



## Internal Audit Report

This narrative internal audit report is to be read in conjunction with the Annual Internal Auditor's Report for the Annual Governance and Accountability Return.

Council:	Quadrang Parish Council
Internal Auditor:	John Kilcoyne
Year Ending:	31 <sup>st</sup> March 2024
Date of Report	23 <sup>rd</sup> April 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 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.

Council should be aware that a narrative report from the internal auditor is best practice. This should include a commentary on the activity of the authority during the period under consideration and recommendations for future action. No evidence of any narrative report has been provided for any of the years visible within the council website.

Although this report is addressed to the Chairman of the parish council, it is for the attention of all members. This report should also be published alongside the AGAR on the parish council website and provided for the external auditor.

**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 Quadring Parish Council**

This report was compiled between March and May 2024 and includes inspection of

- the parish council website
- documents and other information requested from the Clerk to Council

relating to council business between April 2023 and March 2024. Two remote meetings were held with the Clerk to Council.

Council should be aware that a narrative report from the external auditor is good practice. This should include a commentary on the activity of the authority during the period under consideration and recommendations for future action. No evidence of any narrative report has been provided for any of the years visible within the council website. For this reason, this narrative report makes reference to evidence from Council business and Annual Governance and Accounting Returns between 2018 and 2023 which have been considered as part of the internal auditor's investigation for 2023 to 2024. It is noted that council has experienced a period of some instability after service from a long-standing clerk. This report draws attention to activities that would be considered not good practice or contrary to statutory requirements. Responsibility within each of the following areas is allocated not to any individual but to the parish council as a corporate body.

Credit is given to the current clerk for her review of council practices and procedures, for the actions she has already instigated and for the plans in place to improve. I have discussed with the clerk several areas identified for attention and some of these will already have been addressed by the time council receives this report.

### **Annual Meeting of Parish Council and election of Chairman**

Minutes of meetings from November 2017 are currently visible on the council website. It is noted that election of the chairman was carried out at the Annual Meetings of Parish Council in May 2022 and May 2023 in accordance with Local Government Act 1972 Schedule 12 Part II (7). Prior to this council appeared to be acting contrary to its statutory responsibilities with no annual meeting held at the required time.

Council's attention is drawn to Standing Orders section 5 including 5j i-xxi which detail items to be considered at the annual meeting following election of the chairman and vice-chairman (if there is one). These standing orders are based on the most recent version of NALC's model standing orders.

### **Annual Governance and Accountability Returns 2018-2023**

Parish Council's website has a section relating to accounts and Annual Governance and Accountability Returns (AGAR). No AGAR is available for 2018-2019.

Quadring Parish Council received a Public Interest Report (PIR) in March 2021 for Failure to submit an AGAR for 2019-2020. The minutes of August 2021 record that this PIR was considered by council on that occasion.

Council's attention is drawn to the guidance notes on page 2 of the AGAR documents which identify the documents which must be published alongside on the authority's website. More details on the requirements can be found within the Practitioner's Guide.

An AGAR is available for 2020-2021. On this occasion parish council was not eligible for a Certificate of Exemption because of the PIR for the previous year. This would require an External Auditor's Certificate from pkf Littlejohn to be published alongside the AGAR, but this is not visible online. A relevant page 3 from the AGAR Form 3 for that year is included but signed incorrectly by the internal auditor. The minutes for July 2021 also indicate that the AGAR was "signed and agreed to be advertised between 20<sup>th</sup> July and 20<sup>th</sup> August". The statutory period for the exercise of public rights must be 30 working days and must include the first 10 working days in July. The period allowed for by Quadring PC on this occasion is for just 24 working days and doesn't include the required days in July.

The Annual Internal Auditor's Report (AIAR) for 2021-2022 should have identified that the period for the exercise of public rights was not published correctly. This section (N) and the section relating to trust funds (O) were both incorrectly left blank on that occasion.

The person identified as carrying out the internal audit for 2021-2022 appears to have been a member of the council at the time. It must be pointed out that this is contrary to the requirement for the internal auditor to be independent of council, Practitioners' Guide (2022) 4.9-4.10. No evidence can be found from minutes of a correct process of engagement (Practitioners' Guide 4.13). No evidence can be found that the period for the exercise of public rights was observed correctly.

The Annual Internal Auditor's Report for 2022-2023 was completed by an internal auditor previously engaged for this purpose in 2020-2021. Again, no evidence of a correct process of engagement can be found in the minutes. In addition, although the council has used Form 2 correctly as provided by pkf Littlejohn, the published documents include an incorrectly signed Form 3 page 6 which is reserved for the External Auditor's report and certificate. No evidence can be found that the period for the exercise of public rights was observed correctly.

Council's attention is drawn to the guidance notes on page 2 of the AGAR documents which identify the documents which must be published alongside on the authority's website. More details on the requirements can be found within the Practitioner's Guide.

Council should also be aware that a narrative report from the external auditor is good practice. This should include a commentary on the activity of the authority during the period under consideration and recommendations for future action. No evidence of any narrative report has been provided for any of the years visible within the council website.

Throughout the period 2020-2023 during which AGARs are available on the council's website, income and expenditure is recorded as follows on the respective accounting statements.

All figures in £	2019-2020	2020-2021	2021-2022	2022-2023
1 Balances brought forward	8315.41	7183.17	8095.21	9963
2 (+) Precept or Rates and Levies	7000	8000	9000	10800
3 (+) Total other receipts	1625.95	1675.95	2409.68	4439
4 (-) Staff costs	1713.33	1943.88	1700.00	2400
5 (-) Loan interest / capital repayments	0	0	0	0
6 (-) All other payments	8044.86	6820.03	7841.81	5485

<b>7 (=) Balances carried forward</b>	7183.17	8095.21	9963.08	17317
<b>8 Total value of cash and short term investments</b>	7183.17	8095.21	9963.08	0
<b>9 Total fixed assets plus long term investments and assets</b>	39949	39429	39949	0
<b>10 Total borrowings</b>	0	0	0	0

Attention is drawn to the note at the top of the Accounting Statements:

*Please round all figures to nearest £1. Do not leave any figures blank and report £0 or Nil balances. All figures must agree to underlying financial records.*

The accounting statements for 2019-2022 were not rounded as detailed in the guidance. Council is encouraged to check the guidance notes throughout the full AGAR forms to make sure they are completed correctly.

The values for box 8, 9 and 10 as recorded in the accounting statements approved on 15<sup>th</sup> May 2023 are incorrect and will need restating in the accounting statements for 2023-2024.

In addition, the amounts identified for receipts and income in consecutive years are sufficiently different to require a Yes notification on the Explanation of Variances each time. This Explanation of Variances document should have been published alongside the accounting statements each year.

Box 11 relating to Trust Funds changed from a Yes/No option in 2020-2021 to Yes/No/NA in 2021-2022. Council is advised to check that the correct choice is made.

### **AGAR 2022-2023**

No evidence is available for an analysis of variances, bank reconciliation, notice of the period for the exercise of public rights and other information required by Regulation 15 (2), Accounts and Audit Regulations 2015.

This will require a No response to Box N on the AIAR.

### **Future consideration of the AGAR in a meeting of council**

Members of council are encouraged to become familiar with the current edition of the JPAG Practitioners' Guide. In particular, all members should be aware of the responsibilities placed upon council relating to each part of the AGAR process including the required dates for submission and publication.

The agenda for the meeting of parish council held on 15<sup>th</sup> May 2023 included the following item:

#### **9. AGAR**

with the associated minutes recording that

#### **10. AGAR**

*Forms were to be completed and submitted and a copy displayed on the notice board*

Council is advised that this recording does not show clear resolutions and runs the risk that items will be missed out. The current clerk will be able to lead on a suitable form for both agenda items and minutes. The following could be used as a recommendation for this agenda item.

*To consider and approve documents relating to the 2023-2024 AGAR*

- i. To receive the Annual Internal Auditor's Report 2023/2024*
- ii. To consider recommendations or matters arising from the internal auditor's narrative report*
- iii. To complete and sign the Annual Governance Statement 2023-2024*
- iv. To receive and sign the Accounting Statements 2023-2024*
- v. To receive and consider the bank reconciliation 2023-2024*
- vi. To receive and consider the explanation of variances*
- vii. To receive and consider the breakdown of reserves held*
- viii. To agree the dates for the period of public rights*

Each item will then require an appropriate resolution.

### **Financial year 2023-2024**

I have also examined council business relating including policies, agendas and minutes, accounting and financial statements and other documents relevant to this audit.

### **Council business**

The appointment of the new clerk has had an impact on agendas and minutes which reflect council business. The following points are identified as positive features, This does not suggest that all items were previously incorrect, just that current situation reflects better practice.

- Summons and agendas are issued correctly
- Agenda items clearly state the business to be transacted
- Draft minutes are published within 30 days of a meeting
- Acceptance of apologies for absence are now recorded rather than just a note that they have been received.
- Numbering is now continuous across meetings.
- Resolutions are recorded clearly
- Resolution to move into closed session is recorded
- Any other business has been removed

### *Recommendation*

Record when business returns to council session from closed session. See minutes of December 2023 as this isn't clear for items 51 and 52.

### **Publication as required by the Transparency Code for Smaller Authorities**

For the financial year 2022-2023, council was subject to the Transparency Code for Smaller Authorities as income and/or expenditure was under £25,000 for the year. Council's attention is drawn to the list of items required to be published, some of which were not provided.

This will require a No response to box L on the AIAR.

As council has now passed the threshold of £25,000, this Transparency Code is no longer mandatory but recommended to follow as best practice.

### **Finance**

1. Income and expenditure are reviewed within council meetings with payments recorded transparently.
2. Payments are supported by invoices with expenditure approved. A random audit trail has identified no discrepancies. VAT has now been accounted for and reclaimed.
3. Council has started to assess the potential risks to achieving its objectives including a review of policies including internal controls, GDPR and scheme of delegation. No evidence was provided for a risk register. While council can continue to build on these steps, the evidence provided allows for a Yes response to box C on the AIAR for this year.
4. The clerk's salary was reviewed in December 2023 with the actual salary identified. This has potential GDPR implications. Better practice would be to record a minute reference that the clerk's salary be increased by xx spinal points against the national agreement if that is being followed by council, or against council's published pay scale if different.
5. If council does follow the NJC pay scale, consideration should be given to back pay for the current employee from the point at which her employment started, and to former employees to April 2023.
6. Bank balances are reviewed regularly but the minutes show no evidence of periodic bank reconciliations throughout the year.

This will require a No response to box I on the AIAR.

7. Council should avoid use of the term 'retrospective payments' in clerk's reports and minutes. All payments should have explicit authorisation from council in advance. These can include payments for salary and HMRC which can be pre-authorised as part of the clerk's scheme of delegation. This is covered under Financial Regulations 5.6 and can be recorded in the clerk's report and agenda as 'Payments made between meetings using delegated authority'.
8. Petty cash is not held.
9. Budget and precept for 2024-2025 were set at the meeting of council in December 2023. The precept was included in the minutes but not the budget. The budget and precept should be clearly identified within the minutes of the relevant meeting at which they are set. Further information about the precept calculation would be helpful to residents by identifying the cost per Band D household, the percentage increase and the increase in sterling.
10. It is not clear from the minutes whether this discussion relating to budget and precept was held in public or closed session. Council is reminded that the setting of the budget and precept must be carried out in public.
11. The minutes of 4<sup>th</sup> December 2023 item 51 include discussion regarding a payment to the Parochial Church Council. Suggestions were made by councillors regarding suitable increase to this payment. This raises two concerns:
  - a. At that stage (4<sup>th</sup> December), advice from NALC was that council could not be sure that payments to the church were lawful, in line with briefing 01/18. This advice was updated on 20<sup>th</sup> December, after the decision by council. Payment to a place of worship is now permitted in accordance with briefing 02-23, using s137. Council could not have been sure at the point at which that decision was made.

- b. There is no evidence within the minutes of the reasons why the figures £2,000 and £2,250 have been identified in this case. Council needs to be clear about the amount to be provided for all payments and the use to which it may be put. This should be provided in a report to council which can identify the associated benefits and risks to council and the community.

Comments 8,9 and 10b reflect insufficient evidence for an adequate budgetary process. This will require a No response to Box D on the AIAR.

#### Recommendations of items to introduce

- Monthly budget monitoring. Are the actual figures for income and expenditure above, below or in line with those projected when the budget was set?
- Monthly reconciliations
- Review of bank signatories and authorisation of payments
- Monitoring of reserves
  - General reserves should be set at somewhere between 3 and 12 months of annual expenditure. In the case of a council with expenditure similar to Quadring, this should be closer to 12 months.
  - Earmarked reserves are identified for specific purposes.
  - Both should be reported as part of the annual accounting statements.
  - Reserves should be reviewed regularly including when setting the budget. Figures and purposes should be recorded in the minutes of meetings.
- Review risk management register including financial risk
- Review insurance to check the cover is appropriate for council's needs

#### Recommendations

Areas in the 2032-2024 AGAR Annual Internal Audit Report for which Yes or N/A cannot be ticked

	Reason
A	
B	
C	
D	Insufficient evidence was shown for an adequate budgetary process.
E	
F	
G	
H	
I	No evidence of periodic bank reconciliations
J	
K	
L	No evidence of items required by the Transparency Code for Smaller Authorities

<b>M</b>	No evidence available to show a period of public rights correctly provided
<b>N</b>	No evidence of analysis of variance, bank reconciliation, notice of the period for the exercise of public rights and other information required by Regulation 15 (2),Accounts and Audit Regulations 2015.
<b>O</b>	

### Accounting statements 2023-2024

	Year ending 31 March 2023 (£)	Year ending 31 March 2024 (£)
1. Balances brought forward	9,963	17,317
2. Annual precept	10,800	12,000
3. Total other receipts	4,439	23,986
4. Staff costs	2,400	2,907
5. Loan interest/capital repayments	0	0
6. Total other payments	5,485	32,581
7. Balances carried forward	17,317	17,815
8. Total cash and investments	17,317	17,815
9. Total fixed assets and long-term assets	39,949	54,786
10. Total borrowings	0	0

Yours faithfully,

John Kilcoyne

Internal Auditor for Lincolnshire Association of Local Councils

May 2024