

FINAL Internal Audit Report: St Cleer Parish Council (24-25EXT05)

Report Issued by: Holly Sykes (Chief Internal Auditor)

Date: 17 June 2024

		Audit Summary
Assurance Opinion	S	Limited
	R	
	L	
Risk Opinion	N	High
	H	
	M	
Number/ Priority of Findings	L	High (0)
		Medium (5)

Executive Summary

The overall objective of this audit was to review St Cleer Parish Council's financial systems and processes and to conclude on their effectiveness in safeguarding the Council's resources, to the extent required by the Annual Governance and Accountability Return (AGAR).

In order to form an opinion on the overall objective, 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 the 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; and
- Verifying that accounting statements are prepared on the correct accounting basis.

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At the request of the Locum Responsible Financial Officer (Locum RFO) an audit was undertaken to support the submission of the AGAR.

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 2023/24 Annual Governance and Accountability Return (AGAR). This opinion is based on the review of documentation, sample testing and interviews with the Locum Responsible Financial Officer (RFO) and the Chair of the Finance Committee.

Weaknesses were identified in the Council's audit trail for the authorisation of payments, budget monitoring, and income not being received for use of Council owned facilities. We acknowledge that the Council has faced administrative challenges during the 2023-24 year resulting in various matters not being addressed.

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

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Work Performed and Findings

In accordance with the Terms of Reference the work completed to undertake this audit review and the findings are summarised as follows:

1. Verifying that appropriate accounting systems and records are maintained.

Internal Audit verified whether appropriate accounting systems and records are maintained by interviewing the Locum RFO and reviewing the records that had been maintained throughout the 2023/24 financial year.

Appropriate accounting systems and records are held by St Cleer Parish Council.

- 1.1 We verified that accounting transactions had been recorded in the Rialtas Alpha Receipts and Payments system. In addition, the Locum Responsible Financial Officer (RFO) has maintained records in an Excel spreadsheet since being appointed in November 2023.

2. Ascertaining whether the creditors system is fit for purpose.

Internal Audit ascertained whether the creditors system is fit for purpose by reviewing the Financial Regulations, the minutes of Full Council meetings and testing a sample of expenditure transactions from the period 1 April 2023 - 31 March 2024.

Financial Regulations were in place and have been complied with. While the creditors system is fit for purpose we identified weaknesses in respect of invoice authorisation, and examples of the audit trail being compromised. The following was established:

- 2.1 The review established that St Cleer Parish Council agreed in October 2023 to continue using the existing financial regulations until the National Association of Local Councils (NALC) Model Financial Regulations were made available by the Cornwall Association of Local Councils (CALC). The NALC Model Financial Regulations were made available on the CALC website on 9 May 2024.

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- 2.2 Our test sample showed that most payments have been properly approved (12/15). However, we found some issues in the following areas: three invoices that were paid without a Committee minute reference to confirm approval, an invoice that was missing, and an invoice provided to support a payment which was dated May 2022 and related to email hosting for the previous year not the current year. Also, there may have been a chance to reclaim VAT that was not taken as no VAT invoice was obtained. We acknowledge that this invoice was accounted for correctly and VAT has not been claimed.
- 2.3 The Council's purchase card has not been used during the year.

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

Internal Audit established whether suitable arrangements were in place by reviewing the Corporate Risk Assessment, confirming that the Council had appropriate insurance cover and identifying the internal control arrangements.

The Council has effective processes in place for managing risk. The following was established:

- 3.1 The Council reviewed and approved the Corporate Risk Assessment for 2023-24 in September 2023.
- 3.2 The Council has appropriate insurance cover in place, including cover for cyber security.
- 3.3 The Council has carried out internal control checks during the year, but there was no record of these checks being reported to the Full Council. We were told that the Council is setting up a Finance and General Purposes Committee for the 2024-25 year. This committee would be a suitable place to receive a report verifying that internal control checks have been done.

4. Establishing whether adequate budgetary controls are in place.

Internal Audit established whether adequate budgetary control was in place by reviewing the process for budget setting for the 2023/24 year, the frequency and quality of budget management reports and the adequacy of reserves.

The Council has ineffective controls in respect of budget management. The following was established:

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- 4.1 The process for setting the budget for the 2023/24 was satisfactory, but we observe that budget oversight was weak during the year. We acknowledge that the Locum RFO produced a cashflow statement in January 2024 which showed the spending for the year up to that point. However, no budget management reports were presented either to the Finance and General Purposes Committee (which met in October 2023) or the Full Council.
- 4.2 The Council has £106k in Earmarked Reserves and £60.1k in General Reserves. While the Council has a list of designated earmarked reserves, there is scope for review to confirm the requirement for the reserves to be held at the current level.
- 4.3 The Council's balances have increased by £18k as a result of an underspend of £6k during the year and a Community Infrastructure Levy payment of £12k which not budgeted for.

5. Establishing that income is appropriately accounted for.

Internal Audit established whether income was appropriately accounted for by identifying the sources of income and ascertaining whether income due to the Council had been fully received and accounted for.

The Council has effective controls in respect of the precept and allotment rents and water however there was evidence that not all of the income due to the Council had been fully received during the year. The following was established:

- 5.1 All of the expected income from the precept and allotment rents and water had been fully received and properly accounted for.
- 5.2 One recurring user group of the Pavilion has access to the building with a key and pays for its use after each session. The Council considers this is a suitable arrangement, but it is not good practice. The Council should issue invoices for the use of the Pavilion to ensure that rates charged are in accordance with the scale of charges.

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5.3 The Council received no income for the hire of the sports pitches. We were informed that invoices raised were in dispute because the hirer was unhappy with the 30% increase from the previous year. We were informed that the Chairman of the Council has been in contact to negotiate payment for the use of facilities.

5.4 The Council has received funding from the Community Infrastructure Level which has been ringfenced.

6. Establishing that petty cash is appropriately controlled.

St Cleer Parish Council does not hold any petty cash.

7. Verifying the accuracy of salaries paid to employees and appropriateness of allowances claimed by members.

Internal Audit verified the accuracy and appropriateness by reviewing the payments made to employees and allowances paid to members.

St Cleer has effective processes in place to ensure that salaries paid to employees are accurate and allowances claimed by members are appropriate. The following was established:

- 7.1 During the year the Council had one leaver and one new starter. The Locum RFO completes a timesheet which is authorised for payment by the Chair of the Finance and General Purposes Committee. The arrangements for accounting for pay were appropriate.
- 7.2 No regular allowances have been paid to members although we note that an allowance was paid for one month to the Chair of the Council, who subsequently resigned. Other Councillors have been reimbursed for expenses during the year. All of these payments were properly approved by Full Council.

8. Ascertaining whether asset and investment registers are complete and accurate.

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Internal Audit ascertained the completeness and accuracy by reviewing the Asset Register, checking that the valuation was reflected in the accounting statements and establishing whether the Council had any active investments.

St Cleer has effective processes in place and the Council has not purchased any assets during the 2023-24 year. The following was established:

- 8.1 Valuation of the assets has been restated at the same level as that reported in 2021-22 following consultation between the Locum RFO and external auditor BDO LLP in preparing the AGAR for 2023-24. We note that the asset register published on the Council's website is dated 2020.

9. Ascertaining whether the bank account is subject to periodic reconciliations.

Internal Audit ascertained whether the bank account was subject to periodic reconciliation by establishing how many bank accounts the Council has, identifying the authorised signatories, how the access is administered, responsibility for the reconciliation process and the frequency of reconciliations.

St Cleer has effective processes in respect of the administration of the bank accounts, however a weakness was identified in respect of the completion of regular bank reconciliations. The following was established through the examination of key documents:

- 9.1 The Council has four bank accounts, two with Unity Trust Bank and two with HSBC bank. The Council's bank mandate has been updated twice during the year.
- 9.2 Access to create and authorise BACS payments using the Unity Trust Bank Current Account are controlled and there is appropriate segregation of duty between input and authorisation of payments.
- 9.3 Bank reconciliations have not been completed on a regular basis throughout the year. We acknowledge that this was due to the departure of the Assistant Clerk in October 2023 and that the Locum RFO was not appointed until November 2023.

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9.4 The bank balances at the 31 March 2024 (year-end) were agreed to the Accounting Statements on the AGAR.

10. Verifying that accounting statements are prepared on the correct accounting basis.

Internal Audit verified whether the accounting statements are prepared on the correct accounting basis by identifying the basis for the preparation of the Accounting Statements, and ascertaining whether the statements agreed to the cashbook and were supported by an adequate audit trail from underlying records.

The accounting statements for the year 2023/24 were reviewed. The following was established:

10.1 The accounting statements had been completed on a receipts and payments basis, agreed to the cashbook and are supported by an adequate audit trail.

11. Publication arrangements.

Internal Audit ascertained whether publication arrangements were appropriate by identifying the information and documentation published on St Cleer Parish Council's website and verifying whether the publication arrangements had been complied with.

St Cleer Parish Council has complied with the relevant publication arrangements. The following was established:

11.1 The Council has published information on a free to access website. However, a number of key documents linked to the Council's Finance and General Purposes Policies & Procedures web page require updating. These include the Financial Regulations, Standing Orders, Asset Register and Corporate Risk Assessment.

11.2 The Council correctly provided for a period for the exercise of public rights as required by the Accounts and Audit Regulations for the 2022/23 AGAR.

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11.3 At the time of our review the notice of publication for the 2023/24 AGAR was in draft pending the approval of the accounts which is planned for the 5 June 2024. We acknowledge that a draft document has the correct publication dates which if followed will comply with the requirements of the internal control objective.

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
	Medium		
1	<p>We tested a sample of 15 invoices from the financial year 2023-2024. While the majority of invoices 12/15 were appropriate authorised, the following issues were identified: three invoices without a minute reference confirming authorisation, a missing invoice and an invoice provided to support a payment which was dated May 2022 and related to email hosting for the previous year not the current year. In addition, an opportunity to reclaim VAT may have been missed as no VAT invoice was obtained. We acknowledge administrative challenge in early part of 2023/24, departure of the clerk and that the Locum RFO was only appointed in November 2023.</p> <p>The implication is that invoices were paid without being authorised and the audit trail has been compromised.</p>	<p>All meetings will be properly minuted with the payments schedule appended and minutes posted promptly on the website. Authorised copies of the Payments Schedule will be kept on file with the meeting papers.</p>	<p>Katie-Marie Goodwright, Clerk Immediate</p>

Annex A: Findings and Observations

#	Findings & Implications	Agreed Management Action	Responsible Person / Due Date
2	<p>The process for setting the budget for the 2023/24 was satisfactory, but we observe that budget oversight was weak during the year. We acknowledge that the Locum RFO produced a cashflow statement in January 2024 that showed the spending for the year up to that point. However, no budget management reports were presented either to the Finance and General Purposes Committee or the Full Council. The implication being that the Council did not have a clear understanding of their financial position throughout the year which could have led to overspending or missed opportunities for cost savings. In addition, the ability to make informed decisions was hindered.</p>	<p>The budget for each cost centre will be shown and reported against at least quarterly to both Finance Committee and Full Council.</p>	<p>Katie-Marie Goodwright, Clerk 30 June 2024</p>
3	<p>One recurring user group of the Pavilion has access to the building with a key and pays for its use after each session. The Council considers this is a suitable arrangement, but it is not good practice. The Council should issue invoices for the use of the Pavilion to ensure that rates charged are in accordance with the scale of charges.</p>	<p>Without a member of staff at the pavilion it would be difficult to monitor this letting. Hirers are informed of any change in fees and this group has self-managed for many years. It is the only group to do so.</p>	
4	<p>The Council received no income for the hire of the sports pitches. We were informed that invoices raised for use of the facilities were in dispute because the hirers were unhappy with the 30% increase from the previous year. We were informed that the Chairman of the Council has been in contact to negotiate payment of the use of facilities.</p>	<p>Income has now been received from the junior teams and they have paid at the old rate as agreed with the Chairman. Council will need to agree fees going forward and the Clerk will invoice at appropriate intervals.</p>	<p>Katie-Marie Goodwright, Clerk 30 September 2024</p>

Annex A: Findings and Observations

#	Findings & Implications	Agreed Management Action	Responsible Person / Due Date
5	The Council has published information on a free to access website. However, a number of key documents linked to the Council's Finance and General Purposes Policies & Procedures web page require updating. These include the Financial Regulations, Standing Orders, Asset Register and Corporate Risk Assessment. The implication being that the Council is not publishing up to date information on its web page in accordance with relevant legislation.	All documents will be revised and brought to Council for adoption starting with the Financial Regulations (to the latest template) and Standing Orders (June 2024).	Katie-Marie Goodwright, Clerk 30 September 2024

Annex A: Findings and Observations

Observations

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

Observation(s) and Implication(s)
<p>The National Association of Local Councils (NALC) Model Financial Regulations 2024 were made available on the Cornwall Association of Councils (CALC) website on 9 May 2024. We suggest that it would be advisable for St Cleer Parish Council to download the document and adopt the Model Financial Regulations 2024.</p>
<p>While we were able to confirm that there was evidence that internal control checks had been completed by the Chair of the Finance and General Purposes Committee in January and February 2024, the minutes did not make reference to the completion of these checks. Good practice suggests that the minutes should make reference to these checks being completed to ensure that Counsellors are aware of any internal scrutiny.</p>

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:

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

Report Distribution

Draft Report:

Derris Watson Locum RFO

Cllr Sue Harbord, Chair of the Finance & General Purposes Committee

Final Report (in addition to above):

Cllr John Prinn, Chair St Cleer Parish Council

Katie-Marie Goodwright, Clerk, St Cleer Parish Council