

# Internal Audit Report

(to be read in conjunction with the Annual Internal Audit Report in the Annual Governance and Accountability Return)

Name of council:	ASFORDBY PARISH COUNCIL		
Name of Internal Auditor:	STUART MCDONALD	Date of report:	12/5/24
Year ending:	31 March 2024	Date audit carried out:	25/4/24 & 9/5/24

*Internal audit is the periodic independent review of a council's internal controls resulting in an assurance report designed to improve the effectiveness and efficiency of the activities and operating procedures under the council's control. Managing the council's internal controls should be a day-to-day function of the council through its staff and management and not left for internal audit. It would be incorrect to view internal audit as the detailed inspection of all records and transactions of a council in order to detect error or fraud. This report is based on the evidence made available to me and consequently the report is limited to those matters set out below.*

*The proper practices referred to in Accounts and Audit Regulations are set out in JPAG Practitioners Guide. It is a guide to the accounting practices to be followed by local councils and it sets out the appropriate standard of financial reporting to be followed.*

***The council is required to take appropriate action on all matters raised in reports from internal and external audit and to respond to matters brought to its attention by internal and external audit. Failure to take appropriate action may lead to a qualified audit opinion.***

## To the Chair of the Council:

I have carried out the Internal Audit of the Council for the year just ended. I should like to thank the RFO, Helen Callaghan, for her time and assistance in providing information to me both prior to and during our meetings.

I will start with last year's reports:

## Internal Audit (IA).

1. Internet banking – this has been considered by the Council for a number of years, and I understand that there are currently discussions underway with a view to introduce BACS payments for certain types of expenditure e.g., salaries. More on this below.
2. The IA noted that the “level of funds” was “several times the annual expected expenditure”. I comment further below.
3. It was recommended that the accounts are updated more swiftly, as they are compiled by Duncan and Topliss just quarterly, there being a risk of discrepancies. I understand this situation has not changed. (There is a charge for the accounting services provided by Duncan and Topliss of course.) Again, more on this below.
4. It was recommended that the Bank Reconciliations presented to the meetings be signed off. More on this below.
5. It was recommended that all staff have Contracts of Employment. This has been done.
6. It was recommended that the Council adopt a Complaints policy. This has been done.

## External Auditor (EA).

1. The period for the exercise of Public Rights re the year ended 31/3/23 was set for 41 working days, not the mandatory 30. In addition, the Notice was published on the same day that the Rights period started – there must be a gap of at least one day. The EA also suggested that the Period starts as soon as is practical after its approval.
2. Section 2 of the AGAR was completed incorrectly in that it omitted answers to Boxes 11a and 11b (Trust Funds).
3. The EA expected to see Box 4 in Section 2 of the AGAR restated – it wasn't, and the EA expected the answers to assertions 1 and 7 of Section 1 to be "No", which they were not.
4. The EA did not receive the necessary information regarding the reconciliation between Boxes 7 and 8 of Section 2 of the AGAR.
5. The EA commented that the IA should have considered the Petty Cash objective – more on this below.

The RFO is aware of issues 1-4 raised by the EA, and will, I am sure, take them into account when completing and submitting the 23/24 documents to the EA.

**I have therefore ticked "NO" to Objective M on the Internal Audit report.**

## This Year's Internal Audit.

Firstly, I need to acknowledge that, prior to 7/6/23, Helen's role was officially "Parish Administration Manager", and the role of RFO belonged to Councillor Lamb. A temporary person was in post for 6 months, leaving in September, after which point Helen Callaghan assumed sole responsibility.

I should like to draw your attention to the following issues.

### **1. Accounting Records**

The RFO maintains a cash book of income and expenditure on a computer spreadsheet. Every quarter, this is handed to Duncan & Topliss who come to the office and input the cash book into the accounting software RIALTAS. It is only at this point, and after a Bank Reconciliation has been done, that true "accounts" are available.

The Council has no way of determining its true financial position other than at quarter ends. This, combined with the fact that the RFO has no access to the on-line bank accounts, means that financial control between quarter ends is less than ideal, and carries risks. More on this in 4. below.

The Financial Regulations (FR) state the following" (my italics and underline).

*"1.12. The accounting control systems determined by the RFO shall include:*

- *procedures to ensure that the financial transactions of the council are recorded as soon as reasonably practicable and as accurately and reasonably as possible"*

**The first point is that the "accounting control systems" are not determined by the RFO, but by precedent. The RFO should determine these matters, and the Council should approve them, and review them regularly.**

**The RFO's cash book should form the basis for production of financial statements at any time, particularly in Asfordby's case, given the large sums involved. This could be**

achieved by having the RFO input to REALTUS on a regular basis, also saving the cost of using external accountants.

**I have therefore ticked “NO” to Objective A on the Internal Audit report. Please see 4. below also.**

## **2. Bank Accounts.**

- a) The Council has 4 accounts, 2 with HSBC, one with Melton Building Society (MBS), and one with Cambridge Building Society (CBS).

The HSBC accounts have, for the last 2-3 months, been on-line, although the RFO has no access to view balances. Councillor Whitehead can access the balances, and Councillor Lamb can also do so, but only by going to the branch. Two signatures are required to make payments.

The MBS account is a passbook account - I understand that Councillor R de Burle is the only signatory, and I am unable to establish whether there are any additional mandate provisions regarding access to the account. Councillor Lamb takes the passbook into the branch annually to update for interest earned. There appears to be no way to establish the balance on the account without a visit to the branch. I have seen the passbook – it was updated on Tuesday 2<sup>nd</sup> April (the first working day after the year-end) and the passbook balance agrees with the accounts.

The CBS account requires 2 signatories, and I understand monies can only be withdrawn to a nominated Council bank account. Statements are received annually at the end of December, and I have therefore been unable to establish the balance at the end of March 2024, although I am assured that this account is never used. I have seen the 31/12/23 statement and it shows the balance as per the accounts.

**The RFO should be allowed access to view the account balances – I will return to this below in 4., as there are areas of an RFO’s work that requires such access. Both off-line bank accounts should be more visible, by which I mean that monthly statements from the CBS should be a minimum, and the RFO should visit the MBS branch monthly to verify the balances. The bank mandates should be clarified for each account and be as consistent as possible. Alternatively, the Council should consider bringing these accounts on-line, so that the balances are always visible and verifiable.**

- b) Councillor Whitehead has been delegated authority by the Council to “manage the Council’s internet banking” (Meeting 8.2.24 item 14). Your Financial Regulations state, in Para 6.15. (my italics).

*“Where internet banking arrangements are made with any bank, the Clerk [RFO] shall be appointed as the Service Administrator. The bank mandate approved by the council shall identify a number of councillors who will be authorised to approve transactions on those accounts. The bank mandate will state clearly the amounts of payments that can be instructed by the use of the Service Administrator alone, or by the Service Administrator with a stated number of approvals.”*

**The RFO should be appointed the “Service Administrator” in line with the FR. Councillors should be authorisers e.g., for payments. I recommend 2 signatories remain as is currently required for cheques.**

- c) Bank Reconciliations are signed quarterly at the relevant meeting, which is a good and necessary control. However, the Chair and any other Bank signatory may not perform this signing-off. Your FR state this in para 2.2. This is particularly pertinent re the MBS reconciliation. (see 2a above).

**The Council should either designate one qualifying Councillor, or implement a rota of qualifying Councillors, to carry out this task.**

- d) Your FR state, in para 5.1, that credit references will be sought for any member or employee who is a bank signatory. I can find no evidence that this has been carried out.

**Either this policy should be implemented, or the FR changed to reflect the Council's wishes, bearing in mind any requirement your insurance provider may have.**

- e) The 2 HSBC accounts have a total balance at 31/3/24 of £306,481.81. As for individuals, smaller authorities are covered only for the first £85,000 of loss in the event of Bank failure.

**The Council should consider the risks involved and take action accordingly.**

- f) The MBS account balance of over £80,000 during the year has earned only £204 in interest in the year to 31/3/24, a rate of 0.25%. The Council may be able to obtain better rates elsewhere.

**The Council should review the interest rates on its interest-bearing accounts.**

**I have ticked "NO" to Objective I on the internal Audit report.**

### **3. Reserves.**

- a) The Council has a total cash balance of £468,716 at 31/3/24. Of this, £308,648 is earmarked for the Cemetery extension (£144,197.50), Parish Hall (£83,527), Jubilee Access Pathway (£80,512) and Asfordby Youth (£411.70), leaving a balance of £160,068 as a General Reserve.

The 24/25 precept has been set at £142,719.60, an uplift of 20% over 23/24's figure - (staffing costs for 24/25 are budgeted at over £100,000 inclusive of NI, compared to £24,241 in 22/23). The Practitioners Guide (PG) states, in 5.34: (my italics).

*"The generally accepted recommendation with regard to the appropriate minimum level of a smaller authority's general reserve is that this should be maintained at between three and twelve months of net revenue expenditure."*

The current General Reserve is significantly higher than 12 months. I understand the Council has recently voted to move £44,612 of the Access Pathway reserve back into General Reserve, which will further increase the difference. Please also be aware of the requirement in the PG (5.39) that earmarked reserves should be revalidated each year to justify their continued existence.

**The Council should prepare and adopt a Reserves policy which will inform the future levels of Earmarked and General Reserves, which comply with the guidance in the PG.**

**I have ticked "NO" to Objective D on the Internal Audit report.**

#### 4. Income Receivable, and Bank Reconciliations.

**A** - The Council received £23,900 in income in 23/24, other than the precept. This comes mainly from the Hall, Cemetery and Allotments fees and charges. The FR states: (my italics).

*“9.1. The collection of all sums due to the council shall be the responsibility of and under the supervision of the RFO.”*

Given that the RFO does not have on-line access to the bank account, this task is more onerous than it should be, as statements arrive only monthly. I understand that there is not an issue with collecting sums due, and there are no bad debts.

**B** - Bank Reconciliations are carried out quarterly. However, the RFO has to wait for the monthly Bank statements to arrive by post before this task can be completed, meaning they may not be carried out on a timely basis, nor any issues arising addressed promptly.

In addition, the RFO's task of controlling income and expenditure is made more difficult than it should be. As previously noted, the RFO maintains a cash book, but has no way of checking the entries are correctly reflected on the Bank statement until it arrives in the post 8-10 days after the month-end. Similarly, the cash book cannot be updated for income received for the same reason. For example, the Council cannot determine exactly when it has received its expected precept, potentially until up to 5-6 weeks after the event. This makes expenditure planning difficult.

There is a clear risk that undiscovered errors may occur, or may remain undetected for some time.

**The RFO should have access to view the bank accounts on-line to facilitate these tasks, and exercise timely financial control.**

**I have ticked “NO” to Objective A on the Internal Audit report. Please see 1. above also.**

#### 5. Other Governance matters:

a) The Council has correctly resolved to go into Closed Sessions on a number of occasions. However, proper practice is that the minutes do need to record what decisions were made, and on a number of such occasions, there was no outcome minuted. The phrase used in more than one meeting is that the Council considers a “Proposal to remove to a Closed Session as required by Local Government law to discuss matters relating to staffing and other sensitive administration matters”. It is important that closed sessions are used only for confidential matters relating to e.g., staff salaries and commercially sensitive information, and the reasons must be clear – “other sensitive matters” is not specific enough.

**The Council should follow best practice for closed sessions. LRALC can assist on this.**

- b) The Budget and Precept figures were not minuted at the December meeting, although both were included on the agenda. Both should be minuted to record the Council's decision.

**Both the Budget and Precept must be correctly minuted next time.**

There is one final matter to draw to your attention. Although strictly outside the 23/24 audit year, it is common audit practice to look at post-date events as they may impact on current year conclusions. I have seen the minutes for the April 11<sup>th</sup>, 2024 meeting, and am surprised to see that the Council held its Annual Meeting on that date, electing a Chair etc. The law is specific: (my italics and underline). This is from the relevant NALC Legal Topic Note (LTN).

*"7. A local council must hold an annual meeting in every year. In an ordinary election year, the annual meeting must take place on, or within fourteen days after, the day on which the councillors elected at that election take office. In other years, it may be held on any day in May (paragraph 7 of schedule 12 to the 1972 Act)."*

The Council should be aware that its decisions at that meeting, including the election of a Chair, are ultra vires, which is a potential risk if decisions were to be legally challenged.

**The Council should hold a short meeting in May to transact the legally required business e.g., electing a Chair.**

There was some confusion last year as to whether a Petty Cash float was in operation, highlighted by the EA's comments, and the presence of £0.16 on the Bank Reconciliation. Despite this, I am assured that no transactions have taken place, and the amount has now been removed from the Reconciliation. I have therefore ticked N/A on the AGAR.

## **CONCLUSION**

I have tested all the Internal Control Objectives I am required to consider. I am unable to answer "YES" to five areas. These are listed below – Objectives A, B, D, I, and M.

**Have comments from the internal audit 2022-2023 been addressed?**

<b>Recommendation 2022-2023</b>	<b>Comment</b>
Internet Banking	Limited scope under consideration
Excessive General reserves	Still over 12 months
Accounts to be updated more swiftly	No change to quarterly 3 <sup>rd</sup> party input
Bank Reconciliations to be signed off	Actioned, but should not be Chair or a Bank signatory
Contracts of Employment for all staff	Completed
Complaints policy to be adopted	Completed

**Areas in the 2023-2024 AGAR Annual Internal Audit Report for which Yes or N/A cannot be ticked**

	Reason
<b>A</b>	<b>Records are not timely. Risk of undetected error.</b>
<b>B</b>	<b>The Council has not complied with its Financial Regulations in a number of areas listed above, mainly regarding the role of the RFO.</b>
<b>C</b>	
<b>D</b>	<b>The Council's General Reserves are in excess of the guidance in the Practitioners Guide.</b>
<b>E</b>	
<b>F</b>	
<b>G</b>	
<b>H</b>	
<b>I</b>	<b>Bank Reconciliations are not signed off in accordance with the Financial Regulations. The balances on 2 of the Council's 4 bank accounts cannot be verified other than once annually.</b>
<b>J</b>	
<b>K</b>	
<b>L</b>	
<b>M</b>	<b>Last year's Public Rights Notice was incorrect.</b>
<b>N</b>	
<b>O</b>	

**Recommendations for action 2023-2024**

<b>Areas for consideration or improvement</b>	<b>Recommendation</b>
Accounting Records	Input to REALTUS by the RFO and RFO access to on-line bank accounts
Visibility and Verification of Bank accounts balances	At least monthly balance check by the RFO
Internet Banking arrangements	RFO to be Service Administrator and Councillors authorisers
Sign-off of Bank Reconciliations	Should not be done by the Chair or Bank signatories
Credit references	Consider policy application
HSBC bank balance well above protected £85,000	Consider risk
Interest rates on deposited funds (MBS)	Review interest rates
General Reserves higher than recommended	Adopt a Reserves policy and comply with the Guidance
Income Receivable checks and Bank Reconciliations	Would be facilitated by RFO having access to on-line Bank accounts

Closed sessions	Minutes to record more precisely the reason for the closure, and record the resolution
Budget and Precept figures	Must be minuted
Annual Meeting of the PC for 2024 held in April is ultra vires	Hold a further Meeting in May to complete legal business

Yours sincerely,



Stuart McDonald  
Internal Auditor to the Council  
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The figures submitted in the Annual Governance and Accountability Return are:

	<b>Year-ending 31 March 2023</b>	<b>Year-ending 31 March 2024</b>
1. Balances brought forward	488,451	489,061
2. Annual precept	116,850	118,933
3. Total other receipts	26,076	23,900
4. Staff costs	24,241	69,785
5. Loan interest/capital repayments	0	0
6. Total other payments	118,075	91,602
7. Balances carried forward	489,061	470,507
8. Total cash and investments	486,042	468,716
9. Total fixed assets and long-term assets	876,414	882,952
10. Total borrowings	0	0



