

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:	James Parker	Date of report:	17/4/2024
Year ending:	31 March 2024	Date audit carried out:	Feb & Apr 2024

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. A draft of this report was provided to the Clerk prior to issuing it, in order that the Clerk could produce, for consideration, any evidence which had not been made available and which might affect the conclusions.

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:

Introduction

As requested I have examined the operation and accounting of the Council and make the following comments, with reference to guidance for Internal Audit provided in the Practitioners Guide 2022. This report should be read in conjunction with the attached certificate (page 3 of the AGAR) which represents my assessment of the extent to which the Council has met the specified internal control objectives. I can confirm that the Clerk has been given the opportunity to comment on a draft of this report to minimise the risk of factual misunderstandings.

I am required to assess, for each objective, whether 'in all significant respects, the control objectives were being achieved throughout the financial year to a standard adequate to meet the needs of this authority.' The Council should be aware that, where I make comments below but nevertheless give a 'yes' answer to the related control objective, I have given the 'yes' answer on the basis that I consider that the objectives are met in all *significant* respects and/or to a standard *adequate* to meet the needs of the authority. This is somewhat subjective and the Council should consider, when assessing any risk referred to in my comments, that others may take an alternative view.

This report should also be read in conjunction with guidance laid out in The Practitioners' Guide 2023.

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.

By using this guide to refer to the proper practices referred to in statute and considering the non-mandatory guidance you can ensure that the systems and procedures that the Council has in place are robust and offer a secure framework of governance and accountability.

These comments and the attached certificate will inform the authority's response to Assertion 2 and Assertion 6 in the annual governance statement.

General

It is clear from inspection of records presented to me, discussion with the Clerk and inspection of the Council's website, that the Council's business is generally well managed and recorded and the operation well organised. It is also noted that many of the comments made during the internal audit for 2022-2023 have been addressed and this is commended. However there are a small number of areas of concern which are identified below, where I believe that the Council must consider taking action.

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

The financial regulations and Standing Orders which appear on the Council website (as at 15/2/2024) are out of date and I am advised have since been revised.

I am advised that, on rare occasions, official orders are placed by members (as opposed to an officer), which is contrary to the financial regulations. The Council should at all times adhere to its financial regulations

D. The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate. (NO)

The statutory process for determining the precept is set out in the Local Government Finance Act 1992 Section 49A1. This specifies the matters that must be considered, how they are to be applied, and the formula for calculating the precept. The process specified will result in a balanced budget. There is no evidence from the budget document that this process was followed and furthermore the budget for 2023-2024 is in deficit by an amount that is material in relation to the reserves held, yet this appears not to have been expressly considered by Council

It is not clear that a process which relates in any way to that defined in law was applied to determine the precept, indeed it is unclear how the precept was calculated and explanations provided by the Clerk and Chairman have not satisfactorily clarified this matter. Furthermore it appears that a similar process was followed for the setting of the 2024-25 budget, notwithstanding that a comment was made about this in the previous internal audit which, it appears, has not been actioned.

The matter is further compounded by the fact that regular reviews of performance against budget are against the deficit figure, which could lead to a misleading impression being given both to members and the public of the health of the finances.

Whilst there is a 'Town House' sinking fund (ie an earmarked reserve), no consideration appears to have been given to establishing special reserves for the 'special projects' which appear in the budget each year nor for known expenses such as the costs of elections.

In view of all of this I am unable to answer this assertion in the affirmative.

Members and officers are reminded that the precept, set by the Council, is a compulsory tax which must be paid, and for which non-payment may attract a custodial sentence. It is thus incumbent upon the Council to be able to demonstrate that the rate of taxation was determined by a robust method, as set out in the legislation referred to.

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

It is understood that petty cash is not in use. This section has therefore been marked 'not covered'.

1 <https://www.legislation.gov.uk/ukpga/1992/14/section/49A>

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 (NO)

It is noted that the transparency code does not apply to your Council. The council may find it beneficial to adopt these standards of transparency as best practice.

I am advised that the Council does not have (and therefore has not published, as required by the act) a scheme of publication approved by the Information Commissioner. This is required under section 19 of the Freedom of Information Act 2000. A model scheme is available from the website of the Information Commissioners Office and the Council is required by law to adopt and publish a scheme.

It is also noted that the information about the Council available from the website is very sparse. In particular minutes of meetings frequently refer to documents (background papers) which are not displayed and thus it is, in many cases, impossible for a member of the public to determine what was decided. It is further noted that the ICO, in its guidance to local authorities on the interpretation of the model publication scheme, expressly states that background papers are considered *part of the agenda*.

Having regard to the paucity of information available from the website and the lack of a publication scheme required by law, **I am unable to answer this assertion in the affirmative.**

O. Trust funds (including charitable) - the Council met its responsibilities as a trustee (YES)

Whilst I am satisfied that in all significant respects, this control objective was achieved to a standard adequate to meet the needs of this authority, and I recognise that improvements have been made following last years' audit, there remain areas of significant concern as set out below.

The Council is the both the custodian trustee for the assets of the Playstowe Charity and the Town House Charity and sole managing trustee of both charities. The former has no material income and provides public open space and play areas. The latter has a significant income from events and lettings, but also significant expenses for maintenance of the historic building.

In respect of the Playstowe it is understood that all maintenance expenses are borne by the Council and that play equipment, belonging to the Council, is sited on Playstowe land. Fixed assets sited on land belonging to another are presumed, in the absence of evidence to the contrary, to become the property of the other, and thus there is potential for ambiguity over the status of the play equipment. To avoid ambiguity an agreement should be reached and signed between the Playstowe Charity and the Parish Council setting out the rights, responsibilities and ownership of such assets.

With regard to the Town House, I am informed that the day to day decisions are delegated to a management committee, however the Parish Council authorises expenditure for the Town House Charity in its meetings, pays for the insurance of the building, and from time to time pays for larger items of maintenance and reclaims VAT on these items. Separate accounts are kept for the two entities.

It is a requirement that the business of the Charity and the business of the Council are kept separate, and whilst the degree of separation appears to have improved relative to the previous year, there remains ambiguity.

Best practice, set out in Section 5 of the Practitioners Guide and in guidance from the Charity Commission, is to hold separate meetings for the two entities and some auditors may consider that they are unable to answer 'yes' to this assertion if this practice is not followed. As an absolute minimum it is suggested that the business that relates to the Town House Charity should feature as a separate agenda item which should include *all* business related to the charity so that the functions are clearly delineated both for members and the public.

The practice of paying to insure the charities assets is at best questionable, and the Council should consider whether this should be discontinued and either the charity pays for insurance out of its own funds, or the contribution to expenses is recorded as a grant to the charity in the parish Council's accounts, and a donation to the Charity in the Charity accounts, which would be a more appropriate treatment.

The treatment of occasional contributions to the 'large expenses' is equally questionable. Unless the Council has written advice to the contrary, which properly considers the specific circumstances, such contributions are, and should be treated as, donations to the Charity as they relate to assets of the Charity not assets of the Council.

I am also told that the Council has been advised that VAT can be reclaimed on such expenses, even though the assets so enhanced are the property of the Charity. It is strongly recommended that the Council consider carefully *on each occasion* such an expense is made whether the advice is applicable to the specific circumstances of that occasion and if necessary seek further advice which should be in writing to avoid the risk that the Council is acting improperly.

Yours sincerely,

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