

# **Chiseldon Parish Council**

Internal Audit Report

Year ended 31 March 2022

# Chiseldon Parish Council

## Internal Audit Report

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### Scope of internal audit

Sansum & Co Limited have been engaged to carry out a limited internal audit to meet the minimum requirements of the Annual Return for the year ended 31 March 2022.

Due to Covid we have not visited the council offices in Chiseldon this year, instead we carried out the final internal audit using Zoom and Dropbox on and around 12 May 2022.

During the interim audit of the 18 November 2021 we primarily focused on the areas where we felt there was a risk of potential error. The areas we assessed with the highest risks were A, B, C, E and H of the list below.

At the final internal audit on the 12 May 2022, all of the following areas were examined:

- A. Have appropriate accounting records been kept properly throughout the year?
- B. Has this smaller authority met its financial regulations, payments are supported by invoices, all expenditure was approved and VAT was appropriately accounted for?
- C. Has this smaller authority assessed significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these?
- D. Has the precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate?
- E. Has expected income been fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for?
- F. Are petty cash payments properly supported by receipts, all petty cash expenditure is approved and VAT appropriately accounted for?
- G. Are salaries to employees and allowances to members paid in accordance with this smaller authority's approvals, and PAYE and NI requirements properly applied?
- H. Are asset and investments registers complete and accurate and properly maintained?
- I. Are periodic and year-end bank account reconciliations properly carried out?
- J. Have accounting statements prepared during the year, 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?

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### Overall conclusion

The audit trail from the accounting statements 2021/22 to the supporting documents is well organised and overall the accounts are a true and fair reflection of the transactions that have occurred during the year to 31 March 2022.

Arguably one of the most important roles of a councillor is the responsibility to protect the assets of the community. Risk management and review of expenditure against budget are key aspects that enable councillors to meet this requirement. Processes in these areas are continuing to improve with regular meetings where review of risk matrices and expenditure are of high importance. The continued use of the budget variance report should enable councillors to focus on the areas that show significant variance between actual results and budgeted numbers.

Following on from the interim internal audit where we had identified some minor accounting errors, we have identified two areas of concern during our internal audit procedures. The details are as follows:

1. VAT refunds received from HMRC have been posted to an income account rather than the VAT control account. This has left the VAT control out of balance with the VAT returns and income has been overstated. This would suggest that VAT reconciliations agreeing the VAT control account balance to the latest VAT return is not being undertaken on a regular basis.
2. We have noted that included in the budget is VAT income. As the budgeted income and expenses are based on the prior year figures which are recorded net of VAT the VAT income account should always be £nil otherwise VAT reclaimed is being double counted. This could lead to the precept being lower than required.

Note that the VAT income account is only used when changing the accounting system from an accruals basis to a cash basis. The accounting system is run on an accruals basis so that control accounts can be used to ensure transactions have been recorded correctly and to keep track of debtors and creditors. As the income of the Council is below £200,000 reporting is on a cash basis.

Neither of the above items are significant enough to cause an internal control issue.

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### Detailed Report

#### A - Have appropriate accounting records been kept properly throughout the year?

The basic record of receipts and payments is always the starting point of an accounting system; the majority of internal controls will work back to the original record. It is essential that the system requires that the basic cash book is kept up to date and balances are regularly verified against a bank statement. This record will also agree with the supporting invoices or receipts.

#### *Section Conclusion*

The accounting records have been kept up to date throughout the year on Xero as evidenced by the reports prepared for the various committee meetings during the year.

We have reviewed the 31 October 2021 balance sheet at the interim internal audit and the 31 March 2022 balance sheet at the final internal audit to ensure the control accounts were correct. In particular we looked at bank reconciliations, the payroll accounts and the VAT control account.

At the interim audit we identified some minor accounting differences of less than £1. The wages control account has now been corrected although there is still a small difference on the PAYE control account.

Bank reconciliations are being reviewed monthly for the current account and every three months for the savings account.

Invoices are being approved by the chair of the committee and the responsible financial officer prior to payment.

We identified that VAT refunds had incorrectly been posted to an income account rather than the VAT control account leaving the control account significantly out of balance with the final VAT return of the financial year. As part of our audit process we recommended moving these to the VAT control account which has been completed by the time of this report.

The small historic VAT difference of £92.36 has been written off following a recommendation at the interim audit. The difference had remained the same for a number of years.

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We do not believe that this constitutes a significant failure of the control environment as it was easy to identify the issue and correct the accounting statement accordingly. Therefore the internal control objective has been met, but two recommendations are made as follows:

1. All VAT reclaims should be posted to the VAT control account on XERO; and
2. Once a VAT reclaim payment has been received and posted to the VAT control account, this would be an ideal time to check that the VAT control account balance on the trial balance matches the balance on the latest unfiled VAT return.

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### **B - Has this smaller authority met its financial regulations, payments are supported by invoices, all expenditure was approved and VAT was appropriately accounted for?**

The first step in establishing a financial system is to identify the general rules applicable at council or committee meetings and in carrying out the council's business. The Standing Orders, Financial Regulations and other internal instructions do this.

For purchase order procedures:

- the correct number of estimates, quotes or full tenders depending on estimated value of contract should be obtained (Standing Orders will state the value at which tenders are required; Financial Regulations or Standing Orders will show the value where estimates or quotes only are required);
- the proper purchase authority by council, a committee or officers (under clear delegated powers) is in place; and
- the proper legal power has been identified for the expenditure.

For purchase payments:

- the supporting paperwork confirms that there is a fully approved invoice and authorisation for payment; and
- the VAT is identified appropriately for reclaim.

### ***Section Conclusion***

We obtained a copy of the 'Financial Regulations of Chiseldon Parish Council' which had been reviewed and approved on 14<sup>th</sup> June 2021 by the council.

It was noted that the expenditure was given adequate review in the full council meetings and possible discrepancies identified and challenged. This has been aided by the use of the budget variance report from Xero which helps to identify significant variances in expenditure from budget.

We selected a number of expense transactions which showed that VAT was being recorded and recovered appropriately and that there was documentary evidence to show that the invoice had been checked by the RFO and that the invoice had been authorised for payment by the appropriate committee chairperson and budget holder.

We confirm that the internal control objective has been met.

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### **C - Has this smaller authority assessed significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these?**

The greatest risk facing a local authority is not being able to deliver the activity or services expected of the council. The council is likely to be managing many of those risks when it reviews its insurance and its systems. The minutes are an essential record of such reviews. Budget setting and insurance review are annual activities; the review of systems may be less frequent. It is suggested that systems should be reviewed in some detail, unless triggered by external or internal audit reports, or change in risk, at least every four years or on the change of Clerk/RFO.

### ***Section Conclusion***

We have reviewed the comprehensive risk matrices and observed that they have been signed by the chair of the parish council and are reviewed regularly at council meetings.

We confirm that the internal control objective has been met.

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### **D - Has the precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate?**

It is important that the budget has been properly prepared by the council and adopted in setting the precept. The regular reporting of expenditure, and variances from budget, is an important part of the proper control of public money. Part of budgetary control is to ensure adequate but not excessive reserves or balances. Progress against budgets should be regularly monitored. It is particularly helpful when determining the likely precept that will be required for the following year.

#### *Section Conclusion*

We have examined the 2021/22 budget in detail and have observed that the budget process includes a review of the prior year costs with appropriate adjustments being made and one-off projects being incorporated into the figures appropriately. We have reviewed the minutes for approval of the budget and annual precept.

We have noted that included in the budget is VAT income. As the budgeted income and expenses are based on the prior year figures which are recorded net of VAT the VAT income account should always be £nil otherwise VAT reclaimed is being double counted. This could lead to the precept being lower than required.

We have also noted that box 7 (balance of funds) of the Accounting statement continues to grow and is now significantly higher than box 2 (precept income). We understand that there are a number of investment projects under way which justify the high level reserves including the Recreation Hall replacement project and parking for Draycot Foliat and Windmill Piece.

We do not believe that the VAT issue has had a significant impact on the precept requirement and therefore reserves are appropriate in light of the large development projects planned and therefore the internal control objectives have been met.

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### **E - Has expected income been fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for?**

It is important that precept and grant income is properly and promptly received. In value this is usually the largest item of income.

Where the council has let property, then the council should have established a system to ensure regular income collection; a diary of expected dates of income etc.

#### *Section Conclusion*

We selected a number of items from invoice documents covering hall rentals, allotment rentals and cemetery services. We ensured that these had all been collected and banked in a timely manner, VAT had been accounted for correctly and prices were charged at the correct rate.

Cash receipts and payments are not accepted.

We are able to confirm that the internal control objective has been met.

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### **F - Are petty cash payments properly supported by receipts, all petty cash expenditure is approved and VAT appropriately accounted for?**

It is important that a petty cash float is maintained rather than simply reimbursing the clerk for small cost expenditure. The petty cash float should be regularly reimbursed and evidence that on occasions an independent person has physically counted the cash balance and checked to be in agreement with the up-to-date record. The council should have a system for the regular approval of petty cash expenditure.

#### *Section Conclusion*

A petty cash float is no longer maintained. Expense claims are submitted by an expense form and approved and paid using the same process as that for expense invoices.

We are able to confirm that the internal control objective has been met during the year.

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### **G - Are salaries to employees and allowances to members paid in accordance with this smaller authority's approvals, and PAYE and NI requirements properly applied?**

Historically, one of the greatest areas of risk for local councils has been the improper payment of wages and salaries, together with the lack of proper deduction of income tax and national insurance contributions and now compliance with auto-enrolment regulations. There are some simple tests to establish whether a person is employed by a local authority or can be regarded as a contractor. The clerk is always regarded as an employee – as an 'office holder'.

As an employer, the council must operate PAYE/NIC. If correct deduction for tax or national insurance is not made by the employer, HM Revenue and Customs has the right to seek the lost tax and contributions from the employer as if the payments made were after deduction of the appropriate amounts (i.e. the amount sought is 'grossed up'). There may also be a liability for interest and penalties that can increase the sum significantly.

Recent changes in employment law have introduced auto-enrolment for pensions and as such anyone earning more than £10,000 annually and aged between 22 and retirement age must be enrolled into a pension scheme.

### **Section Conclusion**

Payroll is calculated using HMRC's Basic PAYE Tools. We tested two months at random from the year. Payroll has been correctly applied with monthly payroll journals being entered on Xero and the balance sheet checked regularly to ensure that wages and PAYE/NI have been paid correctly.

A pension scheme is in operation with NEST and pension contributions are being paid monthly by direct debit.

Staff Costs include Salary, Pension and benefits which includes reimbursement of mileage costs.

We can confirm that the internal control objective has been met.

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### **H - Are asset and investments registers complete and accurate and properly maintained?**

The Council is required to maintain an asset and investment register. In the smallest councils, this may only be a note produced for members and local electors. Internal audit will be interested in seeing that there is evidence that the continuing existence of owned and managed assets is checked on a regular basis.

#### *Section Conclusion*

The asset register has continued to be maintained throughout the year. We reconciled the additions identified in the Xero accounting system to the additions on the asset register. We also checked that opening balances had been included correctly. No issues have been identified.

We can confirm that the internal control objective has been met.

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### **I - Are periodic and year-end bank account reconciliations properly carried out?**

In most councils, the bulk of the financial records will be concerned with a current account and a form of deposit account at a bank or building society. A regular feature of the financial system will be the reconciliation of the balances shown on the statements with those calculated in the council's financial records. It is strongly recommended that on receipt of a bank statement, there should be a reconciliation of the appropriate cash book record.

The basic cash book record must not be written up from the bank statements. That approach does not provide any form of control. The cash book record is written up from the council's records: cheque counterfoils and the paying-in books, together with the known direct payments and credits. It is the cash book record that is checked regularly against the bank statements to provide control.

As part of internal control, a member may be appointed to review the bank reconciliation in detail and to evidence that review by signing the reconciliation form and the bank statements.

### ***Section Conclusion***

Bank reconciliations are being reviewed monthly for the current account and every three months for the savings account, including the year end reconciliations.

We confirm that the internal control objective has been met.

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**J - Have accounting statements prepared during the year, 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?**

For councils with turnover of less than £200,000 the annual return can be prepared on a receipts and payments basis, or, if the council so wishes, it may be prepared on an income and expenditure basis.

The receipts and payments basis requires councils only to consider their actual bank and cash transactions. The entries for the annual return will usually be taken straight from the summary totals in the cash book.

### *Section Conclusion*

The parish council has less than £200,000 income per year and is therefore entitled to prepare the Accounting Statements on a receipts and payments basis.

We have agreed the totals included in the Accounting Statements to those of the profit and loss report from Xero and the comparative numbers to those submitted in the 2021/22 return.

The audit trail is very clear and well organised and it is easy to follow income included in the Accounting Statements to the cashbook, the bank, the invoice and lastly to order documentation. Likewise expenses are easily traced through to the cashbook and to their supporting invoices.

We can confirm that the internal control objective has been met.

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### Internal audit procedures

Internal audit is an on-going function reporting to the council at least once a year. It is, however, a function that should not only be carried out once each financial year; nor should it be carried out only at the completion of each financial year-end. It is good practice for internal audit to be undertaken regularly throughout the financial year to test the continuing existence and adequacy of internal controls.

Further guidance relating to the appointment of an internal auditor, the scope and requirements of an internal audit can be found in Governance and Accountability for Local Councils: A Practitioners Guide (England) that can be found on the internet.

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### Appendix A – Notes to accompany the annual internal audit report

Additional notes

#### Section F

No work has been carried out during the internal audit on petty cash payments as the parish council no longer receives or pays for expenses with cash and therefore does not maintain a petty cash float.

This is not expected to change in the future and therefore no work is planned in this area in the coming 12 months.