

BASIS OF REPORT

As part of its annual governance review to prepare its Annual Governance Statement, the council needs to scrutinise the actions it has taken during the year, and the decisions that it has made, and satisfy itself that it has acted properly within its powers and in accordance with any relevant Regulations.

This internal audit report is based upon the Association of Local Councils recommended checklist, in conjunction with the latest Joint Panel on Accountability and Governance Practitioners Guide (JPAG), issued to support the preparation by smaller authorities in England of statutory annual accounting and governance statements found in the Annual Governance and Accountability Return (AGAR). Sections 1, 2 and 3 of the JPAG guide represent the proper accounting and governance practices ('proper practices') referred to in Statute, setting out the appropriate standard of financial and governance reporting which is mandatory.

The purpose of the Annual Governance Statement is for an authority to report publicly on its arrangements for ensuring that its business is conducted in accordance with the law, regulations and proper practices and that public money is safeguarded and properly accounted for.

Smaller authorities prepare their annual governance statement by completing Section 1 of the Annual Governance and Accountability Return. This is in the form of a number of statements, known as assertions, to which the authority needs to answer, 'Yes' or 'No'.

The authority needs to have appropriate evidence to support a 'Yes' answer to an assertion. If an authority is not able to respond 'Yes' to any assertion, it needs to provide an explanation to the external auditor on a separate sheet describing how the authority will address the weaknesses identified. These explanations must be published along with the completed AGAR.

SCOPE OF INTERNAL AUDIT

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 2015, and applying the approach to internal audit testing, 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.

In accordance with DCLG Public Sector Internal Audit Standards, I intentionally write my report in a robust manner and as such it contains recommendations on identified corporate risks. Additional information, explanation, evidence, and examples as to where this risk was located within the Audit have been provided.

I also give references to aid the council and clerk in researching the relevant area to ensure future full compliance with the appropriate policies and relevant Legislation.

Internal auditors must identify sufficient, reliable, relevant, and useful information and ensure sufficient information is factual, adequate, and convincing **so that a prudent, informed person would reach the same conclusions as the auditor.**

The internal audit activity must evaluate and contribute to the improvement of the Council's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive, and their evaluations offer new insights and consider future impact, all of which my audit report has undertaken.

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 councillors and not left for internal audit. (Source: Governance and Accountability for Local Councils-A Practitioners' Guide – March 2020)

Accounts and Audit Regulations (SI 2006 No. 564) requires all local Councils to now review the effectiveness of the system of internal audit at least on an annual basis.

Independence

In accordance with DCLG Public Sector Internal Audit Standards, Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests **or by others in forming judgements.** The internal audit activity must be independent and internal auditors must be objective in performing their work. The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.

Council members should be clear on their own responsibilities for the "protection of the public purse" and within the internal audit framework. The Council has a duty to consider the annual internal audit report and to demonstrate that consideration by inclusion in the minutes. Each item mentioned in the report should be fully addressed. There may be a need for councillor/clerk/RFO training to ensure that all members fully understand this role and budget provision should be made where necessary.

Audit Planning and Reporting

The Council should properly take account of the corporate risk i.e., controls and procedures within the Council which minimise the risk of the body not being able to function or carry out what it sets out to do.

The internal audit usually comprises 2 parts done at different times of the year. The interim audit is usually done part way through the year and is an audit of the Council's processes and procedures.

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes and must evaluate risk exposures relating to the Council's governance, operations and information systems regarding the: achievement of the Council's strategic objectives reliability and integrity of financial and operational information effectiveness and efficiency of operations and programmes safeguarding of assets, and compliance with laws, regulations, policies, procedures and contracts

During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks. The internal audit activity must assist the Council in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

The full internal audit is undertaken after completion of the year-end, so that balances within the accounts may be verified, the auditor will submit written reports to the Council after the interim and final audit.

During the internal audit, the following were checked:

- Proper Accounting Procedures
- Cash book
- Financial Regulations
- Standing Orders
- Payment Controls
 - Estimates, quotes, tenders
 - Authority by the Council
 - Legal Powers
 - Approved Invoices
 - Cheque Stubs
 - VAT
 - Section 137 Use (Expenditure limit £8.32 per member of Drewsteignton Ward 2020-21 (Electorate 662) = £8.32 x 662 (£5,507.84) LGA1972 s.137 4(a))
- Risk Management including insurance.
- Budgetary Controls

- Income controls
- Payroll and employee rights compliance
- Asset Control
- Bank Reconciliation
- Year End
- Governance and Safeguarding Policies of the Council

The internal auditor is appointed by and reports to the Council not the clerk/RFO.

The below summary and recommendations are to be minuted detailing the actions taken to address the weaknesses in the areas that I felt the internal control objectives were not met.

INTERNAL AUDITOR'S SUMMARY AND RECOMMENDATIONS FOR DREWSTEIGNTON PARISH COUNCIL resulting from Internal Audit Year Ending 31st March 2021

INTERNAL CONTROL OBJECTIVE (A) *Appropriate Accounting Records have been properly kept throughout the financial year – I have answered YES for the following reasons*

- The cash book is maintained and up to date, and arithmetic is correct
- Purchases are supported by a purchase order number, invoices have been signed by a Councillors.
- Power used to incur any payment made by the Council throughout the financial year is recorded and evidenced in the Minutes on the financial schedule resolved by Cllrs
- Payments are correctly allocated to the appropriate budget head in the cash book and the budget provisions identified in the financial schedule resolved by Cllrs
- The Annual Budget setting is fully and accurately recorded in the Minutes, with the document evidenced.
- The setting of the precept amount following approval of the budget is correctly minuted.
- Regular bank reconciliations are produced for review by the council and annexed to the Minutes.
- All recommendations from internal audit 2019/20 have been actioned

INTERNAL CONTROL OBJECTIVE (B) *This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for – I have answered YES for the following reasons*

- All expenditure is in accordance with Standing Orders and Financial Regulations and an excellent and complete audit trail is provided by the RFO. The financial schedule presented to the council each month for resolution contains the Statutory power that the payment refers to
- VAT is correctly identified and recorded and reclaimed at the appropriate time
- All recommendations from internal audit 2019/20 have been actioned.
- however, in accordance with Financial Regulations R 4.2 and 10.5, I make One Recommendation

RECOMMENDATION

When Councillors are asked to consider and approve incurring an expenditure, the agenda and the Minutes should record the Statutory Power and budget provision as part of the considerations/decision making process/resolution.

Financial Regulations 4.2 *requires that no expenditure may be 'authorised' that will exceed the amount provided in the budget for that class of expenditure, (therefore, in order to satisfy this regulation, the budget provision should be identified and considered prior to the resolution to approve the council to incur the expenditure)*

Financial Regulations 10.5 – *RFO shall ensure that the Statutory Authority shall be reported to the meeting at which the order (expenditure to be incurred) is approved so that the Minutes can record the power being used. (Once the expenditure has been paid, the authority is recorded in the minutes, however, this does not satisfy FR 10.5 and the power to incur the expenditure should be identified and considered at the time the approval to incur the expenditure is resolved).*

INTERNAL CONTROL OBJECTIVE (C) This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these – I have answered YES for the following reasons

- The council reviewed its risk management policy and I saw no evidence of any contravention of the risk policy or any council decisions that affected the risk policy.
- The Council reviewed its internal control policy
- A review of the effectiveness of internal audit was carried out
- The council have put in place mandatory policies and schemes to ensure they are complying with all required Legislation as an employer and local authority
- General and Earmarked reserves are reported to Council each month in accordance with Section 50 of the Local Government Finance Act 1992 which requires that billing and precepting authorities must have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement.
- Drewsteignton PC were very receptive to the internal audit report and following acceptance of the IA report, carried out a review of the internal audit and internal financial control risks in July 2020

INTERNAL CONTROL OBJECTIVE (D) The precept or rates requirements resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate - I have answered YES for the following reasons

- The Annual Budget setting is fully and accurately recorded in the Minutes. A ratified copy of the approved budget proposal document is available on the website for validity and cross reference and validating that the budget the council are working to is the budget approved.
- Quarterly budget reports have been produced to council and Minuted as approved, which includes Virements that have been resolved as part of the monthly financial schedule.
- The Council has a reserves policy, however, the general reserves is low (18% of precept)
- All recommendations from internal audit 2019/20 have been actioned.

RECOMMENDATION

The level of reserves, reserves policy and financial risk assessment, is reviewed as part of the budgeting process, prior to the setting of the annual budget and precept for 2022/23

JPAG guidance 5.31 – It is essential that authorities have sufficient general reserves to finance its day-to-day operations. The generally accepted recommendation with regards to the appropriate minimum level of a smaller authority's general reserve is that this should be maintained at between three- and twelve-months net revenue expenditure.

INTERNAL CONTROL OBJECTIVE (E) Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT appropriated accounted for - I have answered YES for the following reasons

- All income is supported by a receipt and a full audit trail is provided; income is reported on the meeting financial schedule resolved by members, and additional explanations are provided for unbudgeted income within the Minutes (i.e. COVID 19 Grants)

INTERNAL CONTROL OBJECTIVE (F) – Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for - I have answered N/A for the following reasons

- The Council do not operate any petty cash

INTERNAL CONTROL OBJECTIVE (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 - I have answered YES for the following reasons

- Payroll is performed by the RFO and staff salaries are pre-approved by the Council and in accordance with Statutory requirements. PAYE and NI/IT is being correctly applied.
- Overtime and expenses are correctly presented to the council for approval prior to payment
- The current Clerk has opted out of Pension entitlement, however, the Council as the employer has obligations under the Pensions Act 2008 to declare their legal duties as an employer have been fulfilled regardless of whether or not their employees are in their pension scheme. See <https://www.thepensionsregulator.gov.uk/en/employers>
- All internal audit recommendations for 2019/20 have been carried out

RECOMMENDATION

Drewsteington Parish Council ensures it has met its Pension Obligations and Declarations <https://www.thepensionsregulator.gov.uk/en/employers>

INTERNAL CONTROL OBJECTIVE (H) Asset and investments registers were complete and accurate and properly maintained - I have answered YES for the following reasons

- The Asset register has been reviewed by Cllrs and values found to be correct
- The Minutes record an asset inspection was carried out with recommendations for maintenance.
- The Council have an adequate Asset budget
- The Asset register is in the correct format and contains all of the required information with regards to purchase dates and values

INTERNAL CONTROL OBJECTIVE (I) Periodic bank account reconciliations were properly carried out during the year - I have answered YES for the following reasons

- The RFO produces a bank reconciliation for every meeting which is Minuted. – it is noted that Drewsteignton PC do not currently operate online banking and the Clerk is reliant on paper statements, and due to not receiving bank statements for a period of time, the Clerk produced bank balances rather than bank reconciliations in order to keep Cllrs informed of their financial position.
- The year-end bank reconciliation has been checked against the yearend bank statement and is accurate

INTERNAL CONTROL OBJECTIVE (J) Accounting statements prepared during the year were prepared on the correct accounting basis, agreed to the cash book, supported by an adequate audit trail from underlying records – I have answered YES for the following reasons

- All invoices were supported with a full audit trail and cross referenced with the cash book, financial schedule presented to meetings and bank statements
- Payments and receipts basis is being correctly applied for the turnover of the council.
- The cashbook reconciled with the audit reports presented throughout the year
- The Council have adopted an internal control policy, and this was reviewed prior to year-end
- All internal audit recommendations/observations for 2019/20 have been actioned

INTERNAL CONTROL OBJECTIVE (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 - I have answered N/A for the following reasons

- The Council opted to have a limited assurance review rather than exercise the exemption

INTERNAL CONTROL OBJECTIVE (L) The authority 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 - – I have answered YES for the following reasons

- All items of expenditure above £100 have been individually identified, with the date of expenditure, summary of purpose and the amount, on the PC website
- End of year accounts have been signed by the RFO and Chair and available on the PC Website, including bank reconciliation and significant variances
- Annual Governance Statement has been signed by the Clerk and Chair and available on the PC Website along with an explanation of negative responses and how the PC intends to address weaknesses
- The internal audit report has been published on the PC Website
- List of Council members has been published – Councillors are not currently appointed to committees or external local public bodies
- The Council has not published its Asset register on the website – see Recommendation
- All Minutes, Agendas and supporting papers are published within time limits and are available on the PC website

RECOMMENDATION

The Transparency Code requires that the Council must publish its asset register to the website

INTERNAL CONTROL OBJECTIVE (M) The authority during the previous year (2019-20) correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations – I have answered YES for the following reasons

- The notice for public rights is correctly dated following approval of the AGAR sections 1 and 2
- The notice for public rights is correctly posted to the councils' website

INTERNAL CONTROL OBJECTIVE (N) The authority has complied with the publication requirements for 2019/20 AGAR – I have answered YES for the following reasons

- All documents have been published as required

INTERNAL CONTROL OBJECTIVE (M) Trust funds (including charitable) the council met its responsibilities as a trustee I have answered N/A for the following reason

- Drewsteignton Parish Council do not hold any Trust funds or act as a trustee

ADDITIONAL COMMENTS

- Due to Social Distancing restrictions (COVID19), cheque stubs have not been signed. Once social distancing allows, the stubs will be checked and signed by the appropriate signatories.
- **I would support Drewsteignton Parish Council answering positively to each Assertion of the 2020/21 AGAR and commend them and the Clerk for an excellent audit and work carried out during the financial year to work through the internal audit recommendations for 2019/20.**

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| | (Signed) | (Print) |
| Audit Carried Out By | <i>Melanie Bickell</i> | MELANIE BICKELL |
| Audit Type (delete as appropriate) | INTERIM | ANNUAL |
| Date | | 8 th April 2021 |