



## Internal Audit Report.

This audit report is to read in conjunction with the Annual Internal Audit Report in the Annual Governance and Accountability Return.

Council:	Heckington Parish Council
Internal Auditor:	Stacey Knowles
Year Ending:	March 2025
Date of Report	14 <sup>th</sup> January 2025

Internal audit is the periodic independent review of a council's internal controls resulting in an assurance report designed to improve the effectiveness and efficiency of the activities and operating procedures under the council's control. Managing the council's internal controls should be a day-to-day function of the council through its staff and management and not left for internal audit. It would be incorrect to view internal audit as the detailed inspection of all records and transactions of a council to detect error or fraud. This report is based on the evidence made available to me and consequently the report is limited to those matters set out below.

**The council is required to take appropriate action on all matters raised in reports from internal and external audit and to respond to matters brought to its attention by internal and external audit. Failure to take appropriate action may lead to a qualified audit opinion.**

# Lincolnshire Association of Local Councils

## Internal Audit Report

### To the Chairman of Heckington Parish Council

I have examined council business including policies, agendas & minutes, accounting and financial statements and other documents relevant to this audit.

Internal Audit for 2023-2024 was available. No areas of improvement were raised in the report.

During the intermediate audit visit, a number of areas were identified where action was recommended and are offered as suggestions for improvement. I have discussed these with the Clerk and the details can be seen below.

### Key Governance Review

- The council has recently reviewed and adopted newer versions of Standing Orders and Financial Regulations. These were tailored to the council and published on the website as required.
- Terms of reference are in place for a Finance committee (published in the minutes), a staffing committee and an events committee (both published on the website). Terms of reference have not yet been prepared for 3 further committees - Pavilion, cemetery and allotments committee.
- A complaints policy, Freedom of Information policy including the publication scheme and a data protection policy are published on the website but last review dates are not known. It is recommended that a review of these policies is carried out, of which the clerk was already aware. It is also recommended that the council adopts a procedure for dealing with Subject Access Requests and to include a section within its data protection policy outlining its procedures for dealing with breaches of data.
- The council has insurance in place – Public Liability was in place although a certificate had not been issued by the insurer. It is recommended that this is obtained and placed on the website. The level of insurance was £10,000,000. The employer's liability insurance certificate was seen and it is displayed in the council's buildings. As the insurance was due at short notice, following appointment of the new clerk, the council took the renewal premium from its provider. However, the clerk is aware that the levels of insurance need to be compared with the council's asset register and if necessary the buildings will need to be revalued to ensure that the correct cover is in place.
- The council's internal audit report for 2023-2024 consisted of the AGAR Internal Control objectives only. No other written report was received and no recommendations have been made. The external audit report has not yet been received from PKF LittleJohn and the council has received a letter explaining this. The council has therefore been unable to consider the report of the external auditor.

### Transparency

- The council correctly published the Public Rights Inspection notice alongside the documents required as stated on the first page of the AGAR.
- On approving the Annual Governance Statements and the Accounting Statements, the council resolved that the documents were 'approved in principle subject to the internal audit report'. It is not clear whether the council has or has not approved the relevant sections of the AGAR. The matter was also not revisited at a later meeting following receipt of the internal audit report.

The minutes are evidence of the council's decision making and therefore resolutions should be clearly written and expressed so as to avoid ambiguity.

- The council should note the dates it has chosen for the public rights inspection period within the minutes of the meeting that it has made the relevant resolutions to approve the documents. The following is the recommended order for items on the agenda:
  - a. consider the report of the internal auditor for the financial year ended 31st March xxx*
  - b. consider approval of the 20xx/20xx Annual Governance and Accountability Return – Section 1 - Annual Governance Statement*
  - c. consider approval of the 20xx/20xx Annual Governance and Accountability Return – Section 2 - Accounting Statements*
  - d. note the dates for the public rights inspection period*
- The council does not have 5 years' of annual returns published on its website. The clerk is aware of the requirement but has not been able to locate the required documents.
- To meet the requirements of the Transparency Code, the council should ensure that payments above £500 (for councils with turnover of £200,000) should be published. It is best practice however, to publish details of all expenditure save for those considered confidential such as salaries. This had not been carried out until September 2024 when the newly appointed clerk published all expenditure transactions from April to September retrospectively. The clerk is now publishing this information monthly alongside the Full Council minutes.
- The website should be updated to show the name of the chairman and vice-chairman and any other roles resolved by the council – for example chairmen of committees. Other aspects of the transparency code will need to be added to the website including 'data important to local people' and procurement information.

## **Accounting**

- The cashbook was up to date at the time of the audit, there was evidence that VAT had been recorded appropriately and that VAT claims under the S126 scheme were being made.
- The transactional checks carried out were supported by invoices, however, these were not minuted by the council at the time payments were made. As stated above, the newly appointed clerk retrospectively presented these and minuted the transactions.
- The internal controls for the council have not been implemented and followed all of the time. There is no evidence that the council monitored its budget on a regular basis before September 2024. Bank reconciliations were not minuted or signed on a regular basis by a member of the council. Decisions of expenditure were not always clearly made within the minutes. It is not clear whether the councillors approved payments made by BACS with the use of a dual authorisation system. It is recommended that the council uses clear and specific wording in its agenda and minutes to ensure complete transparency with regard to its internal controls – for example, 'to consider the bank reconciliations and note bank balances', 'to consider income, expenditure and budget'.
- It is recommended that in line with Financial Regulations section 6.2, the council ensures it has safe and efficient arrangements for making payments, to safeguard against the possibility of fraud or error. This might include the use of online dual authorisation of payments by councillors. The clerk advised that the council was in the process of setting up an account with unity Trust which would provide this facility. The online authorisation process would enable a separation of duties – the RFO would set up payments and these would only be made once

authorised by two signatories. Signatories should be able to review the payments to be made against the list drawn up by the RFO and the original invoices relating to each transaction.

- Section 137 expenditure – it was not always clear when the council has relied upon the use of s137 of the Local Government Act 1972. The use of s137 should be minuted at the point the council is incurring the expenditure. For example, if the council resolves to purchase a Christmas Tree it should clearly include s137 in the minutes using a standard set of words. For example ‘ It was resolved: That the council purchases a Christmas tree from xx at a cost of £xx using powers provided under s137 Local Government Act 1972’.
- S137 is a power of last resort and so the council should only use this power unless no other is available. For example, the council gave a grant to the allotment holders association using s137. However, the council already has a power to provide allotments and does not need to rely on s137 for this. Smallholdings and Allotments Act 1908, subsections 23, 26 and 42. The council could also rely on Local Government (Miscellaneous Provisions) Act 1976, section 19. Transactions relying on s137 were marked appropriately in the cashbook.
- Whilst the council does not have any single investments worth more than £100,000, it is recommended that it adopts a financial reserves policy. This will help the council to determine the reasons and values for earmarked funds and ensure that it holds sufficient amounts.

### **Budget, precept and reserves**

- The budget for 24/25 was set at £114745. There is a shortfall of £4000 from the precept amount which is unexplained.
- The budget and precept were correctly minuted and approved by the council.
- A review of the earmarked reserves was scheduled to be undertaken in January 2025. The clerk was aware that no reserves were specifically held for the pavilion building and the council was in a position where it required expenditure to ensure safety. The clerk was also already aware that other reserves may be insufficient and this was to be picked up in the review. Refer to the JPAG practitioners guide for details of sufficient general reserves.
- The clerk referred to some CIL and s106 funds which are held. It is recommended that the source of funds is checked to determine whether they are CIL or s106. There is a requirement for parish councils to report on its CIL funds held and spent during each financial year. The district authority may also recover unspent CIL funds after 5 years.
- There is no evidence that income and expenditure or budget was considered or monitored by the Full Council from April to September. The acting clerk put procedures in place to monitor the budget regularly from September. Full scrutiny of the budget was carried out in November 24 by the Finance committee.

### **Income and Petty Cash**

- Income is being received as required and the acting clerk reported on all income to the Full Council in September 2024.
- The Internal Auditor noted that cash income was being received into the petty cash account. This meant that cash income was not being banked promptly or intact as per the requirements of Financial Regulations 11.4. The use of petty cash for travel claims occurred in the first half of the financial year. This is not best practice. All expense and travel claims should be submitted and scrutinised through an approval process. The new clerk is aware of this and an expense claim policy is being prepared.
- The council may wish to consider the use of a credit card for its ad-hoc purchases instead of the use of expense claims.

- The newly appointed clerk has ceased the use of petty cash. The petty cash account was reconciled in September 2024 (with an unaccounted for surplus). The petty cash account has now been closed.

### **Risk assessment and asset control**

- There is a register of assets in place and the clerk plans to carry out a significant review to ensure that it is a true and accurate record of assets held by the council. No risk assessments or asset inspections have taken place within the financial year. It is recommended that these are carried out and a written list of inspections are held and retained. This will ensure that the council has carried out its duties with regard to health and safety and complies with the requirements of its insurance cover.
- The council has started a programme of inspections, one of which is for its pavilion building. The council has also recently contracted Worknest to complete work place risk assessments.
- It is advised that the council checks whether all of its land is registered with HM Land Registry.
- The council does not have an overall risk management or risk register in place. This document would help the council to identify and manage risks in relation to fraud and error. It is a substantial document which details the council's internal controls and helps to mitigate against risks related to business continuity.
- A number of grants and donations were given during the financial year. However, there is currently no policy in place covering this activity. The clerk is aware and a new policy has been drafted. This is an important policy because it enables the council to consider grants against a set criteria and ensures a level of transparency with residents and also prospective grant applicants.
- The council purchased land at Star Fen within the financial year. This item was on the agenda in February 24 and again in April 24 where it was announced that the land had been purchased. No business case was made in respect of this transaction as per the Standing Orders in place at the time of purchase. This had been advised (and minuted as such) by the clerk. In February 2024, it was resolved to carry out a public poll via social media and poll slips in village locations, valuation and searches before the purchase was considered. The item was not considered by the Full Council again, but the purchase of the land was announced at the meeting in April 2024. The council did not have a budget for this significant purchase. Reference is made to a land valuation, but the minutes suggest that not all members were in receipt of this report prior to purchase.
- Whilst the item was on the agenda for the meeting, the wording of the agenda item was inadequate for describing the business to be transacted. It was simply worded as 'land matters'. This does not provide sufficient transparency for the public to understand the council's intentions for the item. Residents have subsequently raised their concerns because of the lack of transparency.
- The internal auditor could not locate a resolution made by the Full Council which clearly confirms its intention to purchase the land. Information was presented at meetings by the Chairman which does not appear to have been made available to other members prior to the meeting. Members of council should be privy to all the reports and business to be transacted at least 3 clear days' before a meeting to ensure they are fully informed prior to discussion and decision. Examples of this include the reference to a land valuation which does not appear to have been shared with council members prior to the meeting and the decision to graze sheep on the land. This appears to have been discussed with a landowner before the authority had a chance to consider it.

### **Proper Process and Practice**

- The council has appropriate digital backups for its files. It is recommended that fireproof storage is used for paper records, particularly for signed minutes and other paper records which are required by law.
- The register of interest forms are correctly made available on the website via a link to the district authority. It is recommended that interests are more specifically recorded in the minutes. For example a member declared an interest in a meeting relating to a planning application. It was not clear from the minutes whether this interest was a registered pecuniary interest and therefore would prevent the member participating and voting on the item. The clerk confirmed that it was not a pecuniary interest and noted that future interests would be recorded more accurately.
- It is recommended that agenda items are clear enough to determine the business to be transacted. The clerk is aware of this and has already implemented changes.
- It is a matter for the council to decide on the presentation of its minutes including whether discussion is included. However, the most important aspect of a council's minutes is to show the decision of the council so it is important that these are clearly presented. Not all resolutions have been clear within the minutes. A standard method of identifying decisions within the minutes such as 'It was resolved: That...' or similar would be beneficial.
- It would also be beneficial to use the wording from the agenda item within the minutes to clearly show which item it relates to.
- Confidential items have not always been used appropriately. For example, the purchase of land was included in confidential session. Arguably, the council may need to consider some aspects of this confidentially due to commercial sensitivity but the intention to purchase should have been more transparent with residents.
- The council has not always followed its financial regulations in respect of the authority to incur expenditure or purchase – for example the purchase of land at Star Fen and the purchase of cups and saucers. The clerk is aware and has changed the practice at the council.

### **Payroll and HR**

- There are two employees. Contracts are in place and a review of job descriptions is being undertaken.
- Payroll is carried out externally. The council previously used a standing order for paying HMRC and incurred an underpayment relating to quarter 1 which was rectified on appointment of the new clerk. Practices have been changed to ensure that this does not occur again.
- A grievance policy was adopted in September 24 and the council is working on the adoption and review of a number of other policies including disciplinary policy, dignity at work, equality and diversity, performance and improvement. It is recommended that the council put a training policy in place.

### **Transactional checks**

Three transactional checks were carried out during this intermediate audit. Two of the transactions had not been reported in the minutes (at the time, payments were not routinely minuted). Two transactions were correctly approved by the council prior to the expenditure, the payment values matched the invoice values. One transaction relating to an expense claim from a member of council for Annual Parish Meeting refreshments had not been authorised prior.

The council did not always follow its financial regulations throughout the year and a number of recommendations are made to ensure that the council's governance processes follow best practice going forward. The clerk is aware of most of these already and has started to implement new practices

and reporting measures. There is a considerable amount of work required in terms of completing risk assessment, mitigating risks, updating policies, changing reporting practices and improving transparency. Work has begun and actions taken will be assessed at the next internal audit meeting. Due to time constraints some aspects of the intermediate audit will be assessed at the next meeting later in the year. This includes checks relating to burials and community buildings.

Thank you to Heidi for taking the time to meet with me for this audit.

Yours sincerely

**Stacey Knowles**

Internal Auditor

Lincolnshire Association Local Councils

Date: 14<sup>th</sup> January 2025