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2022/23 Internal Audit Report for Hailey Parish Council

From Jane Olds – Internal Auditor

I reviewed the documents provided and met with the Clerk, Miranda Harrison, on 30 August via Zoom and finalised the report following receipt of the final information on 21 February 2024.

BASIS OF REPORT

This internal audit report is based upon the JPAG (Joint Panel on Accountability and Governance) Governance and Accountability for Smaller Authorities in England 2022 publication.

The scope of this internal audit is focused on assessing the effectiveness of the Council's internal controls and was outlined in the original Letter of Engagement. Where any such controls are found to be deficient, the internal audit will help lead to improvement in those processes.

By applying the principles of internal auditing, outlined in the current Accounts and Audit Regulations and applying the approach to internal audit testing outlined above, every effort is made to ensure that all internal audits are conducted with due professional care, integrity and independence. All conclusions derived from the audit are based upon objective and traceable evidence.

Please note: it would be incorrect to view internal audit as the detailed inspection of all records and transactions of the Council in order to detect error or fraud. It is the periodic independent review of a Council's internal controls resulting in an assurance report designed to improve 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 staff and Councillors and not left for internal audit. (Source: Governance and Accountability for Smaller Councils - A Practitioners' Guide 2022 – Section 4).

| Annual Return Section | Process | Findings | Recommendations and actions |
|------------------------------|--------------------------|--|--|
| A | Bookkeeping Arrangements | In general, books of account have been kept throughout the year. | Undertake a full review of all accounts to ensure that they are kept up to date. |

| Annual Return Section | Process | Findings | Recommendations and actions |
|------------------------------|--|--|---|
| B | Council's Financial Regulations have been met with regard to expenditure | <p>The Council's Financial Regulations appear to have been met in that appropriate authorisations have been given for each level of expenditure.</p> <p>Payments were, in general, supported by invoices, expenditure was approved and VAT appropriately accounted for.</p> | No further recommendations. |
| C | Review of Internal Controls | The Council has limited Internal Control provision. | Adopt a policy for Internal Financial Control and appoint a Councillor who should check all processes against the policy at least three times a year. |
| C | Review of Risk Assessment | <p>It does not appear that the Council has assessed the significant risks to achieving its objectives using their Risk Assessment. The initial document was minuted as being deferred in November 2022 and was again deferred in March 2023.</p> <p>The document on the website is dated March 2022, refers to Whitwell Parish Council and is limited.</p> | <p>The Council should review and update it annually using the JPAG recommendations (2022 version - starting at 5.84) and publish it on the website. Attention may need to be given to the recommendation at 5.92 relating to the assessment matrix.</p> <p>The SLCC has a template document in the Advice Library which the Council may find useful to use to ensure that all points are covered.</p> |
| D | Budgetary Controls (Precept requirement) | The annual Precept requirement resulted from an adequate budgetary process. | Ensure that the full Precept amount is agreed and minuted in order that the final outturn can be confirmed. |
| D | Budgetary Controls (Budget monitoring) | Progress against the budget was monitored regularly. | Ensure that the progress is minuted and that the budget monitoring report is published. |
| D | Reserves were appropriate | Reserves require more explanation. | A reserves policy should be devised. |

| Annual Return Section | Process | Findings | Recommendations and actions |
|------------------------------|--|---|---|
| D | The final outturn is in line with expectations | The final outturn appears to be materially in line with expectations, although it has not been possible to look at this in great detail. | Budget forecasting would be beneficial. |
| E | Income controls | Expected income appears to have been received. | Ensure income as well as expenditure is recorded in the Minutes. |
| E | VAT | VAT appears to have been accounted for. | No further comments. |
| F | Petty cash controls | Petty cash is not operated by the Council. | No further recommendations. |
| G | Payroll controls | Salaries to employees were paid in accordance with Council approvals. | No further recommendations. |
| H | Asset Controls - all material assets correctly recorded | The current asset register has recorded material Assets. | Ensure that all material assets have been added to the register. |
| H | Asset Controls - all additions and removals correctly recorded | Additions do not appear to have been included. | Ensure that all material assets which have been bought during the year such as the Speedwatch signs and the Tommy figure from the previous year are included. |
| H | Asset Controls - all Deeds and Titles established and shown on register? | The description of the land has been included on the asset register, but Deeds and Titles do not appear to be included. | Establish the Title numbers for the land and buildings and include the numbers on the asset register. |
| H | Investment Registers | No investment register was required. | No further recommendations. |
| I | Bank Reconciliations | While the periodic reconciliations appear to be in order, it was not possible to ascertain whether the year-end reconciliation was properly carried out as I have not received all the bank statements to check the balances. I have not been able to cover this as part of my review. | Ensure that all bank statements requested by the Internal Auditor are provided in good time. |

| Annual Return Section | Process | Findings | Recommendations and actions |
|------------------------------|------------------------------------|--|--|
| J | Accounting Statements | The Accounting Statements prepared during the year appear to have been prepared on the correct accounting basis and were supported by adequate invoices. However, it has been difficult to gather the full information and I am not able to cover this in my review. | Ensure that the Council and Clerk understand the accounting basis and how to prepare the Accounting Statements. |
| K | Limited Assurance Review Exemption | The Council does not meet the exemption criteria. | No further recommendations. |
| L | Information published on website | The information needs additional work. None of the financial information for the year 22/23 was available on the website at the time of review. | Ensure that all financial information is published on the website in a timely manner. |
| M | Exercise of Public Rights | The Parish Council apparently published the exercise of public rights notice on the website and noticeboard with the following dates: 11 July to 19 August. This is outside the scope of the regulations and was apparently before the Council had considered the AGAR. | Ensure that the date of the notice is at least one day after the meeting adopting the accounts and the dates start a day after the notice and are for 30 working days and cover the first then working days of July. |
| N | AGAR publication Requirements | The Parish Council did not comply with the publication requirements for the 2021/22 AGAR. | None of the required documentation was published. |

| Annual Return Section | Process | Findings | Recommendations and actions |
|------------------------------|---|---|---|
| O | Trust funds (If applicable) – the Council met its responsibilities as a trustee | <p>The Parish Council operates as a Trustee for two external bodies – Allotment for the Labouring Poor and the Joan Smith Educational Charity. It is understood that returns had been filed.</p> <p>However, it is not clear whether an AGM for either has been called or whether the Council met its responsibilities.</p> | <p>Ensure that the accounts are kept separate from the main Parish Council administration.</p> <p>Further advice may need to be taken about the Council's responsibilities.</p> |

Transparency Compliance

| Process | Criteria | Findings | Recommendations and actions |
|--|-----------------|---|---|
| Review of Internal audit action plan has been considered and actioned? | Good Practice | It does not appear that the Internal Audit had been reviewed the previous year. | The Internal Audit should be reviewed as part of the consideration of the AGAR. |
| External Audit recommendations have been considered and actioned. | Good Practice | The Conclusion of Audit report had been received for 21/22 and had been published on the website. | Ensure that all points are considered for the year 22/23. |
| | | Findings: Electors' rights notice did not include first 10 working days of July and due to the previous year's error, the Council should have answered 'no' to Assertion 4. | |
| | | The Council should have answered 'no' to Assertion 5 as no risk assessment had been completed. | |

| Process | Criteria | Findings | Recommendations and actions |
|--|---|--|--|
| | | The Council should have answered 'no' to Assertion 1 as the fixed assets had not been correctly recorded. | |
| | | The Council should have answered 'no' to Assertion 2 as the Council had not maintained an adequate system of internal control. | |
| Accounting Statements agreed and reconciled to the Annual Return | Section 2 of the Annual Return is complete and accurate and reconciles to the statement of accounts. | It has not been possible to ascertain whether the accounting statements in this annual return present fairly the financial position of the Council and its income and expenditure as I have not received all the bank statements or cash book requested. | Ensure that all information is provided. |
| Compliance with the Transparency Code | While the Parish Council does not fall in to the criteria for Councils below the £25k threshold, it is good practise for Parish Councils above the threshold to comply. | | |
| Compliance with the Transparency Code | 1) Expenditure over £100 is recorded on the Council website and with all information requirements | Not currently available. | Good practice to publish. |
| Compliance with the Transparency Code | 2) Annual Return published on the website | Not currently available. | Essential to publish. |
| Compliance with the Transparency Code | 3) Explanation of significant variances | Not currently available. | Essential to publish. |
| Compliance with the Transparency Code | 4) Explanation of difference between Box 7 & 8 if applicable | Not applicable. | No further recommendations. |
| Compliance with the Transparency Code | 5) Annual Governance Statement recorded | Not currently available. | Essential to publish. |

| Process | Criteria | Findings | Recommendations and actions |
|---------------------------------------|---|------------------------------|------------------------------------|
| Compliance with the Transparency Code | 6) Internal Audit Report Published | Not currently available. | Essential to publish. |
| Compliance with the Transparency Code | 7) A List of Councillors' responsibilities | Available on the website. | No further recommendations. |
| Compliance with the Transparency Code | 8) Details of Public Land and Building Assets | Not currently available. | Good practice to publish. |
| Compliance with the Transparency Code | 9) Minutes & Agenda | Not all currently available. | Essential to publish. |

Further Recommendations:

Following the completion of the Internal Audit, the Council should undertake a review of effectiveness as per Regulation 6 of the Accounts and Audit Regulations 2015. A blank form can be supplied.

Training

The Clerk and the Councillors should be encouraged to take up the training offered by the local County Association and SLCC to increase their knowledge and expand the Clerk's professional development. I recommend including a regular agenda item and budget for training.

Once the Clerk is established in the role, I recommend that she considers undertaking ILCA – Introduction to Local Council Administration and FILCA – the Financial Introduction to Local Council Administration.

22/23 AGAR Annual Internal Audit Report

I have not been able to verify a number of the points on the AGAR report as it appears that the former Clerk had not documented all the information in a satisfactory way. With this in mind, I have had to indicate 'not covered' on a number of the points. This is in no way a reflection on the new Clerk's abilities.

It has not been possible to verify the accounting statement figures as not all the bank statements for the year end have been available. Due to the difficulties with the handover to the new Clerk, while the periodic reconciliations appear to be in order, it was not possible to ascertain whether the year-end reconciliation was properly carried out.

AGAR

I can find no record of the Council properly considering the 2021/22 AGAR in the Minutes. In May 22, Minute Reference 23. (a) deferred consideration to the June meeting and the June Meeting, reference 23. a) makes no reference to any decision. Furthermore, as I did not conclude my Internal Audit Report until 12 July last year, the Council should not have considered the AGAR until the Internal Auditor's report had been received. I do not believe that the External Auditor was given an accurate picture of the state of last year's accounts by the previous Clerk.

Agenda and Minutes

As mentioned last year, I noted that agenda items for “Matters Arising” and “Any Other Business” were often included. I recommend changing “Matters Arising from the Minutes” to “Update on Progress from the Minutes (where decisions are not to be made)” and “Any Other Business” to “Items for information or next agenda”.

As all items for decision should have their own clearly written motion / agenda item in order that the Council – and any members of the public – are able to prepare adequately for the meeting, this should help with focus and avoid the times when decisions may be made by accident under those two items.

I also noted that a number of the Minutes did not have a record of the attendees. In order to be able to check that the meetings are quorate, and for future record, it is important that the Councillor attendance is noted.

Standing Orders and Financial Regulations

The Standing Orders and Financial Regulations should be reviewed regularly. The Financial Regulations have not been reviewed since April 2021 and therefore, I would have expected them to have been formally considered earlier in the year.

NALC provided an update to the current iteration of the Standing Orders last year. There are a number of minor amendments together with a portion of section 20 covering Finance. The current Standing Orders should be updated.

Financial Responsibility and Budget Setting

While the Clerk/RFO is responsible for the day-to-day running of the Parish, the Council should be reminded that, as a corporate body, it is the Council which is responsible for financial governance and this responsibility should not be taken lightly. I recommend that a Councillor Responsible for Internal Financial Control is appointed and an Internal Financial Control policy adopted.

Banking

I recommend that the Council reviews the bank mandate annually as part of its review of finances in April.

I understand that the Council had considered the provision of a debit card or charge card on the bank account for the previous Clerk. The new Clerk should also have a similar provision in order that items such as Office 365, anti-virus software or website domain names can be bought in the Parish’s name without the need to resort to the Clerk or another Councillor having to use their personal accounts. With the appropriate safeguards and procedures this would be acceptable.

Payments

Some of the invoices I reviewed were paid for by Councillors and then reimbursed. This can cause issues with the VAT reclaim as it should be the Council which places the order and pays the bill. While the Council as a corporate body may make a payment, Councillors do not have individual authorisation to spend. Therefore, all expenditure should be made through the Clerk. This is for the protection of the Councillors as much as the Council.

I recommend that other payments such as the annual subscriptions should be included in a list of regular expenditure which should be agreed at the April meeting for the new financial year.

Risk Assessment

As mentioned in Point C. above, the Council must assess the significant risks to achieving its objectives. It appears that, while a document had been taken to the November 2022 meeting, it was deferred until the December meeting, but there is no record of the Risk Assessment being considered in later months. The March 2023 Minutes make reference to the November Minutes, but it does not appear accurate.

Therefore, I conclude that the Risk Assessment was not reviewed last year. The new document must cover all the financial aspects of Council business – the Practitioner’s Guide gives comprehensive advice. The Council must consider and assist in completing the document as soon as possible as it is the Council which must take responsibility for this with the Clerk’s guidance.

Reserves

I noted that the Council had reserves but that much of these did not appear to be earmarked for specific projects. I strongly recommend that much of the general reserve is allocated to earmarked reserves as, moving forward, the Council could find it difficult to justify the Precept with the current levels. Advice on allocating reserves is published in the Practitioners Guide.

Assets

The Parish Council assets should be inspected for risk and the condition minuted at least annually. This should be a project for the entire Council.

Document Management

I note that many of the Parish Council Minute books are in the Village Hall. As these books are the only record of the meetings and should be kept in perpetuity, I strongly recommend that just the last five years or so are kept with the Clerk, with the rest being deposited with the County Archive for safety. A review of other documents, both paper and electronic, should also be undertaken using the Document Retention policy.

Conclusion

Many Clerks start working in a Parish with very little training or knowledge of how Parish Councils work and will copy what the previous Clerk did. While there are a number of comments above, these are meant to help improve the working and efficiency of the Council and I will be very happy to help the Clerk to work through them.

Hailey Parish Council has an electorate in the region of 958 and the Precept for the year 22/23 was set at £37,905.

This report should be noted and taken to the next meeting of the Council for minuting to inform them of the Internal Audit work carried out.

I hope that this report is of help to the Council. If you would like any further assistance or clarification, please do contact me.

Jane Olds

Jane Olds
Internal Auditor