Report Prepared for formal Agreement and Resolution pursuant to Agenda Item 9 of the Smannell Parish Council meeting to be held on 29 May 2024 to accept the internal audit proposal for works from Paul Reynolds FMAAT (Fair Account) based in Eastleigh, Hampshire.

The Council as a whole is responsible in law for ensuring that its financial management is adequate and effective. Similarly, the Council must ensure that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and the arrangements for the management of risk. Internal Audit is a key component within that overall system of internal control. The purpose of the Internal Audit is to review whether the systems of financial control and other controls over the activities of the Council are adequate, effective, and in line with current regulations. Whilst Internal Audit would not actively seek evidence of fraud, corruption, error or mistakes, it can assist the Council in its responsibility for the prevention and detection of such occurrences. The Internal Auditor is independent of the operations (financial control/management) of the Council and competent in the understanding of the law as applicable to Local Councils, of accounting and basic PAYE and VAT requirements. Any change in personal circumstances that may cause a question over the independence requirement must be reported to the Council.

The Internal Auditor will apply the standards stipulated by the JPAG Practitioner's Guide 'The Governance and Accountability of Smaller Authorities in England' and will carry out under the direction and management of the Council (or as may be delegated to a Committee or to the Parish Clerk) the following duties:

a) To review the accounting and internal control systems in place (it is the Council's responsibility to establish adequate and effective internal controls and act upon any recommendations put forward by the Internal Auditor in this respect).

b) To provide an Internal Audit Report to the Council in writing on the results of the tests of the operation of the internal control systems.

c) To carry out reviews and tests of the books, accounts, transactions and vouchers on a sample basis in order to arrive at an opinion on the systems in place.

d) To complete the Annual Internal Audit Report within the Annual Governance and Accountability Return (AGAR) in respect of the financial year under review.

Internal Audit testing of internal controls will be sufficient for the proper completion of the Annual Internal Audit Report, which should provide an adequate level of assurance for the Council to complete the Annual Governance Statement within the AGAR. In completing the Annual Internal Audit Report, the Internal Auditor will have planned and carried out the work necessary to give the assurances called for. The key control tests in the AGAR require an adequate and appropriate level of Internal Audit coverage; additional testing and reporting can be tailored to local circumstances. Internal Audit work always requires the application of judgement and, accordingly, the scope and the degree and frequency of testing should reflect and be proportionate to the likelihood of fraud, error or mis-statement that could occur. Testing should be related to the size and level of business activity of the Council.

The Internal Audit will focus upon the key systems of internal control in operation to provide assurance to the Parish Council that satisfactory overall financial and regulatory arrangements are in place. The End-of-Year Internal Audit can be undertaken in 2024 following the completion of the 2023/2024 Accounts and will enable the completion of the Annual Internal Audit Report within the Annual Governance and Accountability Return (AGAR) for the year 2023/2024.

1. Governance, Standing Orders, Financial Regulations and other Regulatory Issues

a) Was the Annual Parish Council meeting held in accordance with the appropriate legislation in place at the time? Were Membership and Terms of Reference for the Council's Committees reviewed and approved?
b) Has the Council recently reviewed and formally adopted up-dated Standing Orders and Financial Regulations? Are they the NALC model documents, and have they been tailored to meet the particular requirements of the Council?
c) Confirm that a Responsible Financial Officer is in post with specific duties agreed under contract.
d) Has the Council's 3-Year Business Plan been reviewed and updated?
e) Confirm that the Councillors' Code of Conduct has been adopted and is being correctly applied.
f) Is the General Power of Competence (if applicable) continuing to be correctly applied within the Council?
g) Confirm that the Council is registered as a Fee Payer/Data Controller under Data Protection legislation. Is a Data Protection Policy, and other appropriate policies, in place to evidence compliance with GDPR requirements? Have appropriate Privacy Notices been published? Have any significant issues arisen regarding compliance with the GDPR e.g. any data security breaches?
h) Do the Council's Minutes (for Full Council and for its Committees) provide a clear record of the actions and decisions taken?
i) Has the Council appropriate Policies, Procedures and Protocols in place? Are they frequently reviewed and updated? Is a Schedule for Review of Policies in place?
j) Has a Website Accessibility Statement been published to assist in meeting the current website accessibility regulations?

2. Accounting Procedures and Proper Book-keeping

a) Is the Council's RBS Rialtas Accounting System/Cashbook being properly maintained and up to date?
b) Is the Accounting System regularly balanced and reconciled to the bank statements?
c) Is the Accounting System appropriate and fit for purpose comparative to the Council's requirements and the transactions regularly passing through the Accounts?
d) Is there a clear audit trail from the underlying financial records to the Accounts?
e) Are the financial information and data being produced from the accounting system and delivered to Parish Councillors adequate and relevant to the Council's needs?
f) Have re-claims for VAT paid been submitted to HMRC regularly and promptly?
g) Are details of the General Reserves, Earmarked Reserves and Restricted Reserves identified
and correctly recorded in the accounts?
h) Was a Community Infrastructure Levy (CIL) Report (if applicable) for the year 2022/2023 submitted to Test Valley Borough Council by the due date of 31 December 2023? Has a CIL Report been prepared for the year 2023/2024?
i) With regard to Community Newsletter partnership, are allocation of funds and expenditure placed in separate cost and nominal codes and all relevant information and data being reported to the Council and appropriately recorded in the End of Year Accounts?

3. Bank Reconciliation

a) Confirm that a Bank Reconciliation for each bank account has been carried out regularly and timely. Is the reconciliation being performed each month?
b) Has the Bank Reconciliation as at 31 March 2024 been performed correctly? Can the Bank Reconciliation be confirmed from Bank Statements and investment records and have any unpresented payments or receipts (if appropriate) been correctly identified in the Reconciliation?
c) Are there any unexplained balancing entries in any reconciliation?
d) Do the Council and its Committees (as appropriate) receive regular reports of bank balances and reconciliations? Are the details Minuted?

4. End of Year Procedures

a) Are year-end accounts prepared on the correct accounting basis (Receipt and Payments or Income and Expenditure)? Confirm correctness of entries in year-end accounts on a sample basis.
b) Are the details of the Earmarked Reserves and General Reserves correctly recorded in the accounts at the year-end?
c) Is there a clear audit trail from underlying financial records to the End-of-Year accounts?
d) If appropriate, does the PWLB principal outstanding at the year-end agree with PWLB's notification and information listed on the PWLB website?
e) Are there any outstanding legal, regulatory or contractual issues that may impact upon the Council and may require to be reflected in the accounts?
f) Has the End-of-Year AGAR for 2023/2024 been completed correctly? Have Sections 1 and 2 been (or have yet to be) approved, signed and dated? Does Section 2 (Accounting Statements) balance correctly? Can each entry be confirmed as correct?

5. Budgetary Controls

a) Has the Council prepared an annual budget in support of the Precept in respect of both 2023/2024 and 2024/2025 years of account?
b) Are budget papers suitably detailed to ensure that Councillors have sufficient information to make informed decisions?
c) Has the Precept amount been agreed in Full Council and clearly Minuted?
d) Are there any significant unexplained variances from budget?
e) Has actual expenditure against the 2023/2024 Budget been regularly reported to and considered by the Council?
f) Are Reserves (both General and Earmarked) regularly monitored? Is the level of overall Reserves adequate to provide for any unforeseen costs? Does the level of General Reserves meet best financial practice?

6. Internal Financial Controls, Payments Controls and Audit Procedures

A sample of payments made during the period April 2023 to March 2024 will be selected in order to examine/confirm the following:
a) Is there a clear audit trail to clearly demonstrate that Payments in the Cashbook are supported by invoices, properly authorised and Minuted?
b) Are Electronic Payments and other Internet Banking transactions, including transfers, properly recorded and approved? Is the Electronic Payment document confirming the date/time, payee and amount of the payment held with the invoice?
c) Has the VAT element on payments been correctly identified, recorded and reclaimed?
d) Have the appropriate Standing Orders and Financial Regulations been met?
e) Do the Council's Minutes provide a clear record of the payments made by including a list of the payments approved by Council at each meeting?
f) Is the statutory basis for the payment identified?

g) Have items or services above the de minimus amount been competitively purchased?
h) Is a Petty Cash system in operation? If so, are associated books and an adequate control system in place. Are written instructions in place for its use?
i) Are arrangements in place for the use of a corporate Credit/Debit Card. Are written instructions in place for its use and have they been formally approved by the Council and details included in Financial Regulations?
j) Are purchases by Petty Cash and/or Debit/Credit card evidenced/supported by invoices/vouchers? Confirm/test-check the current arrangements relating to the use of the card. Are the transactions reported to the Council?
k) Has the previous Internal Audit Report for the year 2022/2023 been presented to the Council and Minuted? Have any recommendations or areas of concern raised by the Internal Auditor been considered/addressed or an Action Plan in place?
7. Payroll Controls
a) Confirm the procedures in operation for the provision of Payroll Services (in-house or outsourced).
b) Do all employees have Contracts of Employment with clear terms and conditions?
c) Have there been any changes in staffing, staff appointments and rates of salaries paid since the 2022/2023 End-of-Year Internal Audit? If so, have all changes been agreed by the Council? Have PAYE and NIC been properly operated by the Council as an employer? Have P60 End- of-Year Certificates been prepared?
d) Has the Council been advised of the current NJC salary scales and approved any increases in salaries? Do salaries paid agree with those approved by the Council?
e) Are payments other than salary payments to employees reasonable and approved by the Council?
f) Are appropriate staffing policies (e.g. Lone Working, Grievance, Sickness and Absence Policies) in place and regularly reviewed?
g) Are workplace pension requirements being met and correctly applied? Have the Pensions Regulator's requirements been met in full (e.g. any necessary re-declarations made)?
8. Income Controls
A sample of income items received during the period April 2023 to March 2024 will be selected in order to examine/confirm the following:
a) Is income properly recorded in the accounting system (and promptly banked where appropriate)? Does documentary evidence exist to confirm that the correct amount of income has been invoiced/received?
b) Are security controls over cash and cheques adequate and effective? Are debtors encouraged to make payment electronically?
c) Are invoices promptly issued and followed up as necessary? Is the follow-up procedure adequate and effective? What is the current balance of debt outstanding?
d) Are all income sources, fees and charges reviewed each year to confirm appropriate and adequate rates are being charged? Have these issues been adequately dealt with in the budget process and are being monitored?
e) Are receipts reported routinely to the Council and Minuted?
9. Internal Control and the Risk Management arrangements
a) Are internal control systems documented and regularly reviewed? Is a Statement of Internal Controls in place?
b) Is an overall Risk Management Policy in place? Are the risk assessment documents being used in appropriate cases/incidents? Do they adequately cover risks (financial and other) faced by the Council and detail the mitigating actions in place?

c) Are Quarterly Internal Control Reports still prepared by a designated Councillor and reported to Full Council in order to regularly confirm that internal controls are effective?
d) Are key risk areas (e.g. play areas) adequately covered by risk assessments and reports regularly made to the Council? Are annual RoSPA inspections undertaken on all play areas owned by the Council?
e) Do Minutes record the Council carrying out an annual or regular risk assessment and review of internal control systems? Are arrangements in place to meet the Accounts and Audit Regulations requirement that the Full Council must formally consider internal control arrangements (including risk management arrangements) in each year of account?
f) Has the Council examined the risks involved in holding sums with one bank account and considered the costs/benefits of placing funds within a range of accounts to secure maximum protection under the Financial Services Compensation Scheme,
g) Has insurance cover been reviewed by the Council and a new policy entered into for the year 2023/2024? Is insurance cover (e.g. Employer's Liability and Public Liability) appropriate and adequate? Does the Fidelity Guarantee (Councillor/Employee Dishonesty) cover meet current best practice?
10. Assets Control and Valuations
a) Does the Council's Asset Register display all material assets owned by the Council or in its care? Is the Asset Register up to date and includes all acquisitions since 1 April 2023?
b) Are valuations consistent, year-on-year, to meet current valuation requirements?
c) Is the Asset Register regularly reviewed by the Council (at least annually)?
d) Have the items listed in the Register been agreed with those in the insurance schedules to ensure that appropriate cover is in force? Have all new acquisitions been included within the cover, where appropriate?
11. External Audit
a) Has the Certificate and Report from the External Auditors for the year 2022/2023 been presented to the Council?
b) Have all matters raised by the External Auditor been agreed/addressed by the Council or an Action Plan put in place?
12. Publication of Information
a) Has the Council met the statutory deadlines for the publication of documents on a publicly accessible website for the 2023/2024 accounts? Are the requirements under the Transparency Code 2015 being met?
13. Other Matters
a) Does the Council have official email addresses for correspondence and/or a secure e-mail system with a gov.uk address which is owned by the Parish Council rather than relying on the use of personal e-mail addresses that can change regularly?
b) Are there any areas in which the Clerk/RFO (or Council staff) require additional training or support?
c) Are there any other areas which the Clerk/RFO or Parish Councillors have requested Internal Audit to examine during this End-of-Year Internal Audit Review?

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May 2024