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# **Badsworth Parish Council**

*Internal Audit 2023/24:*

*3 June 2024*

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*For and on behalf of Phil Parkin Ltd*



# Internal Audit Forum

THE VOICE FOR LOCAL COUNCIL AUDIT

## Background and Introduction

All town and parish councils are required by statute to make arrangements for an independent internal audit and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR). The Parish Council has requested that Phil Parkin Ltd provides this service, based on a letter of engagement agreed and signed by the Council.

Phil Parkin Ltd is a member of the Internal Audit Forum – an association of Internal Auditors for local councils which seeks to promote high quality internal audit.

This report sets out the interim work undertaken in relation to the 2023/24 financial year. I wish to thank the Interim Clerk for assisting the process and providing documentation including some in electronic format, to facilitate the audit.

This audit appointment was made at a late stage (May 2024), and consequently, no interim work had been undertaken.

The Council has had an extremely difficult year, in which the entire Council and the Clerk resigned (January 2024) and little or no accounting records had been maintained.

The Interim Clerk has endeavoured to produce accounts based on bank statements and other documents. The Council acknowledges that this is far from an ideal position.

## Independence and Ethics

I can confirm that I comply with the FRC's Revised Ethical Standard 2024 covering Integrity, Objectivity and Independence. Additionally, I confirm that I comply with the International Ethics Standards Board of Accountants (IESBA) Code of Ethics which is based on five principles:

- integrity
- objectivity
- professional competence and due care
- confidentiality
- professional behaviours

I am not aware of the any relationships that might constitute a threat to my independence.

**This report has been prepared for the sole use of Badsworth Parish Council. No responsibility or liability is accepted by Phil Parkin Ltd to any third party who purports to use or rely, for any reason whatsoever, on this report, its contents or conclusions.**

## **Internal Audit Approach**

In undertaking my audit, I have been guided by the revised Section 4 of the Practitioners' Guide, March 2023. The Council's Clerk assisted the audit by preparing suitable evidence.

In addition to the evidence provided, substantive testing of underlying accounting records was undertaken.

## **Overall Conclusion**

In a number of areas, standards of management and governance fell well below what would be expected. Many controls were not in place which exposed the Council to significant potential risk. For example, not maintaining any accounts, and having no insurance cover for part of the year are serious failings. Consequently, I have made recommendations where arrangements need to be strengthened.

I have entered negative assessments on the Internal Audit section of the AGAR for most control objectives except for E - Income, and K - exemption from a limited assurance review.

## **Detailed Report**

My detailed report follows the structure of the Annual Internal Audit Report section of the AGAR.

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

Unfortunately, no accounting records were maintained during the year, though the Interim Clerk has attempted to produce accounts based on bank and other records. A spreadsheet was created with income, expenditure and a bank reconciliation, though the reason for some items of expenditure remains unknown. This is not consistent with good governance of public funds and needs to be improved immediately.

***I therefore recommend that a more effective system of recording receipts and payments be introduced for 2024/25 thereby providing a more secure environment for taxpayers' money.***

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

There is evidence in the minutes that quotations were sought where appropriate.

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I commend the Clerk for his efforts in providing invoices, receipts and other evidence wherever possible. However, I was unable to confirm that evidence existed for some payments, and in some cases an order was in evidence but not the invoice. Some items of VAT had not been recorded in the re-created accounts, namely cheque 1254 - £13.99; cheque 1333 - £1.41; and cheque 1351 - £1.06. ***These should be added to the claim to be made for 2023/24.*** Also, some purchases had VAT but in the absence of a VAT valid invoice, VAT cannot be reclaimed – a particular example is the laptop purchased for £878.99 (VAT would be £146.50). I understand the Clerk is seeking a VAT invoice to enable the VAT to be reclaimed.

It is unclear exactly what controls existed over payments in 2023/24. Invoices did not have any obvious authorisation or “grid” stamp. Payments were generally submitted to Council meetings for approval though some were not, and there were some discrepancies. In many cases payments were reimbursements to councillors who had purchased items from their own funds, which is not an appropriate way of procuring goods and services.

There is evidence that two councillors signed cheques. However, due to the difficulties facing the Council, I understand that some cheques were signed by former councillors, in order to make necessary payments. While advice was taken from YLCA and the auditor, prior to doing this, it is clearly an unsatisfactory situation.

Financial Regulations on the Council’s website are dated May 2021, though they were updated and agreed in November 2023. The latest version of Standing Orders (November 2023) are on the website.

The Financial Regulations contain a range of good practice procedures relating to sound financial management. Unfortunately, these were not complied with during the year.

The VAT claim for 2023/24 is being prepared by the Clerk.

***As in A above, I strongly recommend that arrangements for 2024/25 follow the good practice contained in Financial Regulations, and that the latest version be posted on the website. In May 2024, NALC published the latest version of model Financial Regulations, and the Council should adopt these as soon as practical.***

***The Practitioners’ Guide recommends that a certification stamp be used to evidence checks and payment authorisation. I therefore recommend that the Council considers using such a stamp.***

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

I saw no evidence of a risk assessment being prepared in 2023/24. Neither was there an assessment of the effectiveness of internal controls - which is a requirement of the Accounts and Audit Regulations 2015.

***I recommend that a formal assessment of risks be carried out in 2024/25, together with the statutorily required assessment of the effectiveness of internal controls.***

There was no insurance in place between 1 April 2023 and 31 May 2023. Whilst I understand that nothing untoward occurred, the Council was placed at a significant potential risk. This has since been resolved with a policy effective from 1 June 2023.

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The Fidelity Guarantee is for £500,000 which adequately covers the funds held by the Parish Council.

Back up arrangements in place provide for the Council's data to be stored periodically on a separate external hard disk. Whilst this provides some security, it is not the best solution.

***I therefore recommend that the Council arranges for all data to be saved to the cloud immediately that it is created.***

***D. The precept or rates requirement resulted from an adequate budgetary process, progress against the budget was regularly monitored; and reserves are appropriate.***

The Parish Council considered a budget and set a precept for 2023/24 of £11,000 at its meeting on 8 February 2023. The minutes recorded that "it was unanimously agreed that the total expenditure would be £14675. £3675 would be taken from reserves in order to set a precept of £11k. The breakdown is on a separate sheet."

This does not represent good practice. There is no reference to the consideration of a budget, and therefore little evidence of a sound basis for the precept. It is also important to consider and assess both general and earmarked reserves when setting the precept. Simply taking an amount from reserves is insufficient.

Pleasingly, I note that the consideration of the precept for 2024/25 in January 2024 represented a better approach, with reserves being reviewed and updated. Unfortunately the website still shows an outdated reserves policy and figures dating back to March 2022.

Paragraph 4.8 of the Financial Regulations says: "The RFO shall regularly provide the council with a statement of receipts and payments to date under each head of the budgets, comparing actual expenditure to the appropriate date against that planned as shown in the budget."

However, there were no budget monitoring reports throughout the year. This is unsurprising as there were no accounts, as previously mentioned.

***I recommend that the good practice seen in January 2024 be built upon and that the website be updated with the latest documents.***

***Also, regular budget monitoring reports must be prepared and considered by the Council, as part of effective management control.***

***E. Expected income was fully received based on correct prices, properly recorded and promptly banked; and VAT appropriately accounted for.***

I confirmed that the precept of £11,000 was received in April 2023.

There are few receipts – a £500 compensation payment from Barclays bank and the VAT refund from 2022/23 of £105.15. I was unable to verify the latter due to an absence of a supporting VAT claim.

Interest received from Barclays bank of £467.90 was not included in the accounts spreadsheet, though it had been included in other receipts (box 2) on the AGAR. An adjustment was subsequently made to correct this.

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Notwithstanding the uncertainty of the relatively low value VAT being received, I conclude on balance, that this control objective was met.

***F. Petty Cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.***

The Council does not hold any petty cash.

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

I did not see any contract of employment for the Clerk employed in 2023/24, who was paid £19.87 per hour, and therefore, I could not verify that the salary was paid in accordance with the Council's approval. I understand that arrangements are in place to prepare and sign a contract of employment for the Interim Clerk in the very near future.

I tested payroll payments and found that the hours recorded were paid at the rate noted above, though I have not seen confirmation that this was the correct rate. Deductions and employer's national insurance were correctly calculated.

Timesheets were recorded with hours including overtime worked. Whilst the Council minutes noted "payment of the Clerk's salary" without reference to amounts, they do not provide an adequate audit trail. The timesheets were not signed, as required.

***I recommend that timesheets be signed to denote authorisation prior to payment, and that Council approvals are recorded in minutes with specific reference to hours and/or amounts.***

***H. Asset and investment registers were complete and accurate and properly maintained.***

The Council has an out of date asset register, which did not agree with the entry on the AGAR. This was because, in the absence of a reliable figure, the Clerk used the previous year's figure. Clearly this is not consistent with the effective management of the Council's assets.

***I recommend that a comprehensive register of the Council's assets be compiled and used for next year's AGAR.***

***I. Periodic bank account reconciliations were properly carried out during the year.***

I saw no evidence of bank reconciliations being prepared during the year. Encouragingly, the year end bank reconciliation was reported to the Council on 24 April 2024.

***It is good practice to prepare and report bank reconciliations monthly, and I recommend that this timescale be adopted for 2024/25.***

***J. Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cashbook, supported by an adequate audit trail from underlying records and, where***

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***appropriate, debtors and creditors were properly recorded.***

As said earlier, the Council did not prepare accounts during the year, instead it created accounts retrospectively but without an adequate audit trail of underlying records. The correct basis, namely receipts and payments was used. As mentioned in E above, the accounting statement in the AGAR did not agree with these (a difference of £468, relating to interest received, which has now been corrected).

I reviewed the year-end bank reconciliation and agreed it to bank statements.

***I have made suitable recommendations elsewhere and do not repeat them here.***

***K. If the authority certified itself as exempt from a limited assurance review in the prior year, it met the exemption criteria and correctly declared itself exempt.***

The Council does continue to meet the exemption criteria. However, the exemption certificate approved by the Council did not reflect the correct receipts and payments.

***I recommend that the figures be corrected in the exemption certificate before being submitted to the external auditor.***

***L. The authority published the required information on a website / web page, up to date at the time of the internal audit in accordance with the relevant legislation.***

The Council does not comply with the legislative requirement to publish five year's accounts, as the 2018/19 AGAR is not published.

When the 2023/24 AGAR is published, this requirement will be met.

***M. The authority has, during the previous year, correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations.***

The notice of public rights was published on the Council's website, to commence on 24 July 2023, to 18 August 2023. This is a period of 19 working days (due to it including a bank holiday). The actual requirement is for 30 working days, including the first 10 working days of July. Consequently, this requirement was not met,

***I recommend that the correct notice period be used for the 2023/24 accounts in the summer of 2024.***

***N. The authority complied with the publication requirements for the prior year AGAR.***

The publication requirement for 2022/23 were only partially met. Sections 1 and 2 were published as was the notice of public rights. However, the Internal Audit report (Page 4 of the AGAR) and the explanation of variances and bank reconciliation were not published. The certificate of exemption was also not published.

*To comply with requirements, I recommend that all the above be published for 2023/24.*

***O. Trust funds (including charitable)***

*The Council does not act as trustee for any trust funds.*

## **Next steps**

My audit report covers a challenging period for the Council, and I am encouraged that it wishes to move forward and make improvements. My recommendations are intended to assist the Council in doing so.

My report should be presented to the Council as soon as possible, and steps taken to implement the recommendations.

**Report ends**