

# BICKLEIGH PARISH COUNCIL

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## **APPOINTMENT OF INTERNAL AUDITOR REPORT KARENZA HEALD, CLERK / RFO**

**This report provides information regarding the requirements of an Internal Auditor and my [recommendations](#) for the appointment of Internal Auditor for the completion of the 2019-20 Annual Governance & Accountability Return.**

### **The Joint Panel on Accountability & Governance – JPAG Governance & Accountability for Smaller Councils in England**

#### **Section 4: Non-statutory guidance for internal audit at smaller authorities**

##### **Introduction**

4.1. A smaller authority is required by Regulation 5(1) of the Accounts and Audit Regulations 2015 to 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.'

4.2. The public sector internal audit standards, issued in 2013, have not been applied to smaller authorities. The information in this section of the Practitioners' Guide is therefore the non-statutory 'guidance' referred to in Regulation 5(1) and needs to be taken into account by smaller authorities in undertaking an effective internal audit.

##### **Overview of internal audit**

4.3. Internal auditing is an independent, objective assurance activity designed to improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

4.4. The purpose of internal audit is to review and report to the authority on whether its systems of financial and other internal controls over its activities and operating procedures are effective.

4.5. The internal audit function must be independent from the management of the financial controls and procedures of the authority which are the subject of review. The person or persons carrying out internal audit must be competent to carry out the role in a way that meets the business needs of the authority. It is for each authority to decide, given its circumstances, what level of competency is appropriate, and to keep this issue under review.

4.6. Internal audit is an on-going function undertaken regularly throughout the financial year, to test the continuing existence and adequacy of the authority's internal controls. It results in an annual assurance report to members designed to improve effectiveness and efficiency of the activities and operating procedures under the authority's control. Managing the authority's internal controls is a day-to-day function of the authority's staff and management, and not the responsibility of internal audit.

4.7. Internal audit does not involve the detailed inspection of all records and transactions of an authority in order to detect error or fraud.

### **Appointing an internal audit provider**

4.8. It is a matter for the authority to determine how best to meet the statutory requirement for internal audit, having regard to its business needs and circumstances.

4.9. There are two key principles an authority should follow in sourcing an internal audit provider: independence and competence.

#### **Independence**

4.10. Independence requires the absence of any actual or perceived conflict of interest. It means that whoever carries out the internal audit role does not have any involvement in or responsibility for the financial decision making, management or control of the authority, or with the authority's financial controls and procedures.

4.11. It follows, for example, that the circumstances in which a member could demonstrate that they are sufficiently independent of the financial decision making and procedures of the authority are difficult to envisage. Such a member would need to exclude themselves entirely from key financial decisions by the authority in order to maintain their independence. Similarly, it would not be appropriate for any individual or firm appointed by the authority to assist with the authority's accounting records, preparation of financial statements or the [Annual Governance and Accountability Return](#), to be also appointed to undertake the internal audit function. Conflicts of interest must be avoided, such as in cases where an external provider of accounting software or services to the authority, also offers internal audit services through an associate company, firm or individual.

#### **Competence**

4.12. **There is no requirement for a person providing the internal audit role to be professionally qualified, but essential competencies to be sought from any internal audit service include:**

- understanding basic book-keeping and accounting processes;
- understanding the role of internal audit in reviewing systems rather than undertaking detailed checks that are more appropriately the responsibility of management;
- awareness of relevant risk management issues; and
- understanding proper practices in relation to governance and accounting requirements within the legal framework and powers of smaller authorities, as set out in this guide (possession of which is a prerequisite).
- Awareness of relevance of VAT and PAYE/NIC as applied to the authority.

A copy of [The Joint Panel on Governance & Accountability: Governance and Accountability for Smaller Councils](#) has been uploaded on BPC Team folder dropbox – under [Finance](#).

## **The Annual Governance and Accountability Return (AGAR) – Annual Internal Audit Report**

The Internal Auditor signs page 3 of [Annual Governance and Accountability Return](#). This authority's internal auditor, acting independently and on the basis of an assessment of risk, carried out a selective assessment of compliance with relevant procedures and controls to be in operation during the financial year ended 31 March 2020.

The internal audit for 2019/20 has been carried out in accordance with this authority's needs and planned coverage. On the basis of the findings in the areas examined, the internal audit conclusions are summarised in this table. Set out below are the objectives of internal control and alongside are the internal audit conclusions on 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."

	ASCERTATION	YES	NO	NOT COVERED
A	Appropriate accounting records have been properly kept throughout the financial year			
B	This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved, and VAT was appropriately accounted for.			
C	This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.			
D	The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate			
E	Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.			
F	Petty cash payments were properly supported by receipts, all petty cash expenditure was approved, and VAT appropriately accounted for.			
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.			
H	Asset and investments registers were complete and accurate and properly maintained.			
I	Periodic and year-end bank account reconciliations were properly carried out.			
J	Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate debtors and creditors were properly recorded.			
K	IF the authority certified itself as exempt from a limited assurance review in 2018/19, it met the exemption criteria and correctly declared itself exempt. (If the authority had a limited assurance review of its 2018/19 AGAR tick "not covered")			
L	The authority has demonstrated that during summer 2019 it correctly provided for the exercise of public rights as required by the Accounts and Audit Regulations.			

AUDITOR	DETAILS
<b>IAC</b>	Last years' auditor Price quoted £285.00 plus V.A.T. but if additional work is identified or should there be a requirement for additional time, for example due to work associated with adverse audit findings or additional reporting requirements, then these would be charged at a daily rate of £385.00 plus V.A.T. or £285.00 for half a day.
<b>Kerry Leigh Graham</b>	1 day's test of internal control (date's t be agreed) £435. 1 day's year-end audit £435.00. Mileage charge £304.20. Total £1,174.20
<b>Julie Snook</b>	Email received from <b>Julie Snook</b> with prices and required documents. ANNUAL FEE £325.00 (SET)
<b>Adam Croney, Thomas Westcott</b>	No set price given but I was asked what the previous auditor had charged and was advised it would be at least double £285.00.

## **Summary and Clerk's recommendation**

Research has taken place to review who other Councils use, particularly in the South Hams District. Since the beginning of the year many Internal Auditors have been reported to be either reducing their workloads or not taking on new clients.

I have also been communicating with Devon Association of Local Councils (DALC) who prior to the Coronavirus pandemic were planning on launching a pilot scheme to offer internal audit services. The last email I had from the Assistant to the County Officer states *"DALC is planning to launch an internal audit service, launch an internal audit service, hopefully in time for this year's audits. Cara is working on getting it up and running. We don't have a firm idea of cost or timescale yet though."*

Although Kevin Rose and Paula Sakala from IAC Audit & Consultancy, were helpful last year (this included a site visit to address issues raised from previous audits and put forward recommendations) for the reasons below, I recommend the Council appoints Julie Snook to complete the Council's 2019-20 internal audit:

- The price quoted by IAC Audit & Consultancy is competitive but it not a set price.
- The Internal Audit report for 2018 was signed but there were no checks completed to see if the V.A.T. had been reclaimed. The assumption from the internal auditors was that this would be completed by the Clerk. However, Bickleigh Parish Council had unclaimed V.A.T. for two years.
- Checks had not been completed to reconcile the payroll and payments to HMRC.
- I have had conversation with Julie Snook, which took place on a Saturday afternoon demonstrating her flexible approach. We have discussed the logistics of handing over the paperwork during the current Coronavirus Covid-19 pandemic.
- She has been auditing parish and town councils since the late 70's and has knowledge of Bickleigh Parish Council under the previous Clerk (Marilyn Small).
- I have viewed her reports online for other Councils and received references from good references from other Parish Councils who she completes audits for.

### **Reference for Julie Snook from Maryn Isaac, Clerk for Landkey and Tawstock Parish Council.**

I have used Julie to undertake internal audits for me for a number of years. I have always found her to be very thorough and helpful

She is very approachable and always willing to assist and give advice when asked.

<b>Julie Snooks - Internal Auditor</b>		
<b>Basic list of required documents</b>		
<b>Topic</b>	<b>Documents</b>	<b>Reason</b>
<b>Accounts</b>	Cashbook or spreadsheet for receipts and payments to 31st March 2019	Confirm accuracy of accounts
	As above but for Income & Expenditure, with balance sheet, if applicable.	As above
	Budget for 2019/20 and 2020/21	Confirm budgetary control processes.
	Cheque and paying in books for the audit year and to date	Confirm accuracy of accounts
	Variance explanations and supporting documents for the annual return	Confirm accuracy of accounts and agree for external audit if applicable
<b>Insurance</b>	Current Schedule & year of audit if different	Check of cover, including Fidelity cover
<b>Minutes</b>	Minutes for the audit year and to date.	Reserves considered
		Budget setting and precept
		Approval of payments/S137/other financial matters
		Approval of salary increases/clerks appointment
		Consider any other financial matters, including tenders/quotes
<b>Fixed Assets</b>	Asset Register for audit year showing additions and disposals	Is Register up to date
<b>Risk</b>	General and Financial Risk Assessments	Assessed in 2019/20 (& minuted)?
<b>Internal Control</b>	Statement of Internal Control	Statement considered in 2018/19 (& minuted)?
<b>Website/Transparency Code</b>	Details of website	Confirm compliance with code
<b>Payroll</b>	PAYE/NI/Pension details	Ensure correct returns to HMRC
	Clerks contract if applicable	Correct rate of pay
	Rates of pay changes	
<b>Petty Cash</b>	Petty cash records if applicable	Receipts/approved/ VAT details
<b>VAT</b>	VAT reclaim records	Claim in year up-to-date and accurate
<b>Standing Orders</b>	Copy of most recent Standing Orders	Confirm up-to-date & reviewed in audit year..
<b>Financial Regulations</b>	Copy of most recent Financial Regulations	Confirm up-to-date & reviewed in audit year..
<b>Bank</b>	Year end bank reconciliation.	Year end bank reconciliation completed & accurate.
	Bank statements for all accounts for 31st March 2020 and to date	Accounts for audit year accurate & interest accounted for if received
<b>Other receipts tested</b>	Evidence of charges reviewed in year of audit (if applicable)	Ensure that all receipts are accounted for appropriately.
	Supporting documentation for all income including precept and grants	As above
	If applicable - allotment records, burial records, hall books/diaries/rents etc	As above
<b>Other payments tested</b>	Documents supporting all payments made in the year	Ensure that all payments are accounted for appropriately.
<b>Annual Return</b>	Annual returns for or audit and previous year and any exemption documents	Confirm agreed figures for the previous year.
<b>External audit</b>	Previous years audit certificate	Issues from previous audit addressed
<b>Audit closure</b>	If a separate audit report was issued last year - please provide.	Issues from previous audit addressed