



# Bayston Hill Parish Council

Internal Audit 2023/24

## **INTERNAL AUDIT REPORT BAYSTON HILL PARISH COUNCIL**

The internal audit was carried out by undertaking the following tests 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
- The authority has complied with the publication requirements for the prior year AGAR.
- The authority correctly provided for a period for the exercise of public rights for the prior year AGAR
- The authority published required information on a website up to date at the time of the internal audit in accordance with relevant legislation.

The interim internal audit provides evidence to support the annual internal audit conclusion in the AGAR for local councils.

### **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 in place, adequate for the purpose intended and effective, **except for** the recommendations 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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	<b>ISSUE</b>	<b>RECOMMENDATION</b>	<b>FOLLOW UP</b>
<b>2023/24 year end internal audit</b>			
1	<p><b>Recurring Issue</b></p> <p>We previously recommended due to an unreconciled difference in VAT that 'The difference between the Balance Sheet VAT debtor and the outstanding fourth quarter VAT claim should be reviewed to identify whether there has been an under/over claim of VAT.'</p> <p>This has still not been carried out and there is now a significant difference between the VAT debtor in the year-end balance sheet and the actual VAT returns submitted and reclaims received.</p> <p>Follow up of this issue in 2023/24 by comparing VAT actually received in 2023/24 in respect of the final quarter claim for 2022/23, and VAT actually received in 2024/25 in respect of the final quarter claim for 2023/24, shows that there is a</p>	<p><i>The council must carry out a full reconciliation of VAT in the Scribe ledger to VAT 100 returns and VAT received to identify the total sum of VAT underclaimed from 2022/23 to 2023/24. This needs to be carried out before finalising the 2023/24 AGAR so any adjustments are needed to the draft accounts can be processed.</i></p> <p><i>The next VAT return should include the amendments necessary for the errors identified in the previous VAT returns to ensure the VAT position is brought up to date.</i></p> <p><b><i>Recurring Recommendation</i></b>  <i>Year end procedures should include an agreement of the outstanding VAT claim(s) to the balance sheet VAT debtor and any differences investigated.</i></p>	<p><b><i>NB The clerk has worked with SCRIBE to rectify this issue for the final 2023/24 accounts and an amount of £8,143 has been calculated as due to the council. The clerk has confirmed this will be reclaimed in the next VAT return.</i></b></p>

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	substantial amount of unreconciled VAT. The 2023/24 balance sheet VAT debtor is £10,534 and the final Vat return in 2023/24 submitted which should equal this debtor was only £2,401 so the unreconciled Vat difference is now £8,133. Review of the returns submitted in 2023/24 indicates a primary reason for this is that the income ledger shows total sales VAT of £233.47, but the actual VAT returns submitted show total sales VAT of £5272.69. Therefore, this indicates there has been a substantial underclaim of VAT due on expenditure.		
2	The 2023/24 AGAR provided from the Scribe accounting system does not show the restatement for 2022/23 requested by external audit to include non-precept grants in 'other income'.	<i>The final AGAR accounts should show the 2022/23 restatements requested by external audit and the council should ensure only precept income is disclosed in the precept box.</i>	<i>NB Implemented by clerk for final AGAR 2023/24.</i>
3	The year end debtors analysis indicates there are a significant number of older debtors and total debtors has increased from £2,999	<i>Customer debt must be followed up promptly in accordance with a council incomes policy.</i>	

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	in 2022/23 to £10,016 (rounded) in 2023/24.	<i>Annually the council should carry out a review of the debtors ledger, in advance of the year end, to clear errors/cancelled bookings and identify potential and actual bad debts. A report should be provided to council for identified bad debts for approval for write off.</i>	

**2023/24 interim internal audit**

1	The council charges VAT on certain categories of sports fees. In 2023 HMRC published a paper 'Changes to VAT treatment of local authority leisure services' noting that Local Authorities were currently treated as undertaking a business activity if they provide leisure services to members of the public. This treatment was challenged and the matter was considered by the courts, who found that local authorities' leisure services are provided under a statutory framework and can be treated as non-business for VAT purposes.	<i>The council need to review the HMRC guidance on the VAT treatment of leisure services and secure guidance from a VAT expert as to what impact the changes will have on the council and what claims (if any) are required to be submitted to HMRC for the current and earlier years.</i>	
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2	Testing of diesel payments made with £90 cash withdrawals using the Equals card identified that the diesel receipts are manually altered from 85p per litre to £1.10 per litre. The clerk confirmed that the receipts are actually council receipts rather than supplier generated receipts and they are amended to reflect the current price paid of £1.10 per litre rather than a previous price of 85p per litre. The payments sampled in 2023/24 were all for £88 with the remaining £2 being retained in the council office as petty cash (the actual cash withdrawal was for £90).	<p><i>Receipts should not contain manual amendments and should be printed to evidence the exact price paid.</i></p> <p><i>The council should market test the supply of red diesel.</i></p>	
3	Transaction number 229 in the SCRIBE ledger records an Equals Card payment on 27/07/2023 for refreshments from Home Bargains for £32.09. However, no VAT is analysed in the ledger and the invoice for the purchase includes VAT of £3.08.	<i>Standard rate VAT should be accounted for and reclaimed for all relevant purchases.</i>	

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<b>2022/23 year end internal audit</b>			
1	The risk assessment was not reviewed, updated and approved during the 2022/23 financial year.	<i>The risk assessment should be reviewed, updated and approved every financial year.</i>	<i>Implemented</i>
2	The SCRIBE information provided for internal audit with respect to staff costs (BOX 4 AGAR accounts) contained a number of inconsistencies. The SCRIBE AGAR annual return analysis disclosed a figure of £93009, the SCRIBE detailed analysis of staff costs totalled £94009, and the income and expenditure account showed a total staff cost expenditure of £95118.54 with an income code for staff costs of £500.	<i>The council must review the SCRIBE information for staff costs and ensure any necessary adjustments are processed to give a consistent and accurate disclosure of staff costs in the SCRIBE nominal ledger. The final agreed figure for staff costs should be included in box 4 of the AGAR accounts.</i>	<i>The clerk reviewed the SCRIBE ledger and reconciled the staff costs difference as the final year end process.</i>
<b>2022/23 interim internal audit</b>			
1	No evidence is provided by the unitary authority to support the calculations for energy charges levied on the parish council for	<i>The council should request supporting calculations for energy charges from the unitary authority including the number of streetlights used in the calculations.</i>	<i>2023/24 follow up - Work in progress as the council is moving to replacement with LED lamps and two</i>

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	street lighting. In addition, we were informed that preliminary work by the clerk reviewing streetlight inventories indicates the parish council listing of streetlighting assets does not agree with that of the unitary authority.	<i>The council should investigate differences between the parish and unitary council's streetlighting inventories and ensure the correct number of streetlights owned by the parish council is agreed, recorded in the fixed asset register, and used in energy calculations.</i>	<i>streetlight surveys have now been carried out.</i>
2	Financial checks have not been carried out by councillors for any of the quarters to date in 2022/23 using the internal checklist for income and expenditure.	<i>Internal financial checks for samples of expenditure and income should be carried out regularly by the nominated councillors.</i>	<i>2023/24 follow up - Nominated councillor carrying out sample checks periodically.</i>
3	Policies/procedures review: <ul style="list-style-type: none"> <li>- The council currently has no adopted reserves policy</li> <li>- There is no internal data breach register adopted for recording any personal data breaches.</li> </ul>	<p><i>The council should adopt a reserves policy that defines earmarked reserves and sets the requirements for minimum levels of general reserves.</i></p> <p><i>A data breach register should be implemented.</i></p>	<i>Implemented</i>

**2021/22 year end internal audit**

1	The General Fund balance is disclosed in the Balance Sheet as	<i>The council should review the level of earmarked reserves (EMR) disclosed in</i>	<i>See 2022/23 interim internal audit issue 3.)</i>
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	<p>£25,409 with Earmarked reserves of £387108.75. This level of General Funds is 14.5% of the precept which is below the minimum recommended level of 25% of the precept.</p> <p>We were provided with a detailed spreadsheet analysis of earmarked funds but these did not agree to the total earmarked fund disclosed in the Balance Sheet of £387108.75.</p>	<p><i>SCRIBE and in the EMR spreadsheet and ensure adjustments are made so the ledger agrees to supporting approved EMR records. The council should ensure that the General Fund/Reserve levels are at least 25% of the precept as recommended by sector guidance.</i></p>	
2	<p>The fourth quarter VAT claim of £3034.05 did not agree to the Balance Sheet year end VAT debtor of £3028.87.</p>	<p><i>The difference between the Balance Sheet VAT debtor and the outstanding fourth quarter VAT claim should be reviewed to identify whether there has been an under/over claim of VAT.</i></p> <p><i>Year end procedures should include an agreement of the outstanding VAT claim(s) to the balance sheet VAT debtor and any differences investigated.</i></p>	<p><i>2023/24 follow up – recommendation outstanding see 2023/24 year end issues</i></p> <p><i>Recommendation Outstanding as at date of 2022/23 interim internal audit.</i></p>
<p><b>2021/22 interim internal audit</b></p>			

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1	<p>The Financial regulations require the following with respect to budgetary control:</p> <p>4.8. 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. These statements are to be prepared at least at the end of each financial quarter and shall show explanations of material variances. For this purpose “material” shall be in excess of £100 or 15% of the budget.</p> <p>The budgetary control information that is presented to the council is sourced from the SCRIBE ledger and the report shows the annual budget and the spend/income to date. However, the information does not contain projected spend/income to date so it does not allow council to review whether there is actual under or over spend compared to the budgeted spend/income to date. There are no written explanations provided to council of material variances as defined in section 4.8 of the FRs.</p>	<p><i>The accounting software provider should be consulted to ensure the software can produce a budgetary control report that includes budgeted spend or income to date compared to actual spend or income to date and project outturn.</i></p> <p><i>Written explanations for material variances from budget as defined in the Financial Regulations should be provided with all budgetary control reports presented to council.</i></p>	<p><i>Implemented – regular budgetary control reports are provided to council, including where required explanations for significant variances.</i></p>

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2	<p>The Highline contract ended in 2020 but was rolled over due to the pandemic situation at the time. We have seen no evidence of a written contract for this supply or evidence in the minutes that the council authorised the extension of the contract. Financial Regulations state the following:</p> <p>11 h) 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. Otherwise, Regulation 10.3 above shall apply.</p>	<p><i>The council should ensure compliance with the procurement requirements of the Financial Regulations. All contract extensions must be authorised by council and recorded in the minutes.</i></p>	<p><i>2023/24 follow up - Recommendation Outstanding</i></p> <p><i>2022/23 follow up - Recommendation Outstanding – there is no signed contract in place with the provider.</i></p>
3	<p>VAT</p> <p>1.) We were informed that the council may undertake a sports hall project in the medium /long term. Therefore, the council and staff will need to understand the implications of the VAT partial</p>	<p><i>Before undertaking a sports hall project the council should secure written advice from a public sector VAT consultant to ensure they are clear from the outset as to whether any VAT incurred on the project is wholly or partially irrecoverable.</i></p>	<p><i>See 2022/23 interim internal audit</i></p>

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	<p>exemption rules for local councils and secure specialist VAT guidance before undertaking any significant contract of this type, as there is a risk for premises that provide VAT exempt services that the VAT incurred in construction may be partially or wholly irrecoverable.</p> <p>2.) Our invoice sampling for community hall room hire identified that VAT is sometimes charged in the invoice by bookings staff. The council has not opted to tax these supplies so they are VAT exempt i.e. no VAT should be charged for the supply of these services. The clerk had identified the errors and corrected them within the SCRIBE system but the invoices to the customers still contained a VAT charge which means they are incorrect.</p>	<p><i>Staff should receive training in which council services are standard rated, non-business or exempt from VAT.</i></p>	
4	The fees and charges schedule is dated 2016 and we could see no evidence in the minutes that the	<i>The council schedule of fees and charges should be reviewed annually and the</i>	<i>Implemented</i>

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	<p>council fees and charges have been formally reviewed annually as required by the Financial Regulations:</p> <p>9.3. The council will review all fees and charges at least annually, following a report of the Clerk.</p>	<i>minutes should provide a record of this review.</i>	
5	<p>Transfers between the Unity current and deposit accounts were not authorised by council which is a breach of section 8.8 of the Financial Regulations:</p> <p><i>8.8. Payments in respect of short term or long term investments, including transfers between bank accounts held in the same bank, or branch, shall be made in accordance with Regulation 5 (Authorisation of payments) and Regulation 6 (Instructions for payments).</i></p>	<i>Bank transfers from the current account to any other deposit or other short term or long term investment account must comply with the authorisation requirements of the Financial Regulations, including transfers to CCLA public sector deposits..</i>	<i>Implemented</i>