

DRAFT Internal Audit Report: St Cleer Parish Council (23-24EXT02)

Report Issued by: Holly Sykes (Chief Internal Auditor)

Date: 31 August 2023

		Audit Summary
Assurance Opinion	S	Limited
	R	
	L	
Risk Opinion	N	High
	H	
	M	
Number/ Priority of Findings	L	High (2)
		Medium (5)

Executive Summary

Our opinion is one of **Limited Assurance** on the effectiveness of St Cleer Parish Council's systems and processes in safeguarding the Council's resources in the year covered by the 2022/23 Annual Governance and Accountability Return (AGAR). This opinion is based on the review of documentation, sample testing and interviews with the Clerk and the Chair of the Council.

Weaknesses were identified in the Council's arrangements for the assessment of risk, internal control and budget monitoring. We acknowledge that the Council has faced administrative challenges resulting in various matters not being addressed including the review and approval of Financial Regulations, the risk assessment and other findings identified in our report issued in February 2023.

We consider the risk exposure to St Cleer Parish Council to be **High**. This reflects the state of the current control environment and the actions required to rectify the weaknesses identified.

DRAFT Internal Audit Report: St Cleer Parish Council (23-24EXT02)

Engagement Summary and Findings

Introduction and Background

At the request of the Chair of the Parish Council an audit was undertaken, and a report issued in February 2023 with a **Limited Assurance** and a **High Risk** opinion being provided. The report included two high priority and nine medium priority findings. Following discussion, a revised version of the report was issued in April 2023. No formal responses were received to that report.

This review was undertaken in order for responses to be provided to the Annual Internal Audit Report 2022/23 which forms part of the Annual Governance and Accountability Return (AGAR).

In 2022/23 the Council had a budget of £77,372.

Overall Audit Objective

The key objective was to review St Cleer Parish Council's financial systems and processes and to conclude on their effectiveness in safeguarding the Council's resources and to respond to the Annual Internal Audit 2022/23 which is part of the AGAR.

Our testing focussed on the following areas:

- Verifying that appropriate accounting systems and records are maintained
- Ascertaining whether the creditors system is fit for purpose
- Establishing whether suitable risk management processes are in place (including managing the risk of fraud)
- Establishing whether adequate budgetary controls are in place
- Establishing that income is appropriately accounted for
- Establishing that petty cash is appropriately controlled
- Verifying the accuracy of salaries paid to employees and appropriateness of allowances claimed by Members
- Ascertaining whether asset and investment registers are complete and accurate
- Ascertaining whether the bank account is subject to periodic reconciliations

DRAFT Internal Audit Report: St Cleer Parish Council (23-24EXT02)

- Verifying that accounting statements are prepared on the correct accounting basis; and
- Ascertaining whether the publication requirements have been met.

Summary of Testing and Key Findings

In accordance with the objectives above, the results of the testing and key findings are summarised below:

Verifying that appropriate accounting systems and records are maintained

- Our review confirmed that appropriate accounting records are being held in the Rialtas Alpha Receipts and Payments system.

Ascertaining whether the creditors system is fit for purpose

- **Financial Regulations**

The Council's Financial Regulations were last reviewed in February 2020. Our review of Full Council minutes for the period April 2022-March 2023 confirmed that there was no evidence that the Financial Regulations have been reviewed and approved during this period. The Council set up a working group in February 2022 to review all policies and documents, however we could not find any evidence that progress with this review had been reported back to Full Council. It is good practice to review and approve the Financial Regulations annually. We have been informed that since April 2023 the Financial Regulations have been reviewed and are due to be presented to the next Full Parish Council meeting on 6 September 2023 for approval.

- **Payments (Creditors and Purchase Card)**

We selected a random sample of transactions and reviewed them to confirm they had been correctly accounted for. Testing confirmed that all twelve transactions in the sample had been approved for payment at Full Council meetings. One transaction was identified where the accounting entry was not supported by a VAT invoice. We make the observation that the opportunity to reclaim the VAT on the purchase of the Go-Pro camera was missed because no VAT receipt was provided.

The Council has one purchase card, and the cardholder is the Clerk. We reviewed the transactions for the last three months and confirmed that the card limit had not been exceeded and that all transactions appeared appropriate and were supported

DRAFT Internal Audit Report: St Cleer Parish Council (23-24EXT02)

by invoices or receipts.

- **VAT**

The Council make an annual return to HMRC to recover VAT incurred during the year. The total value of the claim submitted for the year ended 31 March 2022 was £2,882.05. The total value of the claim for the year ended 31 March 2023 was £2,040.31, however at the time of our review in August 2023 the return had not been submitted to HMRC due to the administrative challenges faced by the Council since April 2023. We make the observation that the HMRC website states that annual returns should be submitted within two months of the end of the accounting period. The implication being that the Council may not be able to reclaim the VAT for the year ended 31 March 2023 as the submission deadline has been missed.

Establishing whether suitable risk management processes are in place (including managing the risk of fraud)

- **Risk Management**

The Council has an ineffective risk management process. The review established that the Risk Register was last reviewed by the Finance and General Purposes Committee in February 2020. No tangible evidence was identified in our review of Full Council minutes between April 2022 and March 2023 that the risk management arrangements had been reviewed or updated. The Council's Financial Regulations state (paragraph 16.1) that risk policy statements and risk management arrangements should be reviewed at least annually.

While we acknowledge that a draft Risk Assessment has been completed which is due to be presented to the next Full Council meeting on 6 September 2023, this falls outside of the period covered by the AGAR Annual Internal Audit Report for 2022/23.

- **Internal Control**

The Council's Financial Regulations are supplemented by an Internal Control Policy (reviewed and adopted in September 2020). Our review of Full Council minutes between April 2022 and March 2023 provided no evidence that either of these documents have been reviewed. While we were informed that the Clerk had met with one of the Councillor's in August 2022 to carry out internal control checks, no tangible evidence of the review had been retained and the review had not been

DRAFT Internal Audit Report: St Cleer Parish Council (23-24EXT02)

reported to Full Council. In our additional work in August 2023, we confirmed that an internal control check had been completed in February 2023 which was recorded in the minutes of Full Council meeting on 22 March 2023.

Establishing whether adequate budgetary controls are in place

- **Budget setting**

In the context of the requirements of the Annual Governance and Accountability Return (AGAR) the budget setting for 2022/23 followed an adequate process as estimates were prepared and discussed by the Finance Committee before being agreed by Full Council. The budget was approved and adopted in accordance with the timetable for submitting the precept requirement of £68,744 to Cornwall Council. We note that the Council used a zero-base approach for setting the budget which did not take account of the balances which the Council were holding both in general reserves (arising from underspending in previous years and in earmarked reserves).

- **Budget monitoring and reporting**

The Clerk produces budget monitoring reports on a quarterly basis. We reviewed the monitoring reports produced for June, September and December 2022. We confirmed that they showed actual expenditure against the budget and identified variances. Whilst we were informed that the Clerk's report to the Council includes commentary on the budget reports, we have not seen copies and the minutes do not provide sufficient detail to confirm the content.

At the time of our review, budget monitoring reports had only been presented to Full Council once during the year and not quarterly. We were informed that the June report was missed due to a large number of Councillors resigning. While we acknowledge that the nine-month monitoring report was included in the papers for the January 2023 meeting, the minutes do not record that they were presented and discussed. In addition, no monitoring report was produced for March 2023 due to the administrative challenges the Council faced between April and June. Good practice would be for monitoring reports to be presented quarterly and for evidence of discussion to be recorded in the minutes.

DRAFT Internal Audit Report: St Cleer Parish Council (23-24EXT02)

We make the observation that the Council has only spent 57.6% of the budgeted expenditure during the year (£44,587/£77,372). We acknowledge that the Council were informed of the continuing underspend and were aware that activity had reduced during the year. The reasons provided for the underspend include:

- Budgeted staff costs being too high
- Repairs and maintenance on the play park or the MUGA not being completed
- Bus shelters not being repaired or maintained
- The mowing contract ended and was not replaced
- No maintenance or grass cutting was done at the allotment
- No new projects were started, and the skate park proposal did not move forward.

- **Appropriateness of Reserves**

The Council has £94k in Earmarked Reserves and £53.9k in General Reserves. We note that the Council's balances at the year-end (31 March 2023) have increased by £41.8k as a result of the underspend during the year. Whilst the Council has a list of designated Earmarked Reserves, there is scope for a review of the reserves to confirm the requirement to hold each item listed.

Establishing that income is appropriately accounted for

- All of the expected income from the precept, letting, allotment rents and water had been fully received and properly accounted for. The Schedule of charges for 2023/24 has recently been reviewed resulting in a 30% increase across the board from 1 April 2023. This is the first time that fees and charges have been reviewed since 2019 although the Financial Regulations state that all fees and charges should be reviewed at least annually. The Council has also received £8k of funding from the Community Infrastructure Levy (CIL) which has been ringfenced until the guidance has been reviewed.

Establishing that petty cash is appropriately controlled

- The Council does not hold any petty cash.

DRAFT Internal Audit Report: St Cleer Parish Council (23-24EXT02)

Verifying the accuracy of salaries paid to employees and the appropriateness of allowances claimed by Members

- **Payroll processing**

The arrangements for accounting for pay are appropriate. The review confirmed that monthly payroll costs are in line with budgets and there have been no starters or leavers during the year.

- **Members' allowances**

The Council does not generally pay allowances to Members and our review confirmed that no regular allowances had been paid during the year. Three payments were identified on the payments schedule as being made to Members. One was confirmed as being reimbursement for the purchase of an asset which had been pre-approved by the Council. The other two related to a subsistence and mileage claim for the then Chair. We note that the minutes record that the Chair was the proposer of the approval of the payments schedule, which included these payments. Although the payments were approved by the meeting in accordance with the Council's Financial Regulations, we make the observation that it is not good practice for the proposer of the approval of payments to also be a recipient.

Ascertaining whether asset and investment registers are complete and accurate

- Work has been ongoing throughout the current financial year to update the asset register including a check of assets which was carried out in March 2023. We confirmed that the Asset Register has been formally approved by Full Council.

The Council does not have any active investments. The National Association of Local Council's (NALC) Joint Panel on Accountability and Governance Practitioners' Guide (JPAG) (March 2023) states that arrangements need to be in place to ensure that the authority's funds are managed properly and that any amounts surplus to requirements are invested appropriately in accordance with an approved strategy. As at 31 March 2023 the Council's available balances, with a total value of £148k, were distributed between four bank accounts (two current accounts and two deposit accounts). As the total value of balances held exceeds £100k the Council should have an appropriate investment strategy as identified in the NALC JPAG guidance.

DRAFT Internal Audit Report: St Cleer Parish Council (23-24EXT02)

Ascertaining whether the bank account is subject to periodic reconciliations

- The Council has four bank accounts, two with Unity Trust Bank and two with HSBC Bank. The accounts with Unity Bank are the ones which are in regular use. We were informed that the two HSBC accounts are rarely used. This is partly due to issues with accessing the accounts following the resignation of Councillors and the departure of the former Clerk. We acknowledge that the Council resolved to close one HSBC account and appoint two new signatories to the other HSBC account and the two Unity Trust accounts in August 2022. However, we note that by the year-end (March 2023), seven months after this resolution was passed, the Council still had two HSBC accounts. We suggest that a timetable should be set for resolving access to the HSBC accounts holding a total of £69,709.81 (Current account £30,616.42 and Deposit account £39,093.39) so that all of the funds the Council has are available for use.

Our review established that access to create and authorise BACS payments using the Unity Trust Bank current account are appropriately controlled. The Clerk inputs payments which are authorised by two Councillors after the payment schedule has been approved at Full Council meeting. We reviewed the bank reconciliations completed between and October and December 2022 and the year-end reconciliation (31 March 2023) to confirm that periodic reconciliations had been completed routinely throughout the year. In addition, we confirmed that the balances in the year-end reconciliations agreed to the total value of cash and short-term investments (Section 2, box 8) included on the AGAR.

Verifying that accounting statements have been prepared on the correct accounting basis

- Review of the accounting statements confirmed that they have been completed on a receipts and payments basis, these were agreed to the cashbook and are supported by an adequate audit trail.

Ascertaining whether the publication requirements have been met

- **Publishing of required information**

We confirmed through observation that the Council has published information on a free to access website. We note that the Financial Regulations, the Risk Register and the Asset Register, accessible via the website, all require review and updating.

DRAFT Internal Audit Report: St Cleer Parish Council (23-24EXT02)

- **Exercise of Public Rights relating to the 2021/22 AGAR**

The Council correctly provided a period for the exercise of public rights as required by the Accounts and Audit Regulations for the 2021/22 AGAR and all of the relevant documents are available on the Council's website.

- **Compliance with publication requirements for the 2022/23 AGAR**

The Council have not complied with the publication requirements for the 2022/23 AGAR due to a period of administrative uncertainty between April and June 2023. We acknowledge that the Council have sought advice from the External Auditor about revised public notice dates for the 2022/23 Accounts and AGAR as the original official dates have passed.

DRAFT Internal Audit Report: St Cleer Parish Council (23-24EXT02)

Overall Management Response and Comments on Findings

[Audit Sponsor / Key Stakeholder: Please insert your comments in response to this report]

Annex A: Findings and Observations

Findings

This table summarises the findings from the audit, the implications of the findings, the action management has agreed to take to respond to this finding, the officer responsible for implementing the action and the estimated due date for implementation.

#	Findings & Implications	Agreed Management Action	Responsible Person / Due Date
	High		
1	<p>The Council's Financial Regulations were last reviewed in February 2020. A review of Full Council Minutes confirmed that they have not been reviewed between January and December 2022. We acknowledge that the Council set up a working group in February 2022 to review all policies and documents, however we could not find any evidence that progress with this review had been reported back to Full Council.</p> <p>To comply with the Annual Governance and Accountability Return (AGAR) the Council should have reviewed and approved their Financial Regulations before the end of March 2023.</p> <p>We acknowledge that the Council have faced administrative challenges between April and June 2023 and have been informed that the revised Financial Regulations will be presented to Full Council for approval at their meeting on 6 September 2023.</p>		

Annex A: Findings and Observations

#	Findings & Implications	Agreed Management Action	Responsible Person / Due Date
2	<p>The Council has an ineffective risk management process as the Risk Register was last reviewed by the Finance and General Purposes Committee in February 2020. No tangible evidence was identified in our review of Full Council minutes between April 2022 and March 2023 that the risk management arrangements had been reviewed or updated.</p> <p>The implication being that the Council are not complying with their own Financial Regulations (paragraph 16.1) which requires an annual review of risk policy statements and risk management arrangements. In addition, the Council will not be able to state that they comply with the AGAR.</p> <p>We acknowledge that the Council have faced administrative challenges between April and June 2023 and we were informed that a Risk Assessment has been completed for presentation and approval by Full Council at their meeting on 6 September 2023.</p>		
Medium			
1	<p>The total value of the VAT claim for the year ended 31 March 2023 was £2,040.31, however at the time of our review in August 2023 the return had not been submitted to HMRC due to the administrative challenges faced by the Council between April and June 2023. We make the observation that the HMRC website states that annual returns should be submitted within two months of the end of the accounting period.</p>		

Annex A: Findings and Observations

#	Findings & Implications	Agreed Management Action	Responsible Person / Due Date
	<p>The implication being that the Council may not be able to reclaim the VAT for the year ended 31 March 2023 as the submission deadline has been missed.</p>		
2	<p>The Clerk produces budget monitoring reports on a quarterly basis. We reviewed the monitoring reports produced for June, September and December and confirmed that they showed the actual expenditure against the budget and identified variances. We were informed that the Clerk's report to the Council includes commentary on the budget reports, we have not seen copies and the minutes do not provide sufficient detail to confirm the content.</p> <p>In addition, no monitoring report was produced for March 2023 due to the administrative challenge the Council faced between April and June 2023</p> <p>The implication being that Councillors' ability to focus on key issues and make informed decisions is compromised.</p> <p>Good practice would be for monitoring reports to be presented quarterly and evidence of discussion being recorded in the minutes.</p>		

Annex A: Findings and Observations

#	Findings & Implications	Agreed Management Action	Responsible Person / Due Date
3	<p>The Council has £94k in Earmarked Reserves and £53.9k in General Reserves. We note that the Council's balances at the year-end (31 March 2023) have increased by £41.8k as a result of the underspend during the year. Whilst the Council has a list of designated Earmarked Reserves, there is scope for a review of the reserves to confirm the requirement to hold each item listed.</p> <p>The implication being that there is a lack of clarity around the purpose of holding the reserves and what they can be spent on.</p>		
4	<p>The Council has four bank accounts, two with Unity Trust Bank and two with HSBC Bank. The accounts with Unity Bank are the ones which are in regular use. We were informed that the two HSBC accounts are rarely used. This is partly due to issues with accessing the accounts following the resignation of Councillors and the departure of the former Clerk.</p> <p>We acknowledge that the Council resolved to close one HSBC account and appoint two new signatories to the other HSBC account and the two Unity Trust accounts in August 2022. However, we make the observation that by the year end (March 2023), seven months after this resolution was passed, the Council still had two HSBC accounts holding a total of £69,709.81 (Current account £30,616.42 and Deposit account £39,093.39). We suggest that a timetable should be set for resolving access to the HSBC accounts so that all of the funds the Council has are available for use.</p>		

Annex A: Findings and Observations

#	Findings & Implications	Agreed Management Action	Responsible Person / Due Date
5	<p>The National Association of Local Council's (NALC) Joint Panel on Accountability and Governance Practitioners' Guide (JPAG) (March 2023) states that arrangements need to be in place to ensure that the authority's funds are managed properly and that any amounts surplus to requirements are invested appropriately in accordance with an approved strategy. As at 31 March 2023 the Council's available balances, with a total value of £148k, are distributed between four bank accounts (two current accounts and two deposit accounts).</p> <p>HSBC current A/c £30.6k HSBC Deposit A/c £39k Unity Bank Current A/c £50.3k Unity Bank Deposit A/c £28.3k</p> <p>As the total value of balances held exceeds £100k the Council should have an appropriate investment strategy as identified in the NALC JPAG guidance.</p>		

Annex A: Findings and Observations

Observations

The following observations have been identified through the course of the audit. Management may want to consider implementing the proposed actions to align controls with good practice.

Observation, Implications and proposed actions	Responsible Person
While we acknowledge that the purchase of the Go-Pro camera has been correctly accounted for, we make the observation that the opportunity to reclaim the VAT has been missed because no VAT receipt was provided. The Council should ensure that VAT receipts and invoices are obtained for all relevant purchases to maximise the amount of VAT that can be reclaimed.	
The Council does not generally pay allowances to Members and our review confirmed that no regular allowances had been paid during the year. Three payments were identified on the payments schedule as being made to Members. One was confirmed as being reimbursement for the purchase of an asset which had been pre-approved by the Council. The other two related to a subsistence and mileage claim for the then Chair. We note that the minutes record that the Chair was the proposer of the approval of the payments schedule which included these payments. Although the payments were approved by the meeting in accordance with the Council's Financial Regulations, we make the observation that it is not good practice for the proposer of the approval of payments to also be a recipient.	

Annex B: Audit Opinion Ratings, Limitations, Contacts & Distribution

Assurance – Overall Ratings	
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Risk – Overall Ratings	
High	There is a high overall risk that future strategic, operational or reputational risks could materialise and result in an inability to deliver the key priorities/outcomes in scope for this Internal Audit review.
Medium	There is a medium overall risk that future strategic, operational or reputational risks could materialise and result in an inability to deliver the key priorities/outcomes in scope for this Internal Audit review.
Low	There is a low overall risk that future strategic, operational or reputational risks could materialise and result in an inability to deliver the key priorities/outcomes in scope for this Internal Audit review.

Priority – Audit Findings and Observations	
High	A critical control weakness that results in serious risks and/or an unacceptable level of risk to the delivery of key objectives. There is an urgent requirement for management to implement remediation actions.
Medium	A control weakness that carries a risk of undesirable effects in loss, exposure, poor value for money or missed business opportunities and benefits. It is important for management to implement remediation actions.
Low	No significant weakness identified but there are potential areas where control improvements could be made to implement best practice, which are noted as observations.

Annex B: Audit Opinion Ratings, Limitations, Contacts & Distribution

Limitations

This review was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing. The findings and opinion are based only upon the work carried out as detailed in the agreed terms of reference.

This review and report do not remove management's responsibility for ensuring that internal controls and risk management arrangements are sufficient to protect the interests of St Cleer Parish Council.

Contacts

For more information about this report please contact:

Alison Schofield – Senior Auditor: alison.schofield@cornwall.gov.uk

Jason Carne – Principal Audit Manager: jason.carne@cornwall.gov.uk

Holly Sykes – Chief Internal Auditor: holly.sykes@cornwall.gov.uk

Annex B: Audit Opinion Ratings, Limitations, Contacts & Distribution

Report Distribution

Draft Reports:

Ivor Morris, Acting Clerk

Emma Luther, Assistant Clerk

Final Report (in addition to above):

Lee Price, Chair of St Cleer Parish Council