

LAVERSTOCK & FORD PARISH COUNCIL

Report for Agenda Item 23.084 Review of Internal Audit Observations

Subject: Review of Internal Audit Observations
Date: 16th June 2023
Author: Andrew Prince, RFO

1. Report Summary.

1.1 In the course of completing the Internal Control Objectives of the Annual Internal Audit the internal auditor has made several observations and recommendations to the Council. This Report presents those Observations and the subsequent Comments by the Clerk & RFO. It also includes a Review of the Effectiveness of Internal Controls. This is required to be carried out annually by The Accounts & Audit Regulations 2015.

2. Background.

2.1 The Internal Audit requires that fifteen Control Objectives are examined and approved. All Control Objectives resulted in a positive response (Yes) or were 'Not Covered'.

2.2 Six of the Control Objectives resulted in observations and recommendations. The items raised included the following subjects.

2.3 A. Appropriate Accounting Records.
B. Compliance with Financial Regulations.
C. Assessment and Management of Significant Risks including Effectiveness of Internal Controls.
G. Salaries and allowances.
H. Asset and investment registers.
J. Accounting statements.

3. Observations and Comments.

3.1 The Observations of the Internal Auditor and the Comments by the Clerk and RFO are attached at Annex A to this Report.

4. Review of Effectiveness of Internal Control.

4.1 Regulation 3 of The Accounts & Audit Regulations 2015 states that a relevant authority must ensure that it has a sound system of Internal Control which –

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives.
- (b) ensures that the financial and operational management of the authority is effective; and
- (c) includes effective arrangements for the management of risk.

4.2 Internal Control of Laverstock and Ford Parish Council includes the following processes and procedures.

4.1.1 Monthly financial statements prepared by the RFO listing all income and expenditure including supporting invoices/receipts for debit card payments, and invoices for future payments, The RFO verifies all payments in accordance with Financial Regulations.

4.1.2 Monthly checks of all financial statements and payment vouchers, including salary payments, by a nominated member of the Finance and General Purposes Committee.

4.1.3 Monthly reconciliation of all bank and treasury deposit accounts by the RFO. Checked and verified by a nominated member of the Finance and General Purposes Committee.

4.1.4 A Financial Risk Assessment, covering 22 aspects of the Council's finances, continually updated by the RFO and approved annually.

5. Recommendation.

5.1 That the Council review the Observations of the internal auditor and note the Comments and corrective actions outlined by the Clerk and RFO.

5.2 That the Council confirms that it has conducted a review of the effectiveness of the system of internal control required by regulation 3 of The Accounts and Audit Regulations 2015.

**Laverstock and Ford Parish Council
Financial Year 2022-23**



IAC Audit and Consultancy Ltd

Audit date: 2 June 2023

Year End Internal Audit Observations

A Appropriate accounting records have been properly kept throughout the financial year.

No.	Audit Test	Response	Observation	Recommendation	Priority	Comments
1	Accounting system opening balances agree to prior year Annual Return	No	<i>The opening balance and prior year numbers on the 2022-23 draft Accounting Statements do not agree with the 2021-22 Accounting Statements, there is a difference of £9,641.84.</i>	Council to review the accounting system opening balances and agree them to the prior years Accounting Statements (see Observation J1 below).	Medium	A Report explaining the differences will be presented to Council prior to approval of the Accounting Statements in order that the Restatement can be reviewed and accepted.

B This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.

No.	Audit Test	Response	Observation	Recommendation	Priority	Comments
1	Has a Responsible Finance Officer (RFO) been appointed with specific duties in accordance with section 151 of the Local Government Act 1972?	No	<i>From a review of records it was not possible verify when, or how, the Council formally appointed the RFO.</i>	The Council council to formally review and confirm the appointment of the RFO.	High	The appointment of the RFO will be confirmed by resolution of Council on 19th June 2023.
2	If the Council is a tenant under leases, are the lease agreements current?	No	<i>The Council does not have a formal legal agreement in place for the lease of its offices.</i>	Council to review and update its lease agreements	Medium	Major alterations to the infrastructure of the Community Farm are being planned. The right to occupy office space is under discussion with the Farm tenant (RBCF CIC) and the Council's solicitor.

C This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.

No.	Audit Test	Response	Observation	Recommendation	Priority	Comments
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1	Council has formally documented Internal Controls	No	<i>Council has not formally documented Internal Controls</i>	Council should formally document its Internal Controls.	Medium	Internal controls are documented in Financial Regulations and in the Financial Risk Assessment. Both have been recently approved by Council. Consideration will be given to bringing them together and expanding them.
2	The Council, meeting as a whole, has reviewed the effectiveness of its internal control system as required by Regulation 6 of the Accounts and Audit Regulations 2015	No	<i>The Council has not reviewed the effectiveness of its internal control system as required by Regulation 6 of the Accounts and Audit Regulations 2015.</i>	Council to note the requirement for it to regularly review its internal control system.	High	A review of the Council's Internal Controls will be on the Agenda of the next Council meeting, before approval of the Governance Statements.
3	The value of the Council's Fidelity Insurance covers the value of the Council's cash & bank holdings	No	<i>The value of the Council's Fidelity Insurance at £1 million does not cover the value of the Council's cash & bank holdings which totalled £1.3 million as at 31st March 2023.</i>	The Council to review the level of its Fidelity insurance and consider whether it is adequate to cover the value of cash and bank balances held.	Medium	The level of Fidelity Insurance is reviewed annually as part of Financial Risk Assessment and approval of Insurance. The Council's insurers, Zurich Municipal, have declined any increase over £1m, which they state is their maximum. This has been accepted by the Council.

G Salaries to employees and allowances to members were paid in accordance with this authority's approvals, and PAYE and NI requirements were properly applied.

No.	Audit Test	Response	Observation	Recommendation	Priority	Comments
1	Employees have contracts of employment with clear terms and conditions	No	<i>It was noted that the Clerk does not have an employment contract (or letter confirming her appointment) in place for her current role (she was previously deputy Clerk). Similarly there is no formal documentation in place for the RFO.</i>	Council to review the format of employment contracts in use. The Council should consider adopting the NALC model contract format.	High	The NALC Model Contract is used by the Council and is the format of the Contracts of both the Clerk and the RFO. Amendments to the terms and conditions of those contracts are implemented by resolution of the Personnel Committee and/or Council, and confirmed in writing to employees. These will be updated at the next Council meeting on 19th June 2023.

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2	Salaries and wages payable to staff have been appropriately approved and confirmed in writing.	No	<i>See above</i>	The Council should put in place arrangements for the formal approval of monthly/weekly salary computations. This may be carried out by nominated Councillors or committee.	High	Salaries are calculated by an external Payroll provider. Payslips are checked by both the Clerk and RFO and also checked monthly by a nominated member of the Finance and General Purposes Committee. Formal approval of the Council is given when payments are approved each month.
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H Asset and investments registers were complete and accurate and properly maintained.

No.	Audit Test	Response	Observation	Recommendation	Priority	Comments
1	Movement on asset register agrees to additions to disposals made in the year	No	<i>It was noted that assets numbered 179-185 added to the register during 2022-23 are dated prior to 1st April 2023 and it therefore appears these items were held as at 31st March and should have been recorded on the March 31st 2022 asset register.</i>	Council to review the change in the value of assets from prior year and agree the movement to additions and disposals made in the current year. If assets 179-185 were held as at the 31st March 2022 then the Box 9 value for March 2022 should be restated in the 2022-23 Accounting Statements.	High	Agreed. A transposition error in 2020-2021 removed five assets. They were all waste bins with an asset value of £1,251. The error was discovered during Asset Inspections. The assets have been reinserted and the 2021-22 Asset Register will be restated.

J Accounting statements prepared during the year were 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.

No.	Audit Test	Response	Observation	Recommendation	Priority	Comments
1	Prior year numbers reported on this years Accounting Statements agree to prior year Accounting Statements	No	<i>It was noted that the prior year Accounting Statement values have been restated.</i>	Council to formally review and confirm the restatement of the 2021-22 Accounting Statement values.	High	A Report explaining the differences will be presented to Council prior to approval of the Accounting Statements in order that the Restatement can be reviewed and accepted.