

Internal Audit Report

(To be read in conjunction with the Annual Internal Audit Report in the Annual Governance and Accountability Return)

Name of council:	Aldbury Parish Council		
Name of Internal Auditor:	Nikki Bugden	Date of report:	3/5/2023
Year ending:	31 March 2023	Date audit carried out:	Initial visit 1/3/23

Internal audit is the periodic independent review of a council's internal controls resulting in an assurance report designed to improve the 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 council through its staff and management and not left for internal audit. It would be incorrect to view internal audit as the detailed inspection of all records and transactions of a council in order to detect error or fraud. This report is based on the evidence made available to me and consequently the report is limited to those matters set out below.

This report should be read in conjunction with the Annual Internal Audit Report and guidance laid out in The Practitioners' Guide 2022¹.

Section 1, 2 and 3 of the guide represents the proper accounting and governance practices ('proper practices') referred to in statute.

Section 4 of the guide sets out the non-statutory best practice guidance relating to internal audit which authorities are required to consider.

Section 5 of the guide provides supporting information and practical examples to assist smaller authority officers to manage their governance and financial affairs and is not mandatory.

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.

To the Chairman of the Council:

Firstly, I would like to thank the clerk for her hard work in supplying all required information to me in an efficient and timely manner.

I firstly examined the publicly available information displayed on the council's website including the council's policies, procedures, agendas, minutes, financial and other records. I sought evidence that the previous year's Internal Audit report had been properly reported to and actioned by the Council. I then examined the council's arrangements for the management and control of its business in the areas of bookkeeping, due process (i.e., compliance with the proper practices as set out in the Practitioners' Guide), risk management, budget setting and monitoring, payroll, asset register, bank reconciliations,

¹ [file \(nalc.gov.uk\)](http://file.nalc.gov.uk) (password, if required, available from HAPTC)

internal control, and year-end procedures. It should be noted that the scrutiny was of a sample number of documents and processes.

Where necessary, I requested and was provided with supplementary evidence to enable me to reach a conclusion regarding the enquiries I am required to make as set out in the Annual Internal Audit Report (AIAR) that forms part of the Annual Governance and Accountability Return (AGAR). This supplementary information was provided in the form of written and verbal answers to the questions raised together with scanned documents or sight of the original documents.

The clerk was very well organised and able to provide me with any additional documentation promptly.

General

The information available on the website was up to date and easily accessible.

The clerk continues to work diligently to achieve the required levels of compliance with the processes referred to in statute. The learnings from her studies for her CiLCA qualification have benefited the council and there are a good range of policies and procedures in place to ensure compliance with relevant statutes and to mitigate risk. I have listed my observations and recommendations under the appropriate headings below.

A. Appropriate accounting records have been kept throughout the Year.	YES
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Rialtas accounting software is used. The inputting and reporting of transactions are carried out in a timely and efficient manner. All reports are circulated to councillors in advance of meetings.

There is scrutiny throughout the year of performance against budget.

As the current balances held are under £100,000 an investment strategy is not currently required.

Whilst council does evidence use of s.137 expenditure and account for it separately as is required by statute this is a power of 'last resort'. Council MUST consider other relevant 'powers to spend' to evidence that they are acting within their statutory powers for all expenditure.

B. The authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved, and VAT was appropriately accounted for.	YES
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A sample of invoices was checked. Council should ensure that adequate invoices are received for all expenditure, particularly when using external contractors. Council should ensure that they comply with their financial regulations 1.7.2 by obtaining best value and

requesting comparative quotes for items under £5000 if deemed necessary. Should council decide that three quotes are not necessary this should then be evidenced in the minutes to mitigate the risk of future challenge.

There is adequate segregation of duties with the online banking arrangements.

I note that the council are not VAT registered and claim back VAT annually. In light of this my recommendation would be that the appropriate VAT regulations should be regularly checked to ensure that the correct treatment of VAT is being undertaken and the correct thresholds are being adhered to. Appropriate specialist advice should be sought if necessary. (Please see item G below to which this observation applies)

Whilst there are standing orders and financial regulations in place council have chosen not to adopt the NALC model financial regulations or standing orders. This does mean that there is a risk that council could miss statutory duties and any legislative amendments therefore I would recommend that the most recent model documents are adopted at the earliest opportunity. I note that this was also a recommendation of previous Internal Auditor reports.

There is no debit or credit card held.

C. The authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.	YES
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The clerk has implemented a number of policies and procedures to mitigate risk which have been adopted by council. The warden carries out regular inspections and is adequately trained to do so. This is supplemented by external inspections which are undertaken annually.

Should the Warden or Councillors undertake any inspections or repairs council should be confident that they are adequately trained to do so and that any inspections are documented and retained on file in case of future claims.

A sector specific insurance policy is in place and was reviewed by council during the financial year.

There is a comprehensive financial risk assessment in place, however had council adopted the 'model' financial regulations there would also be a requirement for independent checking of bank reconciliation by an independent Cllr periodically throughout the year. Council may wish to adopt this additional internal control measure.

All authorities' actions are controlled by statute. Therefore, appropriate decision-making processes need to be in place to ensure that all activities undertaken fall within an authority's powers to act.

It is not apparent from the agenda or minutes if council are considering the lawfulness or appropriate 'power to spend' when discharging their duties therefore I would recommend that this consideration should be included more fully in the risk assessment and agenda (and subsequent minutes) to protect council from acting 'ultra-vires' at the point of decision making.

The clerk should seek advice from HAPTC if necessary, in this area.

D. The Precept or rates requirement resulted from an adequate budgetary process, progress against the budget was regularly monitored; and reserves are appropriate.

YES

Whilst there is a robust budget setting process in place, with evidence of reviews and consideration at multiple meetings prior to setting the precept, council should ensure that this process follows the statutory process as laid down in statute.

The statutory process for determining the precept is set out in the Local Government Finance Act 1992 Section 49A. In order to minimise the possibility of challenge it is recommended that Council consider adopting a format for the budget document which more clearly demonstrates that the statutory process was followed.

There is clear evidence in the minutes that council have received reports on the budget position, supported by bank reconciliation and statements, throughout the financial year, along with consideration of reserves and earmarked reserves. Council should ensure that their budget setting process and precept request results in a zero-budget balance, it would appear there is a difference of £ (820) showing in the 2022/23 Rialtas budget document.

E. Expected income was fully received based on correct prices, properly recorded, and promptly banked; and VAT appropriately accounted for.

YES

There are signed agreements in place relating to the hire of the allotments. There is a policy in place for any requests for filming.

Council do receive some fees for use of the tennis courts, but it was unclear how this income was verified or regulated against the number of actual users. It is my recommendation that should council be treating this as a source of income, rather than a free resource for the benefit of the community then more robust arrangements for booking and receipt of payments should be in place.

Council should ensure that appropriate VAT advice is sought intermittently to evidence compliance with the prevailing HMRC guidance in relation to filming, particularly as the sums received as income can be substantial. VAT returns are submitted annually.

F. Petty Cash payments were properly supported by receipts, all petty cash expenditure was approved, and VAT appropriately accounted for.

NA

There is no petty cash held.

G. Salaries to employees and allowances to members were paid in accordance with the authority's approvals, and PAYE and NI requirements were properly applied.

YES

A formal contract is in place for the clerk who is the sole employed member of staff. The payroll function is outsourced. There was scrutiny of the documents available. The clerk has

been advised to obtain a HMRC log-in to enable her to scrutinise the information being inputted by the payroll provider.

The clerk is a member of the Local Govt. Pension Scheme. It is unclear from the documents available if there was an addendum to the contract to evidence this registration as the initial contract states that it would be reviewed after three months.

The pay review for the clerk was minuted, however it is unclear if an addendum to the contract was provided for the file.

Council should ensure that it is registered with the pension regulator and that this registration is renewed as required.

The warden is self-employed, and council should be aware of any guidance from HMRC in this respect to ensure that they are compliant with current rules regarding employment versus self-employment. Council should take appropriate advice and then evidence this consideration and outcome to mitigate the risk of future tax or NI implications (reference HMRC 'IR35').

Since my last visit APC have sought advice from HAPTC and now have a contractor agreement in place with the contractor absolving them of any PAYE/HMRC liability. This should be reviewed periodically to ensure that they continue to comply with the prevailing HMRC and PAYE regime.

H. Asset and investment registers were complete and accurate and properly maintained.	YES
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The asset register has previously been restated due to items, not owned by APC being included in the values. It may benefit council to add the respective land registry information of the land that is owned by the parish to further complete this record. Leases are held for land leased from the Diocese and professional legal services are engaged for any lease renewals.

I. Periodic bank reconciliations were carried out throughout the year.	YES
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These are noted in the minutes, and the bank statements are signed by a councillor along with the bank reconciliation.

It is unclear from the minutes if additional independent scrutiny is being undertaken during the year as defined in the NALC Model Financial Regulations (2.2). Whilst APC have decided not to adopt the NALC model policies it is my recommendation that periodic, independent scrutiny is undertaken, by a councillor who is not a bank signatory as part of the council's financial regulations or risk assessment would give council more security in this area.

<p>J. Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cashbook, supported by an adequate audit trail from underlying records and, where appropriate, debtors and creditors were properly recorded.</p>	<p>YES</p>
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A sample selection of invoices was checked from initial decision making through to invoice, cashbook, payment and bank statements. Where contractors are being used it is my recommendation that council should request that correctly addressed invoices are being obtained. For any VAT to be reclaimed invoices should be in the name of APC.

<p>K. If the authority certified itself as exempt from a limited assurance review in the prior year, it met the exemption criteria and correctly declared itself exempt.</p>	<p>NA</p>
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Council is not an exempt authority therefore this does not apply.

<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</p>	<p>YES.ⁱ</p>
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Whilst APC are not governed by The Transparency Code for Smaller Authorities, they do follow advised 'best practise' and operate in an open and transparent manner publishing most of their documents on the website. A further improvement, that APC may wish to consider, would be to publish the supporting papers and reports for meetings to enable residents to easily understand the business on the agenda that is due to be transacted.

In addition to the Transparency Code the 'relevant legislation' includes, but is not limited to, the Accounts and Audit Regulations 2015. It is noted that the wording of this section of the AGAR was recently changed and the guidance in the 2022 edition of the Practitioners Guide refers to the previous wording.

The requirements under 13(1)(a) of the above regulations remains unchanged therefore you must display the preceding years papers (2021/2022) on your website to be compliant.

I am pleased to confirm that APC comply with 13 (1) (a) the Accounts and Audit Regulations 2015.

However, I also refer the Council to paragraph 13(2) of these regulations. It specifies that documents identified in 13(1)(a) of the regulations must be 'made available' for a period of not less than five years.

It has recently been asserted by the advisory group for internal auditors that 'made available' requires that the documents in question are published on the website.

This is potentially open to an alternative interpretation, and, at the current time, the matter has not been definitively resolved.

M. The authority has, during the previous year, correctly provided for the period for the exercise of public rights as required by the Accounts and Audit regulations.	YES
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N. The authority complied with the publication requirements for the prior year AGAR.	YES
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All documents were displayed in accordance with proper practises.

O. Trust funds (including charitable) - the Council has met its responsibilities as a trustee.	NA
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This area was not covered as APC is not a trustee.

I am pleased to be able to report that having tested all the aspects of the council's internal controls that I am required to consider, based on the information made available to me I am satisfied that in all significant respects, the internal control objectives were achieved throughout the financial year to a standard adequate to meet the council's needs. Accordingly, I have completed and signed off the Annual Internal Audit Report as required.

Yours sincerely,

Nikki Bugden

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The figures submitted in the Annual Governance and Accountability Return are:

	Year ending 31 March 2022	Year ending 31 March 2023
1. Balances brought forward	43003	83118

2. Annual precept	29000	29000
3. Total other receipts	44645	15332
4. Staff costs	13372	15786
5. Loan interest/capital repayments	0	0
6. Total other payments	20158	35932
7. Balances carried forward	83118	75732
8. Total cash and investments	83118	75732
9. Total fixed assets and long-term assets	51080	51376
10. Total borrowings	0	0

The proper practices referred to in Accounts and Audit Regulations are set out in *Governance and Accountability for Smaller Authorities in England (2022)*. It is a guide to the accounting practices to be followed by local councils and it sets out the appropriate standard of financial reporting to be followed.

ⁱ [SI/SR Template \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)