

DKE AUDIT SERVICES

INTERNAL AUDITOR

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Finstall Parish Council

Internal Auditors assessment for the completion of the AGAR IA Report – Financial Year 2022-23

1. Introduction

I have concluded the Council's annual independent internal audit. I am therefore able to complete the Annual Independent Internal Audit Report 2022/23 which forms part of the Annual Governance and Accountability Return (AGAR).

My internal audit considers the evidence available to assess and ensure the Council has effective governance arrangements in place for the areas examined. In examining the governance arrangements focus has been placed on compliance with the Council's key governance 'rules', its management of 'risk' and its financial controls. Consideration is given to the size and scope of activities undertaken by the Council.

The internal audit is not designed to identify all weaknesses in the Parish Council's systems but, it is a sample examination of systems and of testing those systems. Where weaknesses are identified during the internal audit process, which impact on governance and control, recommendations are made.

The responsibility for the prevention and detection of fraud, error and non-compliance with the law or regulations rests with the Council. The internal audit should not be relied upon to disclose all material mis-statements or frauds, errors or instances of non-compliance as may exist.

The internal audit review started in late May 2023 with a review of the website information. A visit was undertaken on 6th June 2023 to review the systems, documents, to undertake testing, and to discuss and understand the governance and operating practices throughout the year. The Council had two Parish Clerks in 2022-23, neither were in post to support the internal audit. The Acting Clerk at the time of the internal audit provided information and explanations based on her understanding of the systems and controls operating in 2022-23.

The AGAR states 'During the financial year ended 31 March 2023, this authority's internal auditor acting independently and on the basis of an assessment of risk, carried out a selective assessment of compliance with the relevant procedures and controls in operation and obtained appropriate evidence from the authority'. Although the opportunity to undertake the review 'during the financial year' was not possible, the review has considered and assessed, based on the evidence available and explanations given, the systems, processes and control operating within the year.

2. Summary

In the section below I have recorded my AGAR responses and offered some comments by way of explanation for these. Members need to be mindful that this assessment is for governance and control during 2022/23.

During the internal audit review two control issues or non-compliances have been identified; therefore, I can give a positive response to each of the areas covered by the AGAR (internal auditors section) apart from section C (risk management) and G (salaries), that apply to the Parish Council. In addition, a number of the requirements to publish information / notices has not been met. Four control related recommendations have been made for the Council to consider; along with comments to aid operational effectiveness.

3. Internal Audit Assessment

The table below follows the format of the AGAR. For each section, questions have been answered and supporting evidence provided, which has been examined and assessed.

AGAR Internal Control Objective, Internal Audit assessment and related comments	Yes /No
A. Appropriate accounting records have been properly kept throughout the financial year.	Yes
<p>Based on the retrospective review of the accounting records and the Council minutes, the Council has put in place effective procedures to accurately and promptly record all financial transactions, it has maintained up to date accounting records throughout the year, together with, in most instances, the necessary supporting information. Invoices, payment requests and receipts are recorded on the accounting software (spreadsheet). Copy invoices, payment requests, or other supporting information for transactions are held on file (see section B).</p> <p>The cashbook is well structured, payments are reported to the Council each meeting, and approval is recorded in the minutes.</p>	
B. This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved VAT was appropriately accounted for.	Yes
<p>Financial Regulations were reviewed in March 2021, although an old version dated May 2004 is on the Council's website and requires updating. When reviewing its Financial Regulations, the Council should consider the adoption of the most recent Nalc version, looking to vary these where necessary to be appropriate to a small parish Council. However, the key control principles expected of a public body must be retained.</p> <p>Based on a sample examination of a number of payments selected from the cashbook confirmation has been gained that the payments made are supported by invoices or payment requests.</p> <p>Where competitive quotes are required, to demonstrate the effective and transparent use of public funds, then these should be obtained and retained to provide a full audit trail.</p> <p>For the payments made to the Lengthsman there is no confirmation that the works are inspected / approved, the 'approval' section on the payment supporting document from the Lengthsman, is not completed by the Clerk.</p>	

AGAR Internal Control Objective, Internal Audit assessment and related comments	Yes /No
<p>Payments have been properly approved by Members and VAT has been appropriately accounted for.</p> <p>Effective management and control over the Council’s bank account is present, payments are made by cheque or direct debit. There was a period between October 2022 and March 2023 when the cheque counterfoils were not initialled as part of the payment approval process (Financial Regulation 5.6).</p> <p>Financial Regulation 5 and 6 cover the controls over banking and payments, the Council should review its processes to ensure these deliver the intended control in all instances. The opportunity to move to online payments should be considered as these arrangements now offer the opportunity to retain and ensure payment control principles.</p>	
<p>C. This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.</p>	<p>No</p>
<p>The Council has a Risk Policy (in draft) and a Risk Register which was reviewed in 2022, the register lists the areas of risk and the actions to be taken to provide effective control.</p> <p>To test the effectiveness of the Council’s risk management arrangements the following areas were considered;</p> <ul style="list-style-type: none"> • Financial control checks – the minutes state that checks have been undertaken, but there is no evidence to show what was examined and what specific tests were undertaken. A draft form has been made available but this has not been completed. Advice has been provided to the Acting Parish Clerk on the payment control key principles, and the understanding and assurance over application should be included within the periodic control checks. • Inspection of assets – there is no evidence to show the Council have periodically inspected its assets. Rospa have inspected the play area, in March 2022 and March 2023, the finding in both reports is very similar. The minutes during 2022-23 indicate the intention to act on the finding of the March 2022 report, but the repairs were not progressed. • There is no evidence of a risk assessment for the Carol Concert. • There is no evidence to show insurance has been verified for contractors who provide services to the Council. • The IT arrangements have been discussed; the arrangements, as described, do not ensure the effective control over the IT systems and the data held. • There is no evidence to show the Council has considered the risk, liabilities and responsibility in respect of the Allotment site – a recommendation was made in the 2020-21 internal audit report, but has not been actioned. <p>The insurance policy covers the areas expected for a Parish Council and the assets (for which there is an Asset Register) have been insured. The value of the assets in each of the insurance schedule categories should be reviewed to ensure they reflect the actual replacement values – see section H below.</p> <p>Recommendation 1</p> <p>The Council reviews, during 2023-24, its approach to risk management.</p>	

AGAR Internal Control Objective, Internal Audit assessment and related comments	Yes /No
<p>D. The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.</p>	<p>Yes</p>
<p>The budget covers all of the Councils activities, income sources and expenditure. Spend levels and the number of payments made are small, but it is not clear from the minutes how often the budget is monitored, it is understood a half year review of the budget took place. The Council should specify the frequency of budget monitor that provides the required control and incorporate this within Financial Regulations.</p> <p>A budget setting process operates that identifies the funding need based on services and commitments. The precept has been set in accordance with the agreed and approved budget requirement.</p> <p>In respect of Reserves, a recommendation was made in 2020-21 <i>‘The Council has significant reserves in relation to its level of expenditure. It has identified the need for a Reserves Policy (March 2021 meeting). Although the reserves are high in terms of expenditure levels they may not be in terms of future plans or demands e.g. increased facilities or parish matters that may draw on Council funds. The Council should consider the links between future year cost projections and budgeting, its forward potential risk profile and the need for earmarked reserves’</i>. The Council’s response was – <i>‘The Parish Clerk advised the Council of good practice to have a reserves policy. However, at the February Council Members agreed ‘due to the small amount of reserves the council holds and the planned upcoming expenditure, it was not felt it was necessary to adopt a new policy at this time’</i>. The reserves remain high in relation to the Council’s annual precept and expenditure levels.</p> <p>Recommendation 2</p> <p>The Council reconsiders adopting a Reserves Policy which follows the Joint Practitioners Advisory Group (JPAG) guidance. The Council should assess and set the level of general reserve it requires (its working balances) and its earmark reserves (sums set aside for future planned commitments).</p>	
<p>E. Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.</p>	<p>Yes</p>
<p>The Council receives limited income beyond the precept, other sources being interest and lengthsman contributions.</p> <p>The Council has an allotment site where it is understood there is an arrangement between the District Council, the Parish Council and a small number of allotment holders, no income is received from the allotment holders.</p> <p>The Council do not raise fees that attract VAT.</p>	
<p>F. Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.</p>	<p>Not Covered (no Petty Cash)</p>
<p>The Council does not operate a petty cash system.</p>	

AGAR Internal Control Objective, Internal Audit assessment and related comments	Yes /No
<p>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.</p>	<p>No</p>
<p>The salary payable to the Parish Clerk(s) has been approved by Members. For the payments made to the Clerk, actual payments are in accordance with agreed terms and relevant employment related deductions are made. Employer liabilities have been paid. The Council uses a payroll service provider to facilitate salary processing.</p> <p>In last year's internal audit report the following recommendation was made in respect of the Chairmans allowance. <i>The Council should ensure Members Allowance payments are made in accordance with HMRC 'rules'. The JPAG guidance 2021 5.52 states – 'Care should also be taken when making any payments of expenses or allowances to non-employees, for example authority members, which should also be considered as falling within the scope of PAYE'.</i></p> <p>In 2022-23 an allowance of £660 has been paid to the Chairman for which PAYE has not been applied.</p> <p>Within the year payments have been made to an individual for caretaking services, there is reference to these being wages, however it is understood the individual was not an employee. There is no supporting evidence on file for the payments made. There is no evidence to show the Council has met the requirements for an employee or for a 'contractor'.</p> <p>Recommendation 3</p> <p>The Council ensures it complies with the requirements of HMRC PAYE.</p>	
<p>H. Asset and investments registers were complete and accurate and properly maintained.</p>	<p>Yes</p>
<p>The Council has an Asset Register that records the assets and their value. The register is to be updated in advance of the AGAR submission.</p> <p>A recommendation was made in 2020-21 - <i>Reference has been made by Members to the possible replacement cost being added to the Asset Register. In addition, consideration could be given to adding the insured values, the maintenance / refurbishment schedule (and projected costs) and the planned replacement schedule which could link to future budget projections and earmarked reserves. In 2021-22 no action had been taken; the Parish Clerk advised this matter will be added for review in 2022-23 – this did not occur.</i></p> <p>The Councils assets are insured, it is noted that the Council has a 'chain of office' but it is not clear if civic regalia is covered within the policy.</p> <p>The Council has a sum lodged with the District Council; it is understood the District Council invests the sum on behalf of the Parish Council. Evidence of the investment (£15,500) has now been obtained, but the detail of this arrangement needs to be established.</p> <p>Recommendation 4</p> <p>The Asset Register is reviewed and structured in line with current guidance and transparency requirements and the terms of the investment with the District Council be established.</p>	

AGAR Internal Control Objective, Internal Audit assessment and related comments	Yes /No
I. Periodic bank account reconciliations were properly carried out.	Yes
Evidence shows the reconciling of the Council's bank accounts with its accounting records, this has been undertaken monthly. It is understood the accounting records, cheques stubs and invoices are checked to bank statements. However, there is limited paperwork to evidence this. The full audit and accountability trail for this control needs to be present.	
J. Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate debtors and creditors were properly recorded.	Yes
The accounting statements have been prepared on the correct accounting basis (receipts and payments). The accounting process as reviewed is effective and appropriate; the accounting statements agree to the cash book and, in most instances, are supported by an adequate audit trail from underlying records and explanations.	
K. If the authority certified itself as exempt from a limited assurance review in 2021/22, it met the exemption criteria and correctly declared itself exempt (If the authority had a limited assurance review of its 2020/21 AGAR tick "not covered").	Yes
<p>The Council certified itself as exempt from a limited assurance review in 2021/22 and met the exemption criteria.</p> <p>It is noted that part of the exemption certificate reminds the Council of the publication requirements (see sections M and N below).</p>	
L. The authority published the required information on a website/webpage up to date at the time of the internal audit in accordance with the relevant legislation.	No
<p>The following statement was made in last year's internal audit report and applies to 2022-23 - <i>The Council publish information on its website, however, there are areas where the Council should add to the current information to ensure complete compliance. For example, for payments include 'summary of the purpose of the expenditure' and for assets add 'a) description (what it is, including size/acreage), b) location (address or description of location), e) cost of acquisition (or proxy value), and f) present use. The Council should undertake a 'self-assessment' against the Transparency Code prior to the key publication date of 1 July.</i></p> <p>https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/388541/Transparency_Code_for_Smaller_Authorities.pdf</p> <p>The Council has not published all of the information required. The Council has not complied with the requirements of sections M and N below. The Council should consider a Council specific website and ensure effective website management.</p>	
M. In the year covered by this AGAR, the authority correctly provided for a period for the exercise of public rights as required by the Accounts and Audit Regulations (during the 2022-23 AGAR period, were public rights in relation to the 2021-22 AGAR evidenced by a notice on the website and/or authority approved minutes confirming the dates set).	No

AGAR Internal Control Objective, Internal Audit assessment and related comments	Yes /No
The Council cannot evidence it correctly provided for the exercise of public rights as required by the Accounts and Audit Regulations – the document cannot be opened from the Council’s website.	
N. The authority has complied with the publication requirements for the 2021/22 AGAR (see AGAR Page 1 Guidance Notes).	No
<p>Smaller authorities must publish various documents on a publicly available website as required by the Accounts and Audit Regulations 2015, the Local Audit (Smaller Authorities) Regulations 2015 and the Transparency Code for Smaller Authorities. These include:</p> <ul style="list-style-type: none"> • Certificate of Exemption, page 3 – Yes on the website • Annual Internal Audit Report 2022/23, page 4 – No cannot be opened from the website • Section 1 – Annual Governance Statement 2022/23, page 5 – Yes on the website • Section 2 – Accounting Statements 2022/23, page 6 – Yes on the website • Analysis of variances – Yes on the website • Bank reconciliation – Yes on the website • Notice of the period for the exercise of public rights and other information required by Regulation 15 (2), Accounts and Audit Regulations 2015. – No cannot be opened from the website 	
O. (For local councils only) Trust funds (including charitable) – The council met its responsibilities as a trustee.	Not Applicable
The Council (as a body) does not have trust or charitable responsibilities.	

Other Areas

Internal Control areas and Internal Audit comments
Review of the implementation of recommendations from the previous year’s Internal and External Audit Reports
<p><u>From last internal audit report (improvement opportunities)</u> Comments have been made in the report above</p> <p><u>From last external audit report</u> Not applicable</p>

The draft version of this report was discussed and agreed by the Acting Parish Clerk.

The internal auditor wishes to acknowledge the support and assistance provided by the Acting Parish Clerk during the internal audit review.

Duncan Edwards

Internal Audit undertaken on 06 June 2023

Duncan Edwards (2022/23 internal audits)