

Internal Audit Report for Langstone Community Council
For the Year ending 31st March 2024

Section 1 – Appropriate books of account have been properly kept throughout the year.

I am not satisfied that the requirements of this test have been met.

Findings

The accounting records were compiled from information gathered after the year end and not at the time of the transactions. This led to the accounts being prepared on an accruals basis instead of a receipt & payments basis.

Risk

Incorrect recording of income and expenditure resulting in economic loss to Langstone Community Council (LCC)

Loss of trust within the community that the council can look after and administer the public funds with which they are entrusted.

Recommendations

Ensure cashbook is presented at each council/financial meeting. Have a procedure in place for non-compliance.

Ensure that only payments made are recorded in the cashbook so the bank balance in the accounts reconciles to the statement each month.

Section 2 – Financial Regulations have been met, payments were supported by invoices, expenditure was approved and VAT was appropriately accounted for.

I am not satisfied that the requirements of this test have been met.

Findings

VAT for some applicable transactions had not been accounted for.

Not all expenditure was approved or recorded in the minutes.

Not all approved expenditure has been paid.

A payment of £4889.01, due to be made to the prior clerk for holiday pay and compensation was paid to the current clerk (on his request to the chair) on January 16th, 2024, the transaction was not found to have been reported in the minutes or approved by the council. The payment was not passed on to the former clerk who was subsequently paid via the council's account on February 20th, 2024.

The original payment made in January 2024 had not been returned to the council by the year end, March 2024.

Risks

VAT which is unaccounted for will result in reduced income for the Community Council.

Invoices which are paid before approval is given could potentially lead to fraudulent invoices being presented for payment, the risk increases if it becomes general knowledge that no checks are conducted on invoices before payment.

Incorrect payment of invoices could potentially lead to increased financial liability and a loss of trust with the public.

Approved payments which are not paid in a timely fashion could lead to inaccurate budget forecasts, fines and penalties being imposed and a lack of trust from suppliers resulting in higher costs and difficulty finding tradesmen to tender for jobs.

Recommendations

VAT receipts should be requested from shops so that the purchases can be recorded accurately in the accounts and any VAT reclaimed. The card payment slip is not proof of a purchase just an amount paid and should not be used in the accounts.

Invoices that are paid to be included with the bank statement they are recorded in, any outstanding invoices to be carried forward to the next meeting.

The corresponding minute page and folio numbers to be included in the cashbook entries and noted on the bank statement for ease of crosschecking.

Totals on invoices to be checked against the minutes, spreadsheet & bank statements for accuracy.

If a meeting is adjourned invoices paid during the period must be taken to the next meeting for oversight.

Blank cheques must not be pre-signed by one signatory and held by a second to be filled in. They must be brought either to a meeting (if held regularly) to be signed or a special meeting arranged to sign if needed quickly.

Payments being made to the clerk or a councillor should not be approved by that individual although they could upload the transaction.

Money due to a supplier or employee must not be paid to a third party, unless mandated by a court, and paid directly to the person/company involved.

Section 3 - The body assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.

I am not satisfied that the requirements of this test have been met.

Findings

The council does have a risk register in place, but it has not been amended or approved since February 2021.

Risk

Objectives will not be achieved as risks have not been considered and therefore will not be recognised should anything go wrong.

Recommendations

To update the risk register and keep it up to date with annual checks that the risks are relevant.

If an incident occurs or new risks are identified during the year the risk register should be updated as soon as possible.

Section 4 - The annual precept/levy/resource demand requirement resulted from an adequate budgetary process, progress against the budget was regularly monitored, and reserves were appropriate.

I am not satisfied that the requirements of this test have been met.

Findings

The 2022/23 budget was used to prepare the annual precept demand as accounts had not been produced due to the prior clerk not releasing the computer that the accounts were held on in a timely fashion. It was recorded in the minutes for the meeting held on January 30th 2024 to keep the same precept as 2022/23 of £60,607.

There is no record of the budget being checked against actual expenditure during the year. At the year end the council held £95,190.96 in the Unity Current Account This is significantly higher than the recommended reserves for community councils. In 2023-24 the council's income (incl. VAT) was £66,532.45 and its expenditure (excl. VAT and the payment erroneously made to RW) was £53,689.96

Risk

The public will be charged more through council tax than is necessary if the precepts are set too high leading to dissatisfaction with the council.

Recommendations

It is generally recommended that councils' general reserves be between 25–100% of gross expenditure, depending on each council's size and commitments.

As LCC receives its precept bi-annually and does not have a steady income from elsewhere, a general reserve between 75-100% of its gross annual expenditure would seem appropriate and therefore it is recommended that deficit budgets are set over 3 years to reduce the amount in its general reserves.

It is recommended that an interest-bearing savings account, held with a different (un-connected) bank, is opened allowing the reserves to bring in some income and ensuring the maximin amount possible is protected by the Financial Services Compensation Scheme (FSCS)

Section 5 - Expected income was fully received, based on correct prices, properly recorded and promptly banked, and VAT are appropriately accounted for.

I am satisfied that the majority of the requirements of this test have been met.

Findings

LCC does not have income streams other than the Precept, VAT and occasional grants or donations.

VAT was not recorded correctly on some of the expenses councillors.

Risks

When VAT is not recorded properly the result is a reduction in income for the council

Recommendations

Ensure expenses from the councillors are recorded in the correct column, are backed up by the receipt and not a card payment slip and any VAT claimed.

Section 6 - Petty cash payments were properly supported by receipts; expenditure was approved and VAT appropriately accounted for.

This test is not applicable as the Council does not use petty cash.

7. Salaries to employees and allowances to members were paid in accordance with minuted approvals, and PAYE and NI requirements were properly applied.

I am not satisfied that the requirements of this test have been met.

Findings

There is no record of the calculations the current clerk (RW) used for his payroll or mileage.

No PAYE was paid over to HMRC for October 2023 through March 2024 payroll although figures were included in the minutes and cheques were written.

No RTI's were filed with HMRC for the same period.

The holiday pay due to the prior clerk (AE) when he left the council was not processed through payroll and was paid to him gross of deductions. No RTI was filed with HMRC for this transaction.

Chair allowances were paid gross, they should have gone through payroll as the allowance is liable for tax and NI.

No record of any councillors refusing the allowances was seen or mentioned in the minutes.

Risks

Unpaid PAYE will result in fines & penalties being added by HMRC resulting in economic loss to the council.

Inadequate record keeping could also result in fines & penalties being added by HMRC and therefore economic loss to the council.

These fines and penalties are increased if HMRC finds the errors before they are reported.

Recommendations

The clerk should not process their own payroll, and it is strongly recommended that a company/person with payroll knowledge unconnected to the councillors or clerk runs the payroll.

All payments made to councillors to be processed through payroll even if there is no tax or NI liability as there will then be an audit trail of payments made and the correct PAYE & NI being calculated.

All outstanding RTI submissions from the clerk and councillors to be filed with HMRC as a matter of urgency and any outstanding fines, penalties and PAYE paid.

Section 8 - Asset and investment registers were complete, accurate and properly maintained.

I am not satisfied that the requirements of this test have been met.

Findings

An asset register has not been provided to me for checking.

LCC does have insurance in place but a copy of the policy was not available for checking.

Risks

Without an asset register it is impossible to know if the current level of insurance is adequate

Fire, theft or accidental damage will cause economic loss if the assets are underinsured.

Incorrect details on the policy will invalidate the insurance leading to economic loss for the council.

Recommendations

Implement a full & comprehensive asset register with up-to-date valuations on a new for old basis to ensure there is adequate insurance in place.

Consider keeping photographs of assets on file in case an insurance claim needs to be made.

Ensure all conditions included in the policy are adhered to.

Ensure contact and insurance details are kept up to date.

Keep a copy of the insurance policy with the asset register for ease of reference.

Section 9 – Periodic and year-end bank account reconciliations were properly carried out.

I am not satisfied that the requirements of this test have been met.

Findings

Regular bank account reconciliations were not presented to the council and a copy of the cashbook was not recorded in the minutes.

Risks

Fraudulent activity through the bank will go unnoticed leading to a loss in revenue for the Community Council and reduced opportunity to have the money returned.
Human errors will not be picked up and the opportunity to correct them may be lost.

Recommendation

Bank reconciliations to be completed at least quarterly and reported at the next meeting.

Section 10 – Accounting statements prepared during the year were prepared on the correct accounting basis, agreed with the cashbook, were supported by an adequate audit trail from underlying records, and where appropriate, debtors and creditors were properly recorded.

I am not satisfied that the requirements of this test have been met.

Findings

Mention was made of accounting statements being circulated in the minutes of some meetings but no evidence was provided for the internal control audit.

It also mentioned that the payments were made using a list the clerk held but suggested they were not presented.

The accounts received for the internal control audit had been calculated on an accrual basis as the clerk (RW) did not keep the accounts up to date and an interim clerk entered everything onto the Rialtus software including outstanding payments after the year end.

There was not a clear audit trail supporting the amounts in the Cashbook and the payments mentioned in the minutes.

Debtors and creditors were not recorded as they are not required when the receipts and payments method is used.

Risks

Chaotic account keeping may lead to fraudulent transactions occurring which are not easily spotted and corrected leading to economic loss to the council and a loss of trust with the public.

Recommendations

Statement to be produced at least quarterly and backed up by easy-to-read accounts and a clear audit trail from minutes to invoices to cashbook and bank statements.

Cashbook to be presented at each meeting and approved in line with regulations.

Exceptional expenses should be agreed before payment, an email trail would suffice for emergency works.

Adequate time be given for the accounting statements to be scrutinized before they are agreed at the next meeting.

Section 11 – Trust funds

Not applicable

Conclusions

Langstone Community Council's internal control objectives for all the significant respects examined have not been achieved to a standard adequate to meet the needs of the Community Council and the funds entrusted to the council have not been managed in an acceptable manner.

The council members did not question the clerk when figures were missing from the transaction list and when the cashbook did not reconcile back to the bank statements. This lack of oversight enabled the clerk (RW) to pay himself the prior clerk's compensation and holiday pay. He did repay this money eight (8) months after taking it in September 2024 when he resigned from his position.

I would like to note that there has been a change in council members and work is being carried out to correct the lack of internal controls found in this report.

Report prepared by: Jenny Papamichail

Date: May 26th, 2025