

Internal Audit Report

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

Name of council:	OVERSEAL PARISH COUNCIL		
Name of Internal Auditor:	Stuart McDonald	Date of report:	28/4/23
Year ending:	31 March 2023	Date audit carried out:	13/4/23

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 proper practices referred to in Accounts and Audit Regulations are set out in JPAG Practitioners Guide 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.

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:

I have carried out the Internal Audit of the Council and would like to thank Vicky Roe, the Clerk, for her time and assistance in enabling me to do my work in a timely and efficient manner.

Firstly, I will look at last year's internal and external reports.

The internal report identified a number of areas for improvement. I am pleased to report that most have been addressed, in particular the Risk Register and the consideration of the reserves position (although please see below for further comments on the reserves). Those that need further consideration are:

1. Asset Register - please see my comments below under "Fixed Assets".
2. Child Protection policy - this was mentioned a couple of years ago – I have been unable to ascertain its existence or adoption. I recommend this is in place as soon as is practical.

The external review by PKF Littlejohn of the 2021/2022 AGAR raised the following issues.

1. Assertion 3 on the AGAR (Section 1) had been incorrectly completed. This should be corrected, and the corrected version published on the website.

2. Attention was also drawn to the fact that when the fixed assets were updated in 2021/2022 to reflect what was considered to be a more accurate position regarding ownership, and therefore valuation, of assets, the prior year comparative in Section 2 was not adjusted. The 2020/2021 Box 9 figure in the Accounting Statements for 2021/2022 was therefore incorrect. Again, please see my comments on Fixed Assets below.

Under the Accounts and Audit Regulations 2015, Sections 1 and 2 of the AGAR must be published no later than 30/9 to include any amendments as a result of the limited assurance review. The documents on the website are the unamended version, and for this reason, I have ticked "No" to the control objective N.

3. PKFL also stressed the need for a review of the reserves position, following my comments.

Now to come to this year's audit, I would make the following observations:

1. Fixed Assets - the figure for Fixed Assets in the Accounting Statements (Box 9) is the same as last year's, £1,129,446. The list of assets is correctly published on the website and is itemised and each asset individually valued. So far so good. However, although I now believe that only assets actually owned by the Council are included - this was not thought to be the case prior to the review in 2021/2022 - there is an issue regarding the basis of valuation. In particular this refers to the Village Hall which is included at a valuation of £768,897. It is unclear how this valuation was arrived at. This may be historic cost, although perhaps unlikely given its age, or it may be a replacement or insurance valuation. I recommend that an attempt is made to establish how this figure was arrived at. I understand that discussions are ongoing regarding the future of the Village Hall given its current condition, and this may provide an opportunity to update the valuation.
2. Reserves - I note that the Council have formulated a reserves policy during the year, which is a good basis for controlling both general and earmarked reserves. The Council has a cash balance at 31.3.23 of £157,818, of which £30,000 has been agreed as a General Reserve, and £64,127 previously agreed as earmarked to 5 projects. This leaves a balance of £63,691. I understand it is the Council's intention to add this to the reserve earmarked for the Village Hall, thus increasing the amount set aside for the Hall to £111,818. It is the Council's responsibility to decide on its reserves, earmarked and general. As for the general reserve of £30,000, this is within the recommended guidelines of between 3 and 12 months of normal annual expenditure. The earmarked reserves stand at £127,818, and I would only repeat the guidance from the Practitioners Guide 2023 - paragraph 5.38.

"There is, in practice, no upper or lower limit to EMR/CRRs save only that they must be held for genuine and identifiable purposes and projects, and their level should be subject to regular review and justification (at least annually and at budget setting), and should be separately identified and enumerated. Significant levels of EMRs in particular may give rise to enquiries from internal and/or external auditors

3. Financial Regulations (FR) - FR item 3.2 states: "The council shall consider annual budget proposals in relation to the council's three-year forecast of revenue and capital receipts and payments including recommendations for the use of reserves and sources of funding and update the forecast accordingly." I can find no evidence of a 3-year forecast. The Council may like to consider whether or not this may be a useful exercise, but whatever it decides, its practice should follow its own FR.

4. Precept - the actual £amount of the 23/24/ precept was not minuted at the time it was set. In future, the specific figure agreed upon should be minuted to formalise the setting of the precept following the budgetary discussions.

I am required to explain why I have ticked “Not covered” to Item F (Petty Cash) and item K (Correctly exempted from an external limited assurance review). As for item F, it is quite simply that the Council do not operate a petty cash system. Regarding item K, the Council was not in a position to exempt itself from a limited assurance review, and correctly did not do so.

CONCLUSION

Notwithstanding the comments above, by reviewing the hard evidence, discussing with the Clerk, and selectively testing a small number of transactions, I am satisfied that the Council is operating sound policies and procedures which enable it to deliver its services and fulfil its responsibilities. I have tested all the Internal Control Objectives I am required to consider, and in all significant respects the objectives have been met, with the exception of objective N, as noted above.

Yours Sincerely



Stuart McDonald - Internal Auditor to the Council

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The figures submitted in the Annual Governance and Accountability Return are:

	Year ending 31 March 2022	Year ending 31 March 2023
1. Balances brought forward	182,547	128,674
2. Annual precept	33,000	36,142
3. Total other receipts	104,061	57,252
4. Staff costs	23,316	18,249
5. Loan interest/capital repayments	0	0
6. Total other payments	167,618	46,001
7. Balances carried forward	128,674	157,818

8. Total cash and investments	128,674	157,818
9. Total fixed assets and long-term assets	1,129,446	1,129,446
10. Total borrowings	0	0