

Summary Internal Audit Report

| | | | | |
|----------------------|--------------------------------------|-------------------------|-----------------|---------------|
| Council: | NEWBOLD VERDON PARISH COUNCIL | | Year ending: | 31 March 2020 |
| Internal Auditor: | Richard Willcocks | | Date of report: | 24/06/2020 |
| Audit review date(s) | Interims | 10/03/2020 & 09/04/2020 | Final | 01/05/2020 |

To the Chairman of the Council:

1. Introduction

In accordance with the terms of my engagement, I have undertaken a review of **Newbold Verdon Parish Council's** records, policies, and procedures for the financial **year ending 31 March 2020**, following which I completed and signed the Annual Internal Audit Report (part 3 of the 2020 Annual Governance and Accountability Return).

2. Basis of Report

This internal audit report is based upon the National Association of Local Councils (NALC) recommended checklist, in conjunction with the Practitioners' Guide to Governance and Accountability in Local Authorities.

The scope of this internal audit is focused on assessing the effectiveness of the Council's internal controls. 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 in paragraph 1 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.

2. Aims & Objectives

Newbold Verdon Parish Council has a statutory duty to complete an Annual Governance and Accountability Return (the Annual Return) at the end of each financial year. As part of this Return, the Council's internal audit function is required to provide assurance that relevant procedures and controls were operating effectively for the financial year above. The purpose of this exercise is to meet those statutory requirements and provide the Council with an appropriate level of assurance in support of the Annual Return.

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.

3. Scope of Audit

The internal audit exercise involves such testing of the evidence of and evidence of compliance with the 12 statements contained in the **Annual Internal Audit Report** of the Annual Governance and Accountability Return (AGAR), as applicable to the range and financial materiality of the Councils' activities. The statements refer to:

- A. Maintenance of proper financial records
- B. Compliance with the Council's Standing Orders, Financial Regulations and proper accounting for VAT
- C. Adequacy of risk management arrangements
- D. Effective budgeting and budgetary control
- E. Identification of income due and timely collection and banking of such monies
- F. Proper administration of petty cash
- G. Proper administration of salaries of employees and expenses paid
- H. Maintenance of an accurate and reliable asset register
- I. The completion of regular bank reconciliations
- J. The correct basis and accurate preparation of year-end accounts
- K. Whether the Council has met its responsibilities as a trustee.
- L. Correctly applying the exercise of public rights during the previous year period.

NB: 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 councilors and not left for internal audit. (Source: Governance and Accountability for Local Councils-A Practitioners' Guide-2019)

4. Findings

The outcomes of the recommended testing required for assurance purposes is shown in the following documents provided under separate cover:

- Internal Audit Checklist.
- Internal Audit Checklist-Appendix 1: Key Policies, Procedures & Documents Review.
- Internal Audit Checklist-Appendix 2: Transaction Spot Check.
- Internal Audit Process (available on request)

5. Recommendations

| Audit Year Raised | Internal Audit Report Checklist | | | Compliance Category * | Comments |
|-------------------|---------------------------------|-----|--|-----------------------|--|
| | Section | Ref | Recommendation | | |
| 2020 | 2.Due Process | 2.7 | That under no circumstances should the Council authorise any expenditure which is not covered by any of the legal powers by which the Council has to adhere to and that the Clerk should determine if the correct legal power is being applied | 3 (Minor NC) | To ensure compliance with the Council's own Statement of Internal Control and Financial Regulations. |
| 2020 | 4. Budget | 4.4 | Having adopted a Reserves Policy, the Council should review earmarked reserves regularly (or at least annually at the financial year end) to ensure they accurately reflect the level of funds 'earmarked' to fund ongoing or committed projects. | 2 (OFI) | It is noted that the free reserves as at 31/03/20 were unchanged from the previous year end, hence this recommendation |
| 2019 | 4. Budget | 4.5 | That to improve budgetary control and monitoring, a regular (e.g. minimum quarterly) review of actual expenditure versus budget is undertaken by the Council. | 2 (OFI) | Given the current coronavirus lockdown and the adverse impact on non-precepted income, it is even more important that regular budgetary control is undertaken. |
| 2019 | 4.Budget | 4.6 | That when minuting the approval of the annual budget and the precept, that the total budget (i.e. total expenditure requirement) is minuted, as well as the precept amount. See section 4.6 of the Internal Audit Report Checklist for the specific wording recommended. | 2 (OFI) | This wording is as recommended by LRALC in a parish council Governance Health Check undertaken in 2018 and is aimed at ensuring best practice is applied. |

| | | | | | |
|------|-------------------------|------|--|--------------|--|
| 2019 | 6. Asset Control | 6.3 | Given that the Council is stating that assets at cost are recorded at nearly £1M, then a more detailed asset register should be prepared to justify this figure, preferably in Excel, rather than Word format. | 3 (Minor NC) | The Clerk has begun work to move the asset register from a Word document to an Excel spreadsheet and to fully review and identify assets belonging to the Council in order to ensure the accuracy and completeness of data reported. |
| 2020 | 7. Bank Reconciliations | 7.4 | That actions to amend the bank mandate to remove the 2 previous Clerks and make the current Clerk the primary user are completed as quickly as possible. | 2 (OFI) | Both the previous two Clerks are still recognised as primary users by the bank. The current Clerk is only recognised as the 2nd user i.e. with limited rights. |
| 2019 | 13. Miscellaneous | 13.1 | That the reports received from both internal and external auditors are presented to Council for consideration and actions to be taken are minuted. | 3 (Minor NC) | Despite this recommendation being made in 2019, there is no evidence that the External Auditor Report and Certificate for 2018-19 has been put to the Council for consideration and approval i.e. minuted. |

12. Other Comments/Observations

It should be noted that this internal audit report covers the financial year to 31/03/2020 and therefore the impact on the Council of the coronavirus epidemic was not considered to be significant up to that date. However, at the time of writing this report the country is still in a lockdown situation, which is having a major impact on organisations of all sizes economically. Newbold Verdon Parish Council will be affected to some degree, primarily because of the non-precepted income that will be lost as a result of the ongoing lockdown e.g. from the hire of the pavilion. Therefore, the Council should ensure that it monitors its finances regularly and stringently to ensure that it can continue to operate within its means i.e. it maintains a clear understanding of its current financial position and takes prompt action to address any significant adverse budget variances.

My initial internal audit report last year (2019) gave an overall internal audit assurance opinion as ADEQUATE, with the caveat that *'with the full support of the Council, the newly appointed Clerk will take note of all the recommendations made and take action on in this financial year. This should then result in an improved internal audit assurance opinion category for 2019-20'*. From the reviews I have undertaken for this year's internal audit it is apparent that some progress was being made by the previous Clerk in addressing some of these recommendations, but this progress seemed to come to a halt when the Clerk left and there was a gap before a replacement Clerk was appointed in February this year. However, with only a short time in post before the year end, I have been very encouraged to see that the new Clerk, Josie Flavell, has begun to make good progress in not only addressing the outstanding recommendations but also reviewing other areas of the Council's operations to ensure that ultimately best practice is applied by the Council. This approach must be supported by the Council, particularly if it has aspirations to become a Quality Council.

Given that a number of recommendations still outstanding in section 5 above were of the Minor Non Compliance category, the overall internal audit assurance opinion continues as: **ADEQUATE ***, but with the full expectation that the Clerk, supported by the Council, will ensure that the next year's audit opinion will move up to **GOOD ***.

** = see Compliance Categories and Definitions of Internal audit assurance below.*

13. Acknowledgments

The help and co-operation of Josie Flavell, Clerk to the Council, is much appreciated by the internal auditor. In particular for agreeing to undertake the post financial year end review meeting remotely i.e. a video conferencing meeting via Zoom. This ensured that the original timetable to complete the 2019/20 internal audit was met, despite the difficulties encountered due to the coronavirus lockdown

Yours sincerely,



Richard Willcocks FCMA, MiP
Internal Auditor to the Council
E: rfw@redwoodpryor.co.uk
M: 07787 738181

COMPLIANCE CATEGORIES

| | |
|--|--|
| 1. Compliant: | Adherence with the requirements of the audit question. No major or minor non-conformances found. |
| 2. Opportunity for Improvement (OFI): | A situation or condition of internal control that may be weak, cumbersome, redundant, overly complex, or in some other manner, may, in the opinion of the internal auditor, offer an opportunity for the Council to improve its current status. OFI's do not necessitate any immediate remedial action on the part of the Council; however, the Council should give them serious consideration in view of the internal auditor's knowledge and exposure to similar controls and processes. An OFI may be an improvement to the internal control system or could prevent future problems. |
| 3. Minor Non-compliance (Minor NC): | A non-compliance that, based on the judgment and experience of the internal auditor, is not likely to result in the failure of the internal control system or reduce its ability to ensure effective control is maintained. It may be either: <ol style="list-style-type: none">1. A failure in some part of the Council's internal control and assurance relative to a specified requirement.2. A single observed lapse in following one item of testing of the Council's internal controls. |
| 4. Major Non-compliance (Major NC): | The absence or total breakdown of an internal control process necessary to meet a specified requirement. A number of minor non-compliances against one requirement can represent a total breakdown of an internal control process and thus be considered a major non-conformity. Any non-compliance that would result in the probable delivery of a non-conforming service or action by the Council. Conditions that may result in the failure of or materially reduce the usability of the Council's services for their intended purpose. A non-compliance that, in the judgment and experience of the internal auditor, is likely to either to result in the failure of an internal control process or to materially reduce its ability to assure effective internal control. |

INTERNAL AUDIT ASSURANCE DEFINITIONS

| AUDIT OPINION | EXPLANATION |
|-----------------------|---|
| GOOD | There is a sound system of internal control designed to achieve the Council's objectives. The internal control processes tested are being consistently applied. |
| ADEQUATE | While there is a basically sound system of internal control, there are weaknesses, which may put some of the Council's objectives at risk. |
| LIMITED | Weaknesses in the system of internal controls are such as to put the Council's objectives at risk. The level of non-compliance puts the Council's objectives at risk. |
| UNSATISFACTORY | Control processes are generally weak, leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse. |