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INTERNAL AUDITOR & INDEPENDENT EXAMINER

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Hartlebury Parish Council

Internal Auditors assessment for the completion of the AGAR Part 3 – Financial Year 2020-21

1. Introduction

I have concluded the Council's annual internal audit. I am therefore able to complete the Annual Internal Audit Report 2020/21 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 misstatements or frauds, errors or instances of non-compliance as may exist.

Special note – the annual internal audit was undertaken during the restrictions introduced by the Government in response to the Covid-19 pandemic. As a result the audit has been conducted remotely. The remote approach taken has applied internal audit principles.

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 2020/21 to the time of the audit review. My review last year was undertaken during the early part of the 2020/21 financial year at a time when the Council had experienced difficulties and was establishing itself as a 'new' Parish Council. During the first few months of the 2020/21 year, operating practices and control arrangements now in place were not present in the same form. However, there is evidence to indicate control was adequate at that time to maintain the accounting records. This assessment has been based primarily on the controls operating during the remainder of the financial year, when the 'new' Council was operating, and at the time of this internal audit review – the Council has made significant steps to implement improved controls since the last internal audit report.

During the internal audit review one area was identified where control should be enhanced in order to meet the requirements as detailed in the AGAR assertions and associated guidance. A recommendations has been made.

Internal Audit Assessment

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

AGAR Internal Control Objective, Internal Audit assessment and related comments	Yes /No
<p>A. Appropriate accounting records have been properly kept throughout the financial year.</p>	<p>Yes</p>
<p>The Council has put in place effective procedures to accurately and promptly record all financial transactions, it has maintained the accounting records throughout the year, together with all necessary supporting information. Invoices, payment requests and receipts are recorded on the accounting software (spreadsheet). Copy invoices or payment requests are held on file.</p> <p>Confirmation has been gained that the cashbook is kept up to date, the financial position is presented to Council. The Council has a Finance Committee that oversees all finance related matters, with final approvals being made by Council. The internal control assurance arrangements should be enhanced through the adoption and implementation of an internal control policy and process, which is planned (see risk management below).</p>	
<p>B. This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved VAT was appropriately accounted for.</p>	<p>Yes</p>
<p>Due to Covid-19 the Council has held virtual Parish Council Meetings. The Council has adopted a number of key policies and documents associated with effective governance and further ones are planned for 2021-22. The Council’s Financial Regulations and Standing Orders were reviewed in May and June 2020.</p> <p>Based on a sample examination of a number of payments selected from the cashbook confirmation has been gained that payments have been made in accordance Financial Regulations and are supported by invoices or payment requests, confirmation the invoices are inspected is evidenced and copy cheque stubs are initialled by the signatories. The Council has implemented an ordering system based on authority to ‘contract’ / purchase which then links to the invoice authorisation and payment.</p> <p>The payments have been properly approved and VAT has been appropriately accounted for.</p>	

AGAR Internal Control Objective, Internal Audit assessment and related comments	Yes /No
Effective management and control over the Council’s bank account is present.	
C. This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.	No
<p>There is evidence to show the Council is risk aware and has taken action to manage some of its risks, for example; the Hartlebury Community Project Facilities risk assessment, inspection of play equipment, and the Lenghtsman risk assessment. However, the Council does not have a risks management process or risk register covering all of its areas of risk.</p> <p>There is need to ensure effective risk management is at the centre of the Council’s decision making process and that the mitigating actions / controls to manage risk are effective, complied with evidenced. In addition to the risks that are associated with a Parish Council, the Council has additional current risk considerations in respect of the Community Project development and the potential purchase of allotment land.</p> <p>Financial Regulation 1.12 states ‘The accounting control systems determined by the RFO shall include - measures to ensure that risk is properly managed’, these should be recorded in the risk register along with the controls that mitigate risk. These controls should include an internal control process that periodically tests the controls within the year.</p> <p>Financial Regulations reference risk management as follows;</p> <ul style="list-style-type: none"> • 16.1 The council is responsible for putting in place arrangements for the management of risk. The Clerk shall prepare, for approval by the council, risk management policy statements in respect of all activities of the council. Risk policy statements and consequential risk management arrangements shall be reviewed by the council at least annually, and • 16.2 When considering any new activity, the Clerk shall prepare a draft risk assessment including risk management proposals for consideration and adoption by the council. <p>The AGAR Assertion 5 states;</p> <p>In order to warrant a positive response to this assertion, the authority needs to have the following arrangements in place:</p> <ul style="list-style-type: none"> • Identifying and assessing risks — The authority needs to identify, assess and record risks associated with actions and decisions it has taken or considered taking during the year that could have financial or reputational consequences. • Addressing risks — Having identified, assessed and recorded the risks, the authority needs to address them by ensuring that appropriate measures are in place to mitigate and manage risk. This might include the introduction of internal controls and/or 	

AGAR Internal Control Objective, Internal Audit assessment and related comments	Yes /No
<p>appropriate use of insurance cover.</p> <p>The risk associated with the management of the Councils assets, inspection requirements / controls, repair and maintenance schedules should be linked to the risk management process and register.</p> <p><u>Recommendation 1</u></p> <p>The Council develops its risk management arrangements having reference to the most recent guidance issued in Governance and Accountability for Local Councils - a Practitioners' Guide (England) issued by the Joint Practitioners Advisory Group (JPAG). The Risk Register is the place where all of the risks the Council needs to manage are identified, assessed, recorded and monitored to ensure risks are controlled to the desired levels. The frequency of risk review by the Council should be appropriate to the risk, to ensure the effectiveness of the control measures.</p> <p>The guide references the following - The focus of risk management is to identify what can go wrong and take proportionate steps to avoid this or successfully manage the consequences. Good risk management allows stakeholders to have increased confidence in the authority's corporate governance arrangements and its ability to deliver its priorities.</p> <p>The relevant Financial Regulations and the AGAR assertion are referenced above.</p>	
<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, and these are included in budget monitoring reports. An effective 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>Effective budget monitoring is undertaken and evidenced, the minutes show Members review budget lines and make budget movements as required. The budget has future year projections.</p> <p>The Council has adequate reserves. In March 2021 the Council resolved to set aside an unspecified sum from its reserves towards a potential land purchase. At the Finance Committee meeting in April 2021 the Committee considered a Reserves Policy.</p>	
<p>E. Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately</p>	<p>Yes</p>

AGAR Internal Control Objective, Internal Audit assessment and related comments	Yes /No
accounted for.	
<p>The Council receives limited income beyond the precept, the main other source being from the allotment site. Income is control and recorded.</p> <p>Assurances that expected income is received occurs through the budget monitoring process. The Council do not raise fees that attract VAT.</p>	
F. Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.	Not Covered (no Petty Cash)
The Council does not operate a petty cash system.	
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.	Yes
<p>Although 'yes' has been stated for this section the assessment is based on the Council's awareness of its responsibilities in respect of salaries, employer payments, staff deductions and pensions. For 2020/21 the Council has engaged a Parish Clerk who was previously a Parish Councillor. In accordance with the requirements this cannot be a paid position for a year following resignation from the Councillor role. As a result the Council has had no employees during the 2020/21 financial year. The Council has engaged the support of a locum 'contracted' clerk and payment has been through the standard invoice payment process with the appropriate approvals.</p> <p>Although there is budget provision, no allowances have been paid to Members during the year.</p>	
H. Asset and investments registers were complete and accurate and properly maintained.	Yes
The Council has an Asset Register which has been reviewed by Members. Assets are recorded with values and the insured values have been revised. The Asset Register includes comments on maintenance and inspections however, during the year, the physical inspection of some assets have not been undertaken as planned but this is now scheduled to occur. The links between the Asset Register and the Risk Register could be enhanced as part of the Risk Management process (see comments earlier).	
I. Periodic bank account reconciliations were properly carried out.	Yes

AGAR Internal Control Objective, Internal Audit assessment and related comments	Yes /No
The Council minutes shows the reconciling of the Council's bank accounts with its accounting records been undertaken and is verified by Members each meeting. The end of year bank reconciliation has been reviewed and approved.	
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 a proper accounting basis. The accounting statements agree to the cashbook and are supported by an adequate audit trail from underlying records and explanations. Members review payments at each meeting, there is adequate evidence to show both the Parish Clerk and Members ensured effective financial control has operated in the year.	
K. If the authority certified itself as exempt from a limited assurance review in 2019/20, it met the exemption criteria and correctly declared itself exempt (If the authority had a limited assurance review of its 2019/20 AGAR tick "not covered").	Not Covered
The Council did not certify itself as exempt from a limited assurance review in 2019/20.	
L. If the authority has an annual turnover not exceeding £25,000, it publishes information on a website/ webpage up to date at the time of the internal audit in accordance with the Transparency code for smaller authorities.	Not Applicable
The Council has an annual turnover exceeding £25,000.	
M. The authority has demonstrated that during summer 2020 it correctly provided for the exercise of public rights as required by the Accounts and Audit Regulations.	Yes
Evidence confirms the Council correctly provided for the exercise of public rights as required by the Accounts and Audit Regulations.	
N. The authority has complied with the publication requirements for 2019/20 AGAR	Yes
The Council complied with the publication requirement for 2019/20.	
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</u></p> <p><i>Recommendation - The Council, through its Finance Committee review its operating systems and controls to ensure there is compliance with its Financial Regulations. When designing and implementing control systems reference should be made to the guidance offered in the Governance and Accountability for Local Councils - a Practitioners' Guide (England) issued by the Joint Practitioners Advisory Group (JPAG). Particular attention should be given to the areas identified in the table below.</i></p> <p><i>It is suggested that, as a response to this internal audit report, the Council produces a documents the states how the matters raised are, or will be, addressed and progressed, this should be monitored by the Full Council.</i></p> <p>Although hindered in part by Covid-19 constraints, the Council has made good progress on the implementation of the changes needed to address the matters raised in the 2019/20 internal audit report and this will be further progressed in 2021/22. In order to formally close this recommendation it is suggested that during the latter part of 2021/22 the Finance Committee review the Councils revised operating practices and controls against the requirements of its Financial Regulations, Standing Orders and the guidance offered in the most recent JPAG practitioners' guide.</p>
<p><u>From last external audit report</u></p> <p><i>Recommendation - In the completion of the Annual Internal Audit Report, and their detailed report, the internal auditor has drawn attention to significant weaknesses in relation to the incompleteness of the risk assessment, continuation of pencil recordings in the manual ledger book, no reserves policy held, and regular review of the asset register is required. The smaller authority must ensure that action is taken to address these areas of weakness in a timely manner.</i></p> <p>See comments above and in the main sections of this report.</p>
Any other governance or financial control issues arising during the internal audit
None.

Internal Control areas and Internal Audit comments
Any 'unusual' matters arising from the review of the minutes of Council and Committee meetings (the approach to risk and control)
As is referenced above the Council has an on-going issue relating to the Community Project for which the Council was the 'accountable body' for the administration of the grant. The Council is taking actions to resolve the matter which will incur costs and these are being monitored. As suggested earlier, the Council should demonstrate and record that all associated risks are identified and assessed, and inform the decision making process in respect of this matter.
Any matters referred by the Council or the Clerk for review
None

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

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

Duncan Edwards

Internal Audit undertaken on 18 May 2021

Duncan Edwards (2020/21 internal audits)