

INTERNAL AUDIT REPORT RUDHEATH PARISH COUNCIL 2022/23

The internal audit of Rudheath Parish Council was carried out by undertaking the following tests as specified in the AGAR Annual Return for Local Councils in England:

- Checking that books of account have been properly kept throughout the year
- Checking a sample of payments to ensure that the Council's financial regulations have been met, payments are supported by invoices, expenditure is approved, and VAT is correctly accounted for
- Reviewing the Council's risk assessment and ensuring that adequate arrangements are in place to manage all identified risks
- Verifying that the annual precept request is the result of a proper budgetary process; that budget progress has been regularly monitored and that the council's reserves are appropriate
- Checking income records to ensure that the correct price has been charged, income has been received, recorded and promptly banked and VAT is correctly accounted for
- Reviewing petty cash records to ensure payments are supported by receipts, expenditure is approved and VAT is correctly accounted for
- Checking that salaries to employees have been paid in accordance with Council approvals and that PAYE and NI requirements have been properly applied
- Checking the accuracy of the asset and investments registers
- Testing the accuracy and timeliness of periodic and year-end bank account reconciliation(s)
- Year end testing on the accuracy and completeness of the financial statements

Conclusion

On the basis of the internal audit work carried out, which was limited to the tests indicated above, in our view the council's system of **internal controls is NOT in place**, adequate for the purpose intended and effective, subject to the issues reported in the action plan overleaf.

As part of the internal audit work for the next financial year we will follow up all recommendations included in the action plan.

JDH Business Services Limited

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	ISSUE	RECOMMENDATION	FOLLOW UP
1	<p>We were informed by the clerk that individual councillors are managing items such as procurement exercises and some events. There is no delegated authority in any minutes that permits this and Financial Regulations require the clerk/RFO to conduct procurement exercises : <i>‘When it is to enter into a contract of less than £25,000 in value for the supply of goods or materials or for the execution of works or specialist services other than such goods, materials, works or specialist services as are excepted as set out in paragraph (a) the Clerk or RFO shall obtain 3 quotations (priced descriptions of the proposed supply); where the value is below £3,000 and above £100 the Clerk or RFO shall strive to obtain 3 estimates.</i></p> <p>Financial Regulations also prohibit individual councillors placing orders: <i>10.4. A member may not issue an official order or make any contract on behalf of the council.</i></p> <p>In addition, s101 of the LGA 1972 states <i>that ‘a local authority may arrange for the discharge of any of their functions— (a)by a committee, a sub-committee or an officer of the authority; or (b)by any other local authority.’</i> Therefore, s101 does not cover individual councillors discharging a council functions so the council should delegate functions according to</p>	<p><i>The council must comply with laws, regulations and proper practices with respect to all income, expenditure and procurement. All orders must be placed by the officer with delegated authority and procurement exercises must be managed by the clerk/RFO as required by the adopted Financial Regulations.</i></p>	

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	the LGA 1972.		
2	<p>We were informed by the clerk that some events were being managed by individual councillors with no audit trail maintained in terms of sequenced tickets sold so that sales for events can be reconciled to the range of tickets sold. There is no delegated authority in the minutes for any member to manage council events and as noted above s101 of the LGA 1972 states that ‘a local authority may arrange for the discharge of any of their functions— (a)by a committee, a sub-committee or an officer of the authority; or (b)by any other local authority.’ Therefore, the council must delegate functions accordingly.</p> <p>The management of events has also breached the council insurance cover for money as some events raised in excess of £500, and the money insurance cover for cash held at the private residence of an employee or member is only £250.</p>	<p><i>Events must be managed under proper delegated authority by the council officers.</i></p> <p><i>A comprehensive audit trail of income received must be maintained for events by using prenumbered tickets. A full reconciliation of income to ticket ranges should be completed for each event to evidence that income has been completely and accurately collected and recorded in the council accounting system.</i></p> <p><i>Cash should be held in a council safe and the limits of cash stored must comply with the council insurance money cover.</i></p>	
3	<p>Publication Requirements:</p> <p>The Notice of Conclusion of Audit and Audit Certificate were not published by the deadline of September 30th 2022.</p>	<p><i>The council must comply with the publication requirements of the Accounts and Audit Regulations 2015.</i></p>	

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	Therefore, we have concluded in the AGAR internal audit certificate that the council did not comply with the publication requirements for the 2021/22 AGAR audit as required by the Accounts and Audit Regulations 2015.		
4	The council did not comply with Regulation 15 of the Accounts and Audit Regulations 2015 as it failed to make proper provision for the exercise of public rights for the 2021/22 accounts. The approval date of the AGAR was on the first date of the public notice.	<i>The council must comply with the requirements of the Accounts and Audit Regulations 2015 with respect to the notice for the exercise of public rights.</i>	
5	The uPVC doors and windows contract for £8990 was above the threshold for securing three quotations in the Financial Regulations (FRs) but no evidence of procurement in accordance with the FRs was provided for internal audit.	<i>The council must comply with their Financial Regulations for contracts and retain valid evidence of quotations/tenders of all procurement exercises.</i>	
6	Section 4.8. of the Financial Regulations requires explanations of material variances. in excess of £100 of the budget in the budgetary control information provided. The annual budget to support the	<i>Quarterly budgetary control information must include explanations of material variances</i>	

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	precept does not clearly evidence that account is taken of brought forward and carried forward reserves (although we could identify that a contributions from reserves have been included in the budget).	<i>The council annual budget must clearly evidence account of brought forward and carried forward reserves, with a clear analysis of earmarked and general reserves.</i>	
7	The council resolution covering our 2021/22 internal audit report that contained numerous and significant issues and recommendations simply states ‘Internal Audit presented to council’. There is no indication of any action plan adopted by the council in response to the report.	<i>The council minutes need to better evidence that there was full consideration of our internal audit report and adopt a comprehensive action plan to address issues raised.</i>	
8	The risk assessments approved by council in 2022/23 only covered health and safety. Therefore none of the financial, corporate and governance risks of the council were not reviewed and addressed through the risk assessment process.	<i>The annual risk assessment process must include review of the financial, corporate and governance risks of the council as well as health and safety.</i>	
9	The risk assessment does not address the risks of supplier fraud. Most standard local council policies do not cover supplier fraud. The supplier fraud risks can be managed via appropriately robust policies and procedures. Examples of prevention actions include:	<i>The risk assessment should be updated to include supplier fraud including the adequacy of supplier onboarding controls.</i>	

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	<ul style="list-style-type: none"> - training for staff to alert them to the potential risks of providing sensitive company information, by phone or other means, especially contract and account information. - establish a rigorous change of supplier details procedure - where a supplier has purported to have changed their bank details always call the supplier to check the veracity of a request, using details in your system, rather than those on any associated letter or email. A person should be authorised to approve a supplier bank account change after having reviewed the process undertaken to verify the supplier details change - periodic review of supplier accounts should also be undertaken to remove any dormant accounts. This reduces the likelihood of any old supplier information being used to secure fraudulent payments. - checking address and financial health details with Companies House - checking samples of online payments to supplier invoices to ensure the payment has been made to the supplier 		

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	bank account		
10	The caretaker contract of employment includes the right to enrol in the LGA pension fund, however, this has not occurred to date.	<i>The council need to ensure that all employees are enrolled on an appropriate pension scheme where relevant.</i>	
2021/22 internal audit			
1	<p>Internal control objective M in the AGAR internal audit certificate requires internal audit to conclude whether the Public Rights Notice during the previous Summer (2020/21 financial year) was compliant with the Regulations. Objective N requires us to assess whether the council complied with the publication requirements for 2020/21.</p> <p>However, the council did not publish the AGAR before July 1st 2021 and the AGAR was approved on July 19th, which was after the date of the commencement of the public notice period of June 14th.</p>	<i>The council must comply with all the legal requirements for the Annual Notice of Public Rights, including ensuring the AGAR is approved before the public notice period.</i>	See 2022/23 issues
2	The credit card is in the same of a councillor rather the clerk/RFO. Expenditure of £2067.37 was incurred during the year on this credit card. This	<i>The council credit card must be in the same of the clerk/RFO only, as required by Financial Regulations.</i>	We were informed by the clerk that the credit card have now been cancelled.

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	<p>is a breach of Financial Regulations (FRs) that state:</p> <p><i>'6.20. Any corporate credit card or trade card account opened by the council will be specifically restricted to use by the Clerk [and RFO] and shall be subject to automatic payment in full at each month-end.'</i></p> <p>In addition, a councillor using a credit card also mean the following FR is not being complied with if expenditure is being committed:</p> <p><i>10.4. A member may not issue an official order or make any contract on behalf of the council.</i></p> <p>We could not identify in the minutes that credit card expenditure had been approved by council in the schedules of payment. We could not locate invoices/vouchers for all credit card expenditure incurred.</p>	<p><i>All credit card expenditure must be approved by council in the minutes and vouchers/invoices must be secured and retained for all credit card expenditure.</i></p>	
3	<p>No information was provided to evidence that the grounds maintenance and sports surfacing contracts, which are above the level requiring quotations in the Financial Regulations (FR), were procured according to the FR requirements.</p> <p>We were informed that a councillor</p>	<p><i>The council must provide internal audit with evidence of compliance with the procurement requirements of the Financial Regulations, and all relevant larger contracts should be market tested in accordance with the FRs.</i></p>	<p>Recommendation outstanding – see 2022/23 procurement issues</p>

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	held the evidence of the quotations for the sports surfacing contracts.		
4	The VENUE cashbook does not analyse payments across categories of expenditure which means reporting in accordance with budgetary control headings would require further analysis. The whole system of separate spreadsheets for the council and the VENUE receipts and payments, the credit card, and a separate spreadsheet for the cash and bank reconciliations is becoming unwieldy.	<i>The council has grown in size substantially in recent years and should now consider implementing bespoke local council accounting software that would also enable effective budgetary control reporting.</i>	Implemented – SCRIBE accounting software used for 2022/23
5	<p>RECURRING ISSUE - Section 4.8. of the Financial regulations require budgetary control statements to be prepared at least at the end of each financial quarter and shall show explanations of material variances for council to review. The council minutes do not evidence that budgetary control information is being reviewed by council at least quarterly.</p> <p>The annual budget to support the precept does not clearly evidence that account is taken of brought forward and carried forward reserves (although we could identify that a contributions from</p>	<p><i>The council minutes must clearly evidence that budgetary control information is provided by the clerk at least quarterly, as required by the Financial Regulations.</i></p> <p><i>The council annual budget must clearly evidence account of brought forward and carried forward reserves, with a clear analysis of earmarked and general reserves.</i></p>	<p>Implemented</p> <p>Recommendation Outstanding</p>

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	reserves have been included in the budget).		
6	Although schedules of payments were provided with the minutes for internal audit, none of the schedules were signed by the Chair to evidence they were the schedules reviewed and approved by council. The audit trail could also be improved by including the total of the payments that were approved by council in the minutes so there is a link with the actual schedule of payments.	<p><i>The Chair should sign and date the schedule of payments that was approved by council to evidence the schedule was a complete and accurate record of the payments that were approved in the meeting.</i></p> <p><i>When a schedule of payments is approved, the council minutes must record the total of the payments schedule approved so there is an audit trail from the minutes to the schedule of payments.</i></p>	After receipt of our recommendation totals approved has been included in the council minutes.
7	<p>VAT review</p> <ul style="list-style-type: none"> - RECURRING ISSUE - The VAT reclaim does not contain the VAT numbers of all suppliers. - The sum of all the VAT totals recorded in the cashbooks is £10176.03, however, the VAT 126 reclaim form for the financial year records a total of £10279.61. 	<p><i>The VAT 126 reclaim form requires the VAT numbers of all suppliers where VAT is being reclaimed.</i></p> <p><i>The difference between the VAT in the cashbooks and the VAT 126 reclaim form should be reconciled and the reclaim form amended for any adjustments identified.</i></p>	VAT is now processed through the Scribe accounting system.

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8	<p>Although we were informed the fees and charges had remained the same since 2020/21, fees and charges levied by the council were not agreed by the council annually, as required by the Financial Regulations, section 5.1, <i>'The council will review all fees and charges at least annually, following a joint report of the Clerk and RFO'</i>.</p>	<p><i>The council should formally agree all fees and charges in advance of the next financial year and each year thereafter.</i></p>	<p>Implemented</p>
9	<p>The minutes are not clear on occasions as to what was discussed and what the resolution was. For instance, we could not discern what all the resolutions under 12.) Any Other Business , resolutions 2021/067 to 2021/070 actually meant. We identified that council are provided with an agenda but no agenda packs of the information that is to be discussed at the meetings, indicating that everything is tabled on the day. This means councillors do not have enough time to review key documentation.</p> <p>An example of this is the annual review and approval of the risk assessment. This item was not included in the agenda for the March meeting, instead it was tabled on the day as Any Other Business, so council had to approve it</p>	<p><i>Administration of meetings must be improved:</i></p> <ul style="list-style-type: none"> - <i>Minutes must include a clear record of the resolutions made</i> - <i>Councillors must receive full agenda packs a week in advance of the meeting</i> - <i>key items such as risk assessment must not being tabled on the day as 'other business' and included as an item on the actual agenda list and sent to councillors as part of an agenda pack the week before</i> 	<p>Recommendation Outstanding – for example the response to our numerous issues raised in our 2022/23 internal audit report was 'Internal Audit presented to council' with no council adopted actions reported in response to our recommendations.</p>

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	with no time to read the entire document and assess whether it had been updated to reflect all current risk and appropriate risk mitigation actions.		
10	Payroll The council has claimed the annual employment allowance in 2021/22 so no employers National Insurance has been remitted to HMRC.	<i>A local council is not entitled to the employment allowance and therefore the council has a liability of employers national insurance to HMRC to be paid.</i>	
2020/21 internal audit			
1	Section 4.8. of the Financial regulations require budgetary control statements to be prepared at least at the end of each financial quarter and shall show explanations of material variances for council to review. The council minutes do not clearly evidence that budgetary control information is being reviewed by council at least quarterly.	<i>The council minutes should clearly evidence that budgetary control information is provided by the clerk at least quarterly, as required by the Financial Regulations.</i>	Implemented
2	The council Financial Regulations require the following with respect to medium term financial planning : <i>3.1. Each committee shall review its three year forecast of revenue and</i>	<i>The council should either establish a rolling three year financial plan for revenue and capital as required by the current Financial Regulations (FRs) or update FRs to reflect the current annual budget procedure.</i>	Recommendation Outstanding

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	<p><i>capital receipts and payments.</i></p> <p><i>3.3. The council shall consider annual budget proposals in relation to the council's three year forecast of revenue and capital receipts and payments</i></p> <p>However, there is currently no three year rolling revenue and capital financial plan in place.</p>		
3	The VAT reclaim does not contain the VAT numbers of all suppliers.	<i>The VAT 126 reclaim form requires the VAT numbers of all suppliers where VAT is being reclaimed.</i>	<p>2022/23 follow up – VAT is now processed through SCRIBE accounting software.</p> <p>Recommendation Outstanding – see 2021/22 issues</p>
2019/20 internal audit			
1	The fidelity insurance cover is stated as £100,000. Balances have increased substantially in 2019/20 to £138,139 and the fidelity insurance no longer covers the maximum projected cash and bank balances.	<p><i>The council need to increase the level of fidelity insurance to cover maximum projected cash and bank balances.</i></p> <p><i>The adequacy of the level of fidelity insurance should be reviewed annually as part of the risk assessment.</i></p>	Implemented
2	Year end general reserves have increased to £138,139 which is 387% of the precept level of £38,699. No earmarked reserves are disclosed.	<i>The council should carry out a review of the level of reserves with reference to sector guidance, and where community projects/schemes/capital projects are</i>	Implemented – the council has established £83000 of earmarked reserves

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	Sector guidance is that general reserves should be between 25% ad 100% of net operating expenditure (ie the precept).	<i>identified ensure these amounts are separately earmarked.</i>	
3	Lump sum allowances are paid to the clerk but there is no evidence was provided that a year end P11D is submitted to HMRC	<i>The council should ensure it is complying with year-end HMRC requirements.</i>	Lump sum allowances ceased in the financial year.
4	Only the health and safety risk assessment were provided for internal audit review.	<i>The financial risk assessment should be provided annually for internal audit review</i>	Implemented
5	<i>A significant number of recommendations raised in 2018/19 are still outstanding. These recommendations relate to key issues and should be addressed by the council.</i>		
2018/19 internal audit			
1	The 2017/18 figures on the AGAR Annual Return have been changed from those certified last year, but 'restated' has not been written at the top of the 2017/18 column	<i>Whenever prior year certified figures are changed the word 'restated' needs to be written at the top of the column of prior year figures</i>	Noted
2	A number of deficiencies in the year end bank reconciliation were identified: - The incorrect year end balance	<i>The March 31st balance should always be used in the year end bank reconciliation and more detailed information as described needs to be included in the year end bank</i>	Implemented except for 'The reconciliation contains the total of all the bank accounts of the council rather than separately

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	<p>has been used in the bank reconciliation for account number 40710369 as the April 1st balance has been used instead of the March 31st balance.</p> <ul style="list-style-type: none"> - No analysis of un-presented cheques is included in the reconciliation. - The reconciliation contains the total of all the bank accounts of the council rather than separately disclosing each bank account balance to evidence the audit trail 	<p><i>reconciliation to improve audit trail</i></p>	<p><i>disclosing each bank account balance to evidence the audit trail'</i></p> <p><i>2020/21 follow up - implemented</i></p>
3	<p>Recurring Recommendation The council is still using the very limited financial regulations incorporated into the Standing Orders and have not adopted aligned NALC model Financial Regulations. The item is mentioned in the minutes twice but then no further action resulted.</p>	<p><i>We previously recommended that NALC model Financial Regulations (FRs) should be adopted to replace the limited FRs covered in the Standing Orders. Due to the current size and scope of council activity the current FRs are not fit for purpose and this recommendation should be implemented as soon as possible. We have previously provided a copy of the model FRs to the clerk</i></p>	<p>Implemented</p>
4	<p>No evidence was presented with the books and records for internal audit for any tenders or quotations for items above the £5000 threshold in the</p>	<p><i>Evidence of quotations and tenders for items above the quotation/tender threshold should be provided with the books and records for internal audit</i></p>	<p>Implemented</p>

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	<p>Standing Orders (SOs). The clerk has since provided assurances regarding the tenders for key items.</p> <p>There is no record in the 2018/19 minutes of council considering any tenders or quotations and the resultant decision. The clerk has noted the Venue is run by a separate committee but all expenditure must be incurred in accordance with the council Standing Orders (and updated Financial Regulations when they are adopted)</p>	<p><i>Minutes should record the procurement exercises of council and the resultant decisions regarding quotations and tenders.</i></p> <p><i>Expenditure in respect of the Venue should be incurred in accordance with the SOs and FRs of the council</i></p>	
5	<p>The total VAT incurred on the Venue was £6320. The partial exemption threshold for VAT is £7500, and the hire of the Venue rooms is VAT exempt income.</p>	<p><i>The council should complete a VAT partial exemption annually to demonstrate whether the £7500 partial exemption threshold has been exceeded.</i></p>	<p>Total VAT reclaimed in 2019/10 has reduced from 2018/19 levels.</p>
6	<p>The invoices generated to support the hires at the Venue do not contain enough information for the price to be easily validated. The price list contains charges by the hour, half day, day, evening or blocks of 5 day hire. However, the invoices just contain the date of the hire with no detail that can be agreed back to the price list to confirm the correct price has been charged.</p>	<p><i>The information included on invoices should be improved so that any price charged can be verified.</i></p>	<p>Recommendation outstanding</p>

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	There is no evidence in the minutes that the pricing policy and policy for discounts has been agreed by council.	<i>The council should annually approve the prices for the Venue and the discount policy</i>	
7	Although the clerk has provided some evidence that budgetary control information is provided to council, the minutes do not record the receipt and review of regular budgetary control information that matches expenditure to date against the budget.	<i>The minutes should record the review of regular budgetary control information</i>	Recommendation Outstanding
8	The clerk is applying category x to the national insurance (NI) classification. However, this category is used for employees that do not pay NI. The clerk has been paid at a level above the NI thresholds since 2017/18.	<i>The council should secure guidance from HMRC as to the correct NI classification and pay any NI liabilities due</i>	Implemented
9	We were unable to identify the annual payment for ICO registration in the council accounts. Therefore, we could not confirm the council is currently registered for data protection with the ICO. The council is a data controller but has not taken effective action to ensure compliance with the GDPR as	<i>The council is a data controller and it should ensure it is currently registered with the ICO and take prompt action to ensure updated GDPR compliant policies and procedures are adopted and published.</i>	Partially implemented – ICO registration in place but no evidence provided of key data policies and procedures

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	<p>prescribed in the Data Protection Act 2018. For instance:</p> <ul style="list-style-type: none"> - There is no up to date published data protection policy - No updated and published internal and external privacy policies - No information security policy - No communications and social media policy - No data mapping has been completed and no current data inventory is in place - GDPR compliant data breach and SAR procedures not adopted <p>As a result of the above we would classify GDPR compliance as a high risk area at the council</p>		
10	<p>The full information required by the Transparency Code is not being published on the council website. Although this is not required for councils with an income of between £25k and £200k, it is good practice.</p>	<p><i>The council should consider complying with good practice and publishing the items specified in the Transparency Code</i></p>	<p>Noted</p>