

Report to Bidborough Parish Council (BPC) from the Independent Internal Auditor.

1. All references relate to "Governance and Accountability for Smaller Authorities in England – A Practitioners' Guide 2023"
2. I have examined the lists of payments presented to Councillors each month between April 2022 and 31 March 2023 and where possible have checked them to vouchers. I have also reviewed the payments presented to the April and May 2023 meetings. During the year, there was no cash book in place to record all payments and receipts, so I produced one in order to facilitate my checks. Despite the comment made by the Clerk in the Minutes of 24 April 2023 that my fee was reduced due to the new finance software being in place, this did not significantly reduce the amount of time I have spent on the internal audit.
The financial data for the year was input in March 2023 and only at this point was there a record of all receipts and payments to accord with balances at the banks. The Year End AGAR figures have been extracted from the new financial system. I have carried out tests on these and other documents as follows:

- (a) Checked calculations where appropriate.
- (b) Verified the balances at the Banks as at 1 April 2022 and as at 31 March 2023 with the bank statements. Checked all items in my cash books to the bank statements.
- (c) Examined the documentary evidence for receipts and payments.
- (d) Checked the Minutes for evidence of accurate reporting of receipts and payments.
- (e) Reviewed systems and procedures by reading the Council Minutes and examining documents available together with conversations with the Clerk.
- (f) Checked the accuracy of analysis of receipts and payments.
- (g) Checked that VAT is separately recorded to enable claims for repayment.
- (h) Checked the accuracy of the entries in the Annual Return for 31 March 2023 (AGAR) in relation to the Receipts and Payments recorded.
- (i) Reviewed the Fixed Asset Register and discussed necessary adjustments.

Due to the need to appoint a new Clerk and a new Internal Auditor in 2022, Bidborough Parish Council failed to meet the timetable requirements for the Annual Governance and Accountability Return (AGAR) 2022. The Annual Governance Statement was finally signed on 1 August 2022 and the Internal Audit Report was signed and submitted on 16 September 2022.

The newly appointed Clerk (May 2022) has been tasked with reviewing all systems and procedures of the Council and my comments below take account of the transition and the need for further work to be done.

3. OBSERVATIONS

GENERAL

(a) The Council presents its figures in the AGAR on a Receipts and Payments (R&P) basis rather than as an Income and Expenditure (I&E) account. This form of accounting takes no account of year end prepayments or accruals and can distort the real income and expenditure in the year. As I reported last year, this is acceptable practice for Parish Councils, for accounting purposes, but is not ideal. There is also no Balance Sheet. As an example, an annual Insurance premium was paid in April 2022 and a further one in

Report to Bidborough Parish Council (BPC) from the Independent Internal Auditor.

March 2023: this results in 2 charges appearing in one accounting year, resulting in an inability to compare figures year on year, rather than merely against budget. In addition, as reported at 4 B below, VAT unclaimed at 31 March 2022 has not been recovered: if there had been a Balance Sheet this would probably not have been missed. I understand that the Clerk intends to change to an I&E basis in the coming year.

(b) In case of unexpected illness or absence of the Clerk, steps should be taken to ensure emergency access to parish records.

(c) For the purposes of data security, I understand that the Council has in place a full set of "bidboroughpc.org.uk" email addresses for Councillors. The Clerk, who has a generic email address, sends all Council-related matters to these email addresses. It is important that Councillors keep their Council correspondence in a password-protected part of their computers.

Report to Bidborough Parish Council (BPC) from the Independent Internal Auditor.

4. YEAR END REVIEW

As mentioned above, the new Clerk took up his post in May 2022 and was given a lengthy list of duties including the implementation of new systems of financial and internal controls and procedures. There have also been legal issues to deal with.

Not all these systems are yet in place, but progress is being made. As a result, I did find some weaknesses, and these will hopefully be resolved in the coming year.

In its 2022 AGAR, the Council gave negative responses to all the questions in its Annual Governance Statement and provided the External Auditor with explanations of its negative responses. The Council will give some negative responses in the 2023 AGAR as it have not yet implemented sound controls throughout its systems.

The Annual Internal Audit Report requires me also to make a series of comments on the Council's Internal Controls. Should I report any negative responses I must explain my reasons to the External Auditor.

As I explained in my report to Council last year, these reasons should be included in my Report to the Parish Council, so it seems sensible that I list here, those Internal Control questions and the reasons for any negative responses:

The Annual Internal Audit Report that is part of the AGAR form asks me to report on Internal control objectives. In the introduction it states:

“Set out below are the objectives of internal control and alongside are the internal audit conclusions on whether, in all significant respects, the control objectives were being achieved throughout the financial year to a standard adequate to meet the needs of this authority.”

If I answer “NO” to any question, I must provide an explanation to the External Auditor. These explanations will form a major part of my report to you. I should like to emphasise that the statement above says that *“these control objectives were being achieved throughout the year”*, so I may report a NO despite the Council making improvements during the year. I have made additional observations where I consider it relevant:

A. *Appropriate accounting records have been properly kept throughout the year.* NO

At the beginning of the year the method of recording receipts and payments did not include a proper Cash book. This continued throughout the year: a list of payments, backed up by invoices has been presented to Council meetings for approval and payment but no cash book with monthly balances, backed up by bank statements has been produced. All payments and receipts were input into the new finance system at the end of the year so this should provide appropriate accounting records in the coming year. The bank reconciled at the end of the year. Online payments have been made by a single Councillor and checked to the Bank statements by the Clerk.

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

Payments were supported by invoices and expenditure approved by Councillors at meetings. In the coming year, a new payment procedure will be implemented whereby payments will be set up by the Clerk, and 2 Councillors will approve the payments at the bank (or sign a cheque). This will strengthen the Council's internal controls.

Report to Bidborough Parish Council (BPC) from the Independent Internal Auditor.

During the year there was no evidence of expenditure being compared to Budget (see D below).

VAT for the year to 31 March 2023 was properly recorded and recovered shortly after the year end.

But as reported last year and still outstanding at mid-June 2023:

“With regard to VAT, the Clerk claimed VAT of £414.70 on the election costs billed by TWBC in December 2021. Subsequently, TWBC paid back the VAT to BPC but this has not yet been paid back to HMRC.

VAT of £89.08 on a cancelled cheque also needs to be repaid to HMRC. When the cheque was cancelled, the gross value of the cheque, £534.49, was credited to Newsletter receipts instead of the net amount, £445.41, being deducted from Village Care costs and the VAT being credited to HMRC.

VAT was recovered from HMRC for the period 1 April to 31 December 2021; on the submission it stated that the period covered was to 31 March 2022. This was not so: **there remains £3,554.03 to be collected for the period 1 January to 31 March 2022.**”

In September 2022 I provided an Income & Expenditure Account and Balance Sheet with Notes for the year end 31 March 2022; the Balance Sheet clearly shows the £3,554 as a debtor. This is further demonstration of the need for an I&E account and Balance Sheet.

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

On the Annual Governance Statement of the AGAR form, the Council is required to state “that they have carried out an assessment of the risks facing this authority *and took appropriate steps to manage those risks*, including the introduction of internal controls...” The Council could not provide a positive response to this question in the 2021, 2022 or 2023 AGAR forms.

The Council has taken steps to introduce a risk register and *an action plan to assess and mitigate any risks identified*. A Risk Assessment has been produced and adopted by Councillors but more needs to be done to manage the risks facing the Council. As already mentioned, payments continue to be made by BACS by one cheque signatory, and although the Clerk checks all payments to the bank statements this is identified as a risk and there are plans to change the practice. This should be done as soon as possible. During the year there is no evidence of the Bank Statements being compared to the payment sheets other than by the Clerk and bank statements are not initialled by Councillors. Some Councillors may see copies of the bank statements during the year.

Throughout the year to 31 March 2023 the deposit account balance stood above £120,000. There is no security for bank deposits in excess of £85,000.

The new Clerk, appointed in May 2022, has been tasked with introducing all proper procedures, including appropriate risk assessments and means of internal control, together with a review of the Council’s responsibilities with regards to GDPR. This is an ongoing challenge.

Report to Bidborough Parish Council (BPC) from the Independent Internal Auditor.

- D. *The precept or rate requirement resulted from an adequate budgetary process, progress against the budget was regularly monitored, and reserves were appropriate. NO*

In order to provide better accounting, budgeting and controls, the Council purchased an accounting package during the year. At the end of the year in March 2023, the Clerk put all financial transactions for the year into this package. Budget headings have been set up so that in the future there will be a process for comparing actuals to budget. This was not in place during the year to 31 March 2023 so progress against budget could not be regularly monitored.

With regard to the analysis of Expenditure in the new accounts package, further accounts should be set up to provide the ability to satisfactorily compare actual to budget. Currently the heading "Administration", under Running Costs, includes costs relating to: S137 payments, subscriptions, internal and external audit, clerk services (other than salaried), newsletter costs, stationery, website services.

Last year I provided a detailed I&E account, and the figures could have been used to provide the "last year" figures in the new accounts package to facilitate comparison. They have not been used.

Reserves continue to be very high due to provision for several expensive projects that have not yet come to fruition. The Finance Committee, when it meets, should re-evaluate the needs of the Parish and make recommendations to Council in preparation for the planning of the 2024/2025 Precept.

At its meeting in January 2023, when Council met to approve the Budget, the Council did consider what Reserves would be needed in 2023/24 and these amounts were further revised at the meeting of 6 June inst. However, no figures were quoted in the minutes of January when the Precept was approved. It is important that the public is made aware of the Budget process via the minutes.

- E. *Expected income was fully received, based on correct prices, properly recorded and promptly banked, and VAT was appropriately accounted for. NO*

During the year, income from Allotments, Newsletter advertising and Cemetery was not all controlled by the Clerk. There are no day books or other records of income that show that all income had been received.

Year end 31 March 2022 I prepared a schedule of allotment holders and income; checking income in 2022/23, three allotment rents due in May 2022 remain unpaid. Newsletter advertising income due is notified to the Clerk who emails the advertisers. Not all income had been received by the end of the year.

In the year to 31 March 2024, Councillors have been given responsibility for these areas and the Clerk will ensure that all income is collected.

During the year many items of income were not recorded in the Minutes. Neither instalment of the Precept was recorded in the Minutes. The Clerk acknowledges that this must be done in future.

- F. *This relates to Petty Cash. There are no petty cash transactions. N/A.*

Report to Bidborough Parish Council (BPC) from the Independent Internal Auditor.

- 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.* YES

During the year the Council registered with HMRC, and PAYE and NI requirements were properly applied.

- H. *Asset and Investments registers were complete and accurate and properly maintained.* NO

The Clerk has input the Parish Fixed Assets into the new accounts package. The values attached to these figures are Insurance values.

The figure of £112,193 brought forward from 1 April 2022 was inaccurate and the Clerk has tried to identify assets owned by the Parish and apply insurance values to them. The list is not complete.

Councillors familiar with the Parish could record all the assets and their locations and thereby assist the Clerk in compiling a more accurate Fixed Asset Register. This is work in progress and the Fixed Asset Register will be updated in the current year: this revised Register of Fixed Assets should include all Parish Assets, listed by category and location; costs should be allocated where known (or estimated if not known) and purchase invoices attached where available. This will enable future additions and disposals to be accurately recorded.

It is correct to record Insurance values against the assets to facilitate renewal of the Parish insurance policy each year.

As reported last year, there are very large amounts in the bank deposit account. The Council has been planning substantial expenditure on the Playground and the Cemetery wall and built up funds accordingly. Hopefully these projects will be progressed in the current year.

- I. *Periodic bank account reconciliations were properly carried out during the year.* NO

Payments were made by a Councillor and checked to bank statements by the Clerk. Until the end of the year when all the financial data for the year was posted to the new accounts package there was no cash book, hence no proper bank reconciliations. There is no evidence that Councillors were shown the bank statements at monthly meetings to verify the bank balances and initial them. As has been said above, online payments were made by one signatory only in the year.

This has been a weakness in internal control but the new accounts package should provide proper bank reconciliations on a regular basis.

- J. *Accounting statements prepared during the year were prepared on the correct accounting basis (R&P or I&E), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate debtors and creditors were properly recorded.* NO

As noted in (D) above, during the year, there were no accounts with which to compare actual figures to budget. There were only payment reports.

At the end of the year, the Accounts have been extracted from the new accounts package and prepared on a Receipts and Payments basis.

As reported above, it would be more appropriate to use the I&E accounting basis: this takes account of debtors and prepayments as well as creditors and accruals at the beginning and end of the year. This would have brought to light some of the inconsistencies to which I have referred, eg the unclaimed VAT of £3,554 and two

Report to Bidborough Parish Council (BPC) from the Independent Internal Auditor.

charges for Insurance in this reporting year.

During the current year, the Clerk intends to change financial reporting to an I&E accounting basis.

K. Not applicable

L. The authority publishes information on a free to access website/webpage up to date at the time of the internal audit in accordance with any relevant transparency code requirements. NO

In the Council's response to question 4 of the Annual Governance Statement, it answered "No".

Not all information was made available in a timely manner on the website at the time of the Internal audit with regard to the year to 31 March 2022.

Council has fulfilled this requirement since the completion of the 2022 internal audit.

M. The authority, during the previous year (2021-22) correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations. NO

As reported by the External Auditor, the authority failed to comply with this requirement due to the late submission of its AGAR and other documents. Council has had to respond with "No" to question 4 in the current year's AGAR but Council has complied since the end of the 2022 audit. See L above.

N. The authority has complied with the publication requirements for 2021/22 AGAR. NO

See responses to L and M above.

IN CONCLUSION AND NEXT STEPS

Council appointed a new Clerk in May 2022:

As described in the Council's "Explanation of Answers to Assertions" within the annual Governance Statement for 2021/22, the Council intended that the Clerk would undertake a Financial Risk Assessment and produce a Statement of Internal Control.

This assessment has been done and the Clerk has produced a comprehensive list of work that needs to be done. A Statement of Internal Control was produced and approved by the Council in April 2023.

A new financial accounting system was put in place at the end of the year to 31 March 2023 to ensure Accounts are properly produced and comparisons to Budget regularly carried out. However, due to other tasks taking priority, the financial data was not put into the package until the end of the year so could not be used for reporting in that year.

I hope that this new system will be up and running soon to help improve financial control and to provide proper reports to Members of Council.

In addition, this new financial accounting system will enable an Income and Expenditure account to be produced; this could not take place with the 2022/23 AGAR but should be implemented in time for the 2023/24 AGAR.

To facilitate satisfactory comparison of Budget against actuals, the accounts package should include more analysis of accounts. As stated above, the heading "Administration"

Report to Bidborough Parish Council (BPC) from the Independent Internal Auditor.

includes costs including S137 payments, subscriptions, hall hire, newsletter, insurance and many other items. They should be better analysed.

The new package should enable monthly bank reconciliations to a cash book: a councillor should initial both the bank statements and cash book each month.

The bank mandate must be changed to ensure that there are two signatories authorising payments. Currently, payments continue to be made by one Councillor.

The outstanding VAT claim of £3,554 re prior periods should be sent to HMRC as soon as possible.

Further work should be done on the Fixed Asset Register.

I hope that the Council will aim to put these, and many other measures referred to in my report and the Clerk's action plan, in place before the end of the current financial year.


21 June 2023