

# **Chiseldon Parish Council**

Internal Audit Report

Year ended 31 March 2024

# 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 2024.

During the interim audit of the 15 November 2023 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 13 May 2024, 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 investment 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?
- 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.
- 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.

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### Overall conclusion

The audit trail from the accounting statements 2023/24 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 2024.

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 embedded 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 their questioning on those areas that show significant variance between actual results and the annual budget.

We have identified one issue during our final internal audit visit which is detailed below:

#### 1. SO and FR inconsistencies. (Section B.)

We identified a minor inconsistency with section 39 of the SOs. The RFO and Clerk both have authorisation to be one of the three signatories required whilst only two councillors have signing authorities.

#### 2. Are asset registers properly maintained (Section H.)

It is recommended that whilst the asset register records the purchase price of assets held, the replacement cost/insured cost should also be included to assist with insurance cover and forward planning for asset replacement.

#### 3. Investment Strategy (Section A.)

Where councils maintain funds greater than £100,000 they have a responsibility to ensure that the investment strategy is appropriate.

We understand that the council has recently reviewed the investment strategy and is now in the process of moving funds to an investment account with CCLA Investment Management Ltd, a company that specialises in investments for local authorities, charities and churches.

#### 4. Budget Variance Report (Section D.)

Whilst it is this is not an issue, we wanted to highlight the budget variance report which now includes narrative that explains the significant variances. The report is excellent and would be considered 'best practice'. It is ideal to help councillors meet their responsibility to protect the funds of the parish.

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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 and control accounts are reviewed regular to help identify any errors. This record will also agree with the supporting invoices or receipts.

#### *Section Conclusion*

##### Record keeping

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 March 2024 balance sheet at the final internal audit to ensure the control accounts were correct. In particular, we looked at bank reconciliations, the payroll accounts, the VAT control account and the opening balances to ensure they agreed to the AGAR submitted in 2023.

##### Opening balances

We agreed the opening balances on Xero with the closing balances recorded on the AGAR submitted in 2023 and the closing balances we recorded at the prior year internal audit. No issues were identified.

##### Transactions

We selected a small sample of transactions and matched those to the bank statement to ensure they were legitimate transactions. No issues were identified.

##### Bank reconciliations

Bank reconciliations are being reviewed monthly for the current account and every three months for the savings account. We checked the year-end reconciliations to ensure box 6 of the financial statements has been completed correctly. No issues were identified.

##### Investment strategy

With bank balances greater than £100,000 it is important to ensure that the correct investment strategy is being used to minimise the impact of inflation on those balances. An appropriate investment strategy should be based on professional investment advice and the spending requirement of the council.

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We understand that the council has recently reviewed the investment strategy and is now in the process of moving some of the funds to an investment account with CCLA Investment Management Ltd, a company that specialises in investments for local authorities, charities and churches.

We confirm that the internal control objective has been met.

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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 (SOs), Financial Regulations (FRs) 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;
- the VAT is identified appropriately for reclaim; and
- appropriate segregation of online payment setup and approval is in place.

### **Section Conclusion**

#### SOs and FRs

It is common to identify inconsistencies between the SOs and FRs so we reviewed these and raise a concern that in the SOs, section 39 does not appear to be accurate. It states:

*Orders for payment of money shall be authorised by resolution of the council and signed by three members authorised to sign cheques.*

Our understanding is that there are currently only two members who are currently authorised to sign cheques along with the RFO and the Clerk.

#### Expense invoice approval

We checked a sample of invoices during our interim visit to ensure that all expense invoices are approved by either the RFO or Clerk and by the budget holder or other appropriate councillor. Our testing shows that the rules as defined in the FRs have been consistently followed throughout the year.

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### Payment authorisation

We checked a sample of bank payment authorisations at our interim visit to ensure that the payments had been setup and approved in accordance with the FRs. No issues were identified.

### VAT returns

We reviewed the submissions of VAT returns throughout the year and can confirm that they were all submitted well within the time limits set by HMRC.

Xero provides a reliable link to HMRC's Making Tax Digital system and ensures that returns are completed correctly if the individual income and expenditure transactions have been entered correctly. No issues have been identified.

We confirm that the internal control objective has been met except as detailed above.



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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***

##### Register of assessed risks

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. All risks identified on the risk matrices are reviewed at least twice annually.

##### Insurance cover

We have obtained and reviewed the insurance cover and compared it with the fixed asset register. Prima facie, the insurance cover is adequate for the council's requirements.

##### Review of play areas, sports pitches and open spaces

From review of the risk matrix, we can see that the various areas are reviewed every six months. If the review of equipment and other facilities is carried out by the council's officers then they should have received appropriate training to do so or the review should be performed by appropriately qualified external inspectors.

We understand that the Clerk has appropriate training and reviews play areas and other open spaces weekly. In addition, quarterly and annual reviews are carried out by professional third parties.

No issues have been identified and 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*

##### Budget 2024/25

We have examined the 2024/25 budget in detail and have observed that the budget process includes a review of the prior year costs with 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 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.

We have reviewed the minutes of the full council meeting to confirm that the full council and not a sub-committee has approved the annual budget and precept.

##### Budget 2023/24

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. It was noted that the variance report has been significantly improved over the year with additional narrative being added to aid the understanding of significant variances.

##### 2023/24 Precept

We have checked that the precept received in 2023/24 of £160,000 correctly matches the 2023/24 budget. No issues have been identified.

No issues have been identified and we confirm that the internal control objective has 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*

#### Debtors

In the prior year there was an old debt on the debtors ledger of £878.62. Significant progress has been made to recover the amount outstanding with £150 remaining as at 13 May 2024. There is a payment plan in place. Other outstanding debtors were collected in April 2024 on a timely basis.

#### Allotments

We have reviewed the terms and conditions for the allotments along with the register of allotments. We tested a sample of allotment income at our interim internal audit and can confirm that allotment income has been received at the correct rate and in a timely manner. Currently there are no debtors.

#### Burials

We tested a sample of burial plot purchases during the interim internal audit and can confirm that the income has been received at the correct rate and in a timely manner. As at 31 March 2024 there were no debtors.

#### Hall Hire

During the interim audit we identified that those hiring the facilities for sports purposes were being charged the same rate as other users despite there being no VAT. Subsequently, changes have been made to the pricing so that those hiring the venue for sporting activities receive the benefit of the VAT exemption.

#### Tennis club income

In the prior year we identified that VAT was incorrectly accounted for on the tennis club lease. The tennis club rent is reviewed annually. The rent charged is based on a percentage of the various costs incurred, such as insurance costs, repair costs, water and electric costs etc. over the prior 12 months.

Previously, VAT is charged based on the individual costs incurred for example the electricity element has VAT at 5% added whilst water, insurance and business rates have no VAT and repairs are charged with 20% added.

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However, the lease clearly stated that rent is being charged and not the cost of the individual services provided. The cost of the individual services is simply used to calculate the rent charge. As the building has an 'option to tax' declaration on it then VAT should be charged at 20% unless there is an exemption available.

Tennis as a sport is zero rated and therefore the council have corrected their invoicing for the tennis club and corrected the VAT charged.

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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 which calculates the PAYE and NI deductions and payment to HMRC.

A pension scheme is in operation with NEST and pension contributions are being paid monthly by direct debit. Salary is entered onto the NEST portal which calculates the appropriate salary deduction and employer contribution.

The employee contribution is then entered in the Basic PAYE Tools software to calculate net wages due and to produce the payslips.

We tested the year-to-date figures for February 2024 and the monthly payroll figures for March 2024. Payroll has been correctly accounted for 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.

We also checked the tax codes being used and that the employer's allowance has not been claimed as this is not available to councils. No issues have been identified.

On Xero, staff costs include salary and employers national insurance. Whilst pension costs are recorded separately.

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.

It is recommended that that market value is also included on the asset register to assist with ensuring insurance cover is adequate and to plan future replacement costs.

The council has not acquired or made any loans in the year.

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.

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***

We checked the September 2023 bank reconciliation and March 2024 bank reconciliation. 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 income of less than £200,000 the annual return can be prepared on a receipts and payments (cash) basis, or, if the council so wishes, it may be prepared on an income and expenditure (accrual) basis. If income has been above £200,000 for three consecutive years, then the income and expenditure basis must be used.

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 had less than £200,000 income in the prior two years 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 2022/23 return. Subject to the further statements below.

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 agree with the RFO that the rules for a receipts and payments basis require input VAT to be added to the expenses (Box 6) and output VAT to be added to income (Box 3). In previous years the approach has been to include the net repayment from HMRC as income.

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

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### **L & N - 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**

Under the Accounts and Audit Regulations 2015, authorities must publish the following information on the authority website/webpage:

- Before 1 July 2023 authorities must publish:
  - Notice of the period for the exercise of public rights and a declaration that the accounting statements are as yet unaudited.
  - Section 1 - Annual Governance Statement 2022/23, approved and signed, page 4.
  - Section 2 - Accounting Statements 2022/23, approved and signed, page 5.
  
- Not later than 30 September 2023 authorities must publish:
  - Notice of conclusion of audit.
  - Section 3 - External Auditor Report and Certificate.
  - Sections 1 and 2 of AGAR including any amendments as a result of the limited assurance review.
  - It is recommended as best practice, to avoid any potential confusion by local electors and interested parties, that you also publish the Annual Internal Audit Report, page 3.

### **Section Conclusion**

We have viewed all the appropriate documents on the Chiseldon website for 2023 including AGAR pages 4 and 5 along with the notice of conclusion of the audit and the external audit report and certificate.

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

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**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.**

Any rights of objection, inspection and questioning of the local auditor conferred, may only be exercised within a single period of 30 working days.

The period starts with the day on which the statement of accounts and the signed declaration that the accounts are currently unaudited are published on the website.

### *Section Conclusion*

We reviewed the website to ensure that the appropriate notices had been posted to the website.

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

#### 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.