

Internal Audit Report

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

Name of council:	Barley Parish Council		
Name of Internal Auditor:	Nikki Bugden	Date of report:	3/5/2023
Year ending:	31 March 2023	Date audit carried out:	Remote inspection March and April 2023.

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.

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.

Barley Parish Council (BPC) have had some disruption this year due to the tragic loss of their experienced parish clerk.

As the audit commenced prior to the appointment of the new clerk it was decided, in consultation with the Chairman and the Responsible Financial Officer (RFO), that a remote audit would be the preferred option this year.

On that basis I reviewed the publicly available information on the website and then composed a selection of question sheets that required documentary evidence to support the responses (where appropriate). I also had the opportunity to speak with the Chairman, the RFO and the new clerk to obtain further clarity on the queries that were raised.

I would like to thank the Chairman, the RFO and the clerk for assisting me promptly and efficiently with the large number of questions raised whilst I familiarised myself with the processes, accounting records and governance procedures of the council.

I have conducted a review of a sample of documents or processes of all areas required under the scope of the internal audit and have found that in most significant respects the procedures were robust and there is good consideration of risk. In some areas it appeared

that practices were in place, but that unfortunately insufficient evidence had been recorded in the minutes to confirm this.

I have made recommendations below relating to either statutory requirements or recommended best practice. Where appropriate I have referred back to the reference point for these and have offered more clarity where I have been unable to answer the assertion with a positive response. Whilst it is not usual for the internal audit to cover such granularity, I have included comments where I feel it will appropriately assist the new clerk and the existing RFO and the council with subsequent audits.

On the basis that we were using this audit as a benchmark there has been more extensive scrutiny than is usual, and this has resulted in the process being more labour intensive for both the clerk and RFO however I do hope that the process was beneficial and that the recommendations enable the clerk and RFO to proceed and make the necessary changes confidently.

It should be noted that council internal audit relates to both governance and accounting, neither in isolation and is essential in supporting the external audit regime¹.

This full report should be circulated to council and reported along with the Annual Internal Audit Report (AIAR) as it informs the answers that full council should give to the assertions in the Annual Governance section of the AGAR.

The assertions must be considered by council prior to the assertion being marked in the affirmative or negative. I would particularly draw council's attention to Assertion 3 and Assertion 4 as there is significant evidence, from the samples that I examined that council may consider themselves unable to confidently answer in the affirmative.

Barley PC has a number of long serving councillors who are heavily involved in a variety of areas of community support, giving considerable time and commitment to their parish.

Due to the cohesive nature of the community and the activity of the councillors it can sometimes be difficult to distinguish under which umbrella duties are being fulfilled, in particular with the trusteeship of the Town House and the managing committee.

Barley PC is well managed and organised, however with a newly appointed clerk now in place there are three areas that should be a priority for the council to address at the earliest opportunity. In my opinion these hold the most likely opportunity for the council to be at an unacceptable risk of challenge or in breach of required practices or legislation. These have been summarised below.

¹ As a member of the Internal Audit Forum I have been able to liaise with the national representatives of PKF Littlejohn and the other EA's and they have confirmed that the Internal Audit narrative reports are critical to their own work when reviewing the assertions.

Clerk/RFO

- Employment contracts for the clerk and RFO are not in place and statements of particulars (as a minimum) are a legislative requirement. These must be arranged as a matter of urgency as currently BPC are not complying with employment law. (*Employment Rights Act 1986*).
- I recommend that council avail themselves of the NALC guidance which council may find beneficial, it has recently been updated to reflect current legislative requirements. [The Good Councillor's guide to employment \(haptc.org.uk\)](http://haptc.org.uk).
- There appears, at the time of my audit, to be a lack of clarity around the demarcation of roles and responsibilities, and this gives rise to a risk to council and its assets. Without clear job roles it is not apparent who is responsible for certain statutory requirements which in turn could result in actions being overlooked. To prevent the potential for ambiguity, it is my recommendation that council ensure that the role profiles are clearly identified, and the relevant responsibilities, reporting and line management duties are outlined.
- As there are no employment contracts, I have been unable to sufficiently check the payroll payments to contracted hours.
- I have been able to verify that deductions are being made to HMRC for tax and national insurance. (The RFO has confirmed that staff timesheets/invoices are completed and scrutinised by council prior to payments being made).
- BPC currently use a local accountant to undertake the RFO duties. Whilst there are good, robust accounting processes in place these are not sector specific and therefore it is my recommendation that the RFO (and council) considers whether undertaking sector specific training may assist them further with the RFO role. By way of example there was no understanding by the RFO (or evidence of the consideration by council) of the use of statutory powers to spend and this could result in risk of ultra-vires decisions being made.
- The RFO uses a privately owned computer, and I have been informed that the clerk has access to the cloud-based information of the council. The data held is the intellectual property of BPC and there must be an agreement in place to mitigate the risk of loss of the data or loss of access to the data should the clerk require access or the RFO change.
- From the records supplied to me it appears that a third party is acting occasionally in preparing the accounting records and this role and data access should be clarified to protect the council and its data. There should also be a process in place to appropriately manage the GDPR responsibilities (please see my comment below regarding the ICO).

Town House

- There should be clear delineation of duties and the obligations outlined in the trust governing document should be scrutinised to ensure full compliance. I would recommend that the NALC Legal Topic note LTN 28 and charity commission regulations are used as an aid to assist council. The NALC guidance can be found here [Microsoft Word - LTN28-basic-charity-law.docx \(nalc.gov.uk\)](#). *Please note that you may need your log-in details from the HAPTC website to access this or alternatively please let me know and I can supply them for you.*
- Meeting should be held under the terms of the charity commission regulations and reflect those outlined in the charity governing documents. Failure to follow the correct process could mean that decisions made are invalid.² Town House business should be conducted as a separate meeting of the Trustees and not merged into the PC agenda.
- Currently records show that BPC subsidise the Town House (TH), paying for high value items of maintenance and covering insurance premiums resulting in increases to the precept. Payments to the Town House should be shown as grants for clearness and there needs to be absolute clarity on asset ownership and responsibility for maintenance. Council should be cognisant of the ongoing impact on the precept should the venue continue to be a liability.
- BPC claim back the VAT for the council expenditure for the TH- there should be regular monitoring of this practice in line with the prevailing VAT regime to ensure that there is no danger of inappropriate claims. It is listed in the minutes that previous VAT advice has been sought and this should be considered as an ongoing matter for inclusion on the financial risk assessment. Review of compliance is currently regularly undertaken by the RFO.
- It is my recommendation that BPC seek sector appropriate VAT advice prior to commencing any large projects in relation to the Town House or other assets within the parish. There should be regular scrutiny to ensure that the VAT status of the TH does not exceed any HMRC thresholds or change any criteria requiring amendments to its vatable status as this would impact on the PC reclaims. Review of compliance is currently regularly undertaken by the RFO.
- There are staff working at the TH. Whilst this is outside the scope of my internal audit, I would recommend that in line with the employment recommendations listed above, this area should be considered and appraised by the Trustees to ensure that they are fully compliant with employment law and the charity commission regulations.

• ² [Charity meetings: making decisions and voting - GOV.UK \(www.gov.uk\)](#)

Powers to Spend

- All local authorities' financial decisions are controlled by statute. All expenditure must be covered by legislation. Therefore, appropriate decision-making processes need to be in place to ensure that all activities undertaken fall within an authority's powers to act.
- Whilst the council are long standing and there is no suggestion of any impropriety, I recommend that council evidence the consideration of the lawfulness or appropriate 'powers to spend' and the understanding of the range of powers available when discharging their duties. The clerk should seek advice from HAPTC if necessary, in this area.
- This consideration should be included in the risk assessment to protect council from acting 'ultra-vires' at the point of decision making.
The following guide is issued by NALC to assist councils [good-councillor-guide-to-finance-and-transparency.pdf \(haptc.org.uk\)](https://www.haptc.org.uk/good-councillor-guide-to-finance-and-transparency.pdf)
- The RFO has historically been using section 137, Local Govt Act 1972. (s.137) for all expenditure, this power should be used as a last resort where there is no other suitable power. There is further explanation in the guide listed above.
- Funds are being paid across to the TH under s.137, there is no evidence that this expense is commensurate with the benefit to the electorate. Council must also be mindful of the annual statutory limitation on this expenditure (2022/23 £8.82 per elector).
- Council may find it beneficial to request the up-to-date list of 'powers to spend' from HAPTC to enable them to determine the alternate powers that are the most appropriate.

A. Appropriate accounting records have been kept throughout the Year.	YES
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In order to answer this section, I have to be confident that BPC comply 'in all significant respects'.

There are robust accounting procedures in place.

The RFO has addressed my earlier request relating to the requirement for a separate budget heading for any section 137 expenditure and this is therefore reflected in the response above.

It appears that the bank account is used as the 'cashbook'. Whilst the council use SAGE and the RFO and Councillors are comfortable with this format and its efficacy I have no option but to reflect the wording of the statutory guidance contained within The Practitioners Guide 5.17. therefore, this practice is not acceptable.

BPC work on a receipts and payment accounting basis this is a simple 'in and out' accounting format, there should be no accruals at year end. The Practitioners Guide (JPAG) has further guidance on this.

B. The authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved, and VAT was appropriately accounted for.

YES

Payments are approved with effective segregation.

There are no council debit cards but there is an expenses process in place.

Invoices are stored electronically and are circulated electronically to enable Cllrs to verify these prior to release of payments. Paper copies are also retained. Records should be kept of the authorising Cllrs.

Scrutiny of a sample of invoices confirmed that VAT is deducted at the appropriate levels and that invoices are correctly addressed.

It appears that VAT is accounted for separately within the SAGE accounting package that is being used.

Vat is reclaimed periodically.

Donations are made but there is currently no grant or donation policy in place.

With a new clerk now in place BPC should review the standing orders and financial regulations as they do not appear to be the most up to date 'NALC model' versions.

BPC should ensure that these procedures are embedded in their day-to-day processes and adequate evidence is kept of this.

C. The authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.

YES

The play areas are professionally inspected on a regular basis.

There is expenditure shown for external health and safety support.

There is evidence that BPC undertake an annual review of effectiveness of internal control. During the audit year there was no membership of the Information Commissioner's Office (ICO)-this is a mandatory requirement and will be a good source of information and advice in relation to safe data storage and the mandatory publication and data storage requirements for a public body.

There is a comprehensive financial risk assessment in place. Council should now work to embed these practices and to adequately evidence this.

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

YES

Council complies with this statement in 'all significant respects' however there are issues that require addressing for council to full comply in ALL areas.

The statutory process for determining the precept is set out in the Local Government Finance Act 1992 Section 49A1. There is no evidence from the format of the budget document that this process was followed. 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.

Even though a non -sector specific accounting package is being used council should still ensure that a balanced budget is presented to council for approval. Currently the budget that was set does not balance. It is unclear, from the minutes or accounting report if this deficit would be settled by use of reserves or alternative means.

There is evidence that an assessment of performance against budget for current and previous years is carried out at least twice-yearly, one of these prior to budget setting.

E. Expected income was fully received based on correct prices, properly recorded, and promptly banked; and VAT appropriately accounted for.	YES
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Income is reported. There are currently no reported vatable services.

Council considered and resolved the price increases to the allotment rents.

There is a lease in place for the rental of the club room and this was reviewed by full council. Council is in the process of arranging an official agreement with the tennis club.

F. Petty Cash payments were properly supported by receipts, all petty cash expenditure was approved, and VAT appropriately accounted for.	NA
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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
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Council does comply 'in all significant respects' however there are some items that require immediate attention.

The new clerk is currently investigating contracts for the RFO and Clerk positions.

The RFO has confirmed that timesheets are provided for scrutiny.

Council have approved payments on a payment schedule in a meeting.

The salary increases for the existing RFO and for the new clerk position were approved in a full council meeting.

I have been able to check that deductions are being made and the RFO has confirmed that any rounding differences are down to the HMRC RTI package and will rectify fully at year end.

The nominal account has been checked to ensure that the AGAR totals do not include any non-staff costs.

H. Asset and investment registers were complete and accurate and properly maintained.	YES
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There was no change to the asset register this year. The RFO has confirmed that the expenditure of £522 shown in the accounts 27/4/2022 was for a refurbishment of an existing picnic bench not a purchase of a new asset.

I. Periodic bank reconciliations were carried out throughout the year.	YES
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Regular bank reconciliation is carried out by the RFO. During the audit year there is no evidence of independent scrutiny being undertaken as laid out in the financial risk assessment and financial regulations. Council must ensure that they adhere to the practices laid out in their governance documents.

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.	YES
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A sample selection of invoices was checked and verified.

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.	N/A
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BPC was not declared exempt.

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	YES
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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 act remain unchanged therefore you must display the preceding years papers (2021/2022) on your website to be compliant. However,

I 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.

On the basis that this matter currently remains unresolved and was notified late in the audit process HAPTC has decided that it should not impact on the completion of an internal audit report for this year.

I am pleased to confirm that BPC do have previous years AGARs published on their website.

Barley Parish Council do not leave historic agendas on the website, and this impacts the ability for the internal auditor to check remotely that business resolved accurately reflects the business published in the summons.

The Transparency Code does not apply to your council; however, the council may find it beneficial to adopt these standards of transparency as best practice, particularly the provision of all supporting reports being published with the agendas.

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.	NO
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The report on file from last year's external auditor explains that BPC did not display the notice within the statutory timescales and therefore did not comply with this statutory requirement.

N. The authority complied with the publication requirements for the prior year AGAR.	NO
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There is communication on the website from the external auditor relating to this. Due to the AGAR being incorrectly completed the statutory cut-off date was missed for initial submission.

O. Trust funds (including charitable) - the Council has met its responsibilities as a trustee.	YES
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The council met its responsibilities in most 'significant respects' in this area therefore I have been able to answer yes here, but as IA I have concerns that trustee decisions and actions

are not sufficiently separated from PC duties and that BPC would benefit from greater delineation and separation of duties as Trustees. I have detailed more recommendations and suggested references, which should assist council, in my introduction above.

During my audit I was not able to verify the trust governing document but have been able to check the abridged information on the Charity Commission website.

From the evidence available to me it would appear that BPC include business relating to the separate Town House charity on the same agenda. For example, payments are presented and approved on a BPC agenda. Whilst BPC are the sole trustees it is usual (and strongly advised) that BPC hold a separate meeting with a separate agenda for the charity. These are not bound by the same statutory rules as a parish council meeting and therefore could be held remotely.

This concludes my narrative report to support the AIAR and please do not hesitate to contact me should you require any further information or clarity in line with the comments made.

I do hope that you find the recommendations useful to support your new clerk and would like to thank both Alice and Lynn for their assistance in enabling me to conduct my review.

I have attached your signed annual internal auditor report.

Yours sincerely,

Nikki Bugden

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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.