the risks do not appear to be assessed and scored. As per guidance from the Internal Audit Forum, a "No" should be registered if the Council has not formally minuted a review of risks during the financial year.

2. An insurance and liability concern was raised by the previous Internal Auditor regarding a "bike ramp/track". This is still being investigated by the Council, and as such remains unresolved.

D. The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.

1. No comments.

E. Expected income was fully received based on correct prices, properly recorded and promptly banked; and VAT appropriately accounted for.

1. No comments.

F. Petty Cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.

1. Not applicable.

G. Salaries to employees and allowances to members were paid in accordance with the authority's approvals, and PAYE and NI requirements were properly applied.

1. I note the concerns raised in the previous Internal Auditor's Report regarding a potential "disguised employee" have been actioned and resolved by the recruitment process undertaken for a Parish Grounds Maintenance Officer.

H. Asset and investment registers were complete and accurate and properly maintained. This section/assurance should be extended to include loans to or by the authority.

1. The Clerk/RFO has maintained a Council asset register, last updated in January 2023. I understand there are a number of reassessments of assets' values, and as such, the Council should ensure that all changes are logged with explanations in the "Explanation of Variances" supplement to the Accounting Statement.

I. Periodic bank account reconciliations were properly carried out during the year.

1. Whilst an Independent Member Review has been established quarterly inspecting the Council's transactions and ensuring supporting documentation is on record, I cannot see evidence of independent review of bank reconciliations, as set out in the Financial Regulations (Section 2, Paragraph 2).

2. Furthermore, there is no evidence of bank reconciliations being prepared or presented throughout the year, other than to support the completion of the end of year accounts and AGAR. This is evidenced by the earliest "cashed date" logged for payments in Scribe being 21/02/2023, meaning a balanced reconciliation could not have been generated before this date.

3. Whilst reviewing the year end bank reconciliation, a variance was initially registered of £27.81. Following my query for further documentation to identify the source of the variance, I understand the Clerk sought advice from Scribe whereby they noted of an understatement of two payments' values, and the omission of some entries for bank interest, leaving a variance of £0.40. I understand Scribe recommended a correcting entry to be made to discount this variance, which is recorded as Payment 158. Whilst these issues have been rectified during the course of the audit, it is clear that these weaknesses could have been identified sooner if regular bank reconciliations were carried out, ensuring that a fully reconciled bank balance is reported to Council at least quarterly, subject to independent scrutiny.

J. Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cashbook, supported by an adequate audit trail from underlying records and, where appropriate, debtors and creditors were properly recorded.

1. A greater than usual proportion of my time has been spent reviewing the 2022/23 Accounting Statement due to the concerns regarding the variance between the cash in hand figures at the close of 2021/22 and the start of 2022/23, and due to the variance in the bank reconciliation detailed above.

2. Whilst conducting this audit, a notable discrepancy arose regarding the 2021/22 Accounting Statement's "balance carried forward" and the recorded "balance brought forward" for 2022/23, when these figures should of course report the same value. A figure was arrived at during the course of the audit based upon the bank balances of the Council of £38,663 due to there being no unpresented transactions recorded in Scribe. This is c.£10,000 lower than the figure reported at the end of the previous year's AGAR, and as such, it appears that the source of the variance is indeed due to the use of estimated figures to populate 2021/22's Accounting Statement figures. I note that the External Auditor's Report for the period identified a similar level of error in the previous year's figures.

3. Following the confirmation of figures for the opening balance and resolution of the variance within the bank reconciliation, I noted errors in the calculation method for a number of boxes on the AGAR Accounting Statement.

4. I note that the 2022/23 Precept (Box 2) figure appeared to include the Council Tax Support Grant from Newcastle under Lyme Borough Council. The Council's 2022/23 Staff Costs (Box 4) also included the costs of an external payroll company (excluding VAT), and the exclusion of HMRC payments. These errors, and the resulting errors for Boxes 4 and 6, were resolved following a discussion with the Clerk in the final draft Accounting Statement I have reviewed. Guidance regarding filling in the AGAR Accounting Statement is available in the Practitioners' Guide.

5. On the basis that the figures for 2022/23 now appear to reflect the position of the Council, I have answered "Yes" to this objective, qualified with the above. I note that I have advised that a suitable explanation for the previous year's figures, making reference to the previous year's Internal & External Audit Reports, as well as a full description of the restated values of assets.

K. If the authority certified itself as exempt from a limited assurance review in the prior year, it met the exemption criteria and correctly declared itself exempt.

1. Not applicable.

L. The authority publishes information on a free to access website / web page, up to date at the time of the internal audit in accordance with the relevant legislation.

1. No comments.

M. The authority, during the previous year, correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations.

2. Due to the timing of my appointment, I can only comment on published information at the time of review. The notice and relevant period appeared displayed correctly on the Council's website.

N. The authority complied with the publication requirements for the prior year AGAR.

1. Due to the timing of my appointment, I can only comment on published information at the time of review. Whilst the unaudited AGAR, Internal Auditor's Report and notice for public inspection were published, the completion notice was only published in April 2023. The External Auditor's Report is dated March 2023, so the delay in the publication of these after 30th September 2022 was unattainable.

O. Trust funds (including charitable) - the Council met its responsibilities as a trustee.

1. Not applicable.

Recommendations

On the basis of the information above, I make the following recommendations for consideration by the Council. The Council should ensure that progress towards meeting these recommendations is logged, and decisions in relation to them are made and minuted at a Full Council Meeting. These actions are not exhaustive, and the Council should ensure it undertakes regular reviews to ensure the elimination of weaknesses in its financial and governance operations in a timely manner.

1. **To ensure the guidance for completing the Annual Governance & Accountability Return (AGAR) available in the Practitioners' Guide is followed to ensure the correct reporting of the Council's financial position in the Accounting Statements.**

2. **To ensure suitable supplementary statements are agreed and submitted as part of the 2022/23 AGAR Accounting Statements to qualify the figures of the previous year's AGAR when approving the AGAR, including an explanation of variances where possible and relevant.**

3. **To review the Council's Financial Regulations, ensuring processes for raising and submitting payments (including by card) reflect the regulations.**

4. **To ensure the Council receives regular bank reconciliations and budget monitoring reports.**

5. **To appoint an Independent Member to review the Council's bank reconciliations at least quarterly.**

6. **To formally adopt the Register of Assessed Risks, and review at least annually.**

7. **To make a VAT return, once satisfied all the claimable transactions within the period being claimed have been considered.**

8. **To regularly update and review the progress of the Council in remedying weaknesses and poor practices within its financial and governance operations, ensuring these are reported and minuted publicly where possible to ensure transparency with the public.**