



# Internal Audit Report

## Annual Internal Audit of: Thurcroft Parish Council 2021/22

June 2022

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## **Audit carried out by:**

Dave Huddleston CPFA

## **Report distribution:**

Thurcroft Parish Council

Alan West – Clerk / Responsible Financial Officer to Thurcroft Parish Council

## INTRODUCTION AND SCOPE

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As part of the annual declarations made by Parish Councils, it is a requirement to undertake an independent internal audit relating to each financial year. An internal audit for the financial year 2021/22 has been undertaken and this report provides details of that review.

As with recent years, a risk-based approach has continued to be adopted for this internal audit, with appropriate sample selections based on the volume and value of the transactions within the accounting and banking records. Additional key documentation relevant to the 2021/22 financial year were also reviewed as part of the audit, including:

- Parish Council minutes
- Cashbook records, invoices and receipts
- Payroll records
- VAT records
- Financial Regulations
- Asset and risk registers
- Internal control and internal audit effectiveness reviews

Due note and consideration were also undertaken in respect of the previous year's internal and external audit of Thurcroft Parish Council. As declared above, this internal audit approach was risk-based and therefore involved sample testing. Therefore, by definition, it cannot be guaranteed that all transactions have been correctly recorded and accounted for.

The internal audit reviews for the previous two years have been conducted during times of national lockdowns during the Covid-19 pandemic. As such, they have been completed on an entirely remote basis, to ensure public and personal safety throughout. This approach has continued to be taken for the current year's internal audit review, building further on the success of the previous years. Whilst paper records have not been presented or reviewed in person, all requested documentation has been provided electronically. The methods of communication have included:

- Email exchange
- Microsoft Word, Microsoft Excel and Adobe pdf file document exchange
- Scanned images of prime documentation (bank statements / invoices / signed Council minutes / income amounts due etc)

The above information exchanges have also been supported by telephone discussions and the use of video conferencing facilities.

Familiarity with the paper records held at Thurcroft Parish Council from previous years' internal audit reviews has clearly facilitated an understanding of the paper documentation records held by the Parish Council, thus supporting this year's approach yet again.

This internal audit culminated with the completion of the Annual Internal Audit Report section within Thurcroft Parish Council's Annual Governance and Accountability Return for 2021/22.

## EXECUTIVE SUMMARY

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### Assurance Opinion – Effective (see Appendix 1 for definitions)

In all significant respects, as declared in the Annual Internal Audit Report section of the Annual Governance and Accountability Return 2021/22, the review confirmed that all internal control objectives were being achieved throughout the financial year to a standard adequate to meet the needs of the Parish Council. This was supported by the following notable points of good practice:

- The working papers and associated primary documentation supporting the accounts remain clear, logically structured and suitably cross-referenced, facilitating a transparent audit trail throughout.
- Sample testing of a range of transactions demonstrated that they were appropriately and accurately recorded and cross-referenced to the primary documentation.
- Parish Council meeting documentation reviewed remains appropriately structured, recorded and authorised, and effectively links decision making to the financial accounts.

### Progress against previous year's recommendations

- Update of the Financial Regulations to reflect the revised electronic banking arrangements
  - A draft report received from the Clerk to the Parish Council has been prepared for submission to the next meeting of Thurcroft Parish Council. This report outlines the background of the revised banking arrangements that were needed to secure strong governance throughout the Covid-19 pandemic. Authorisation of payments via the Clerks Imprest Account (mainly wages) will continue to be by the sole authority of the Clerk. Payments made from the Parish Council's current account (Community Directplus Account) are currently being made by the Clerk to the Parish Council, but options are being obtained from the Cooperative Bank to restore dual authorisation of payments from this account in line with the financial controls that existed prior to the Covid-19 pandemic. Once the most appropriate option has been established and implemented, the Clerk to the Parish Council has provided assurance that the Financial Regulations will be updated accordingly.
- Routine replacement programme of computer facilities
  - It is essential to adopt a routine replacement programme of computer facilities to ensure that the risks relating to breakdown, loss of data, reducing compatibility or out of date functionality are minimised. The Clerk to the Parish Council has recently acquired a new laptop with appropriate functionality and anti-virus software to safeguard and mitigate this risk.

## **Coronavirus Pandemic**

The 2021/22 financial year started during a national lockdown phase and restrictions have gradually eased throughout the remainder of the year, with operating levels now approaching pre-Covid levels. An earmarked reserve is maintained to mitigate any potential financial losses that may arise, should further lockdown periods occur.

Throughout the pandemic, alternative arrangements were needed to be adopted by the Parish Council to ensure the ongoing governance of the Parish Council. The arrangements adopted are considered to be reasonable and proportionate to protect its financial control environment and associated governance arrangements throughout these unprecedented times.

As part of these revised arrangements a more electronic style of banking was adopted including direct-to-bank receipts and payments (see above reference to previous year's recommendations). In line with pre-pandemic financial controls, dual authorisation was needed for payments from the Parish Councils current account (Community Directplus Account). As noted above, options are being explored to ensure this financial control is restored to its pre-pandemic level, and the Financial Regulations are to be subsequently updated to reflect this once resolved. The actions being taken by the Clerk to the Parish Council in this regard, as outlined above, are endorsed.

Electronic banking arrangements do give rise to a risk in respect of cyber-fraud, although mitigations are in place with anti-virus software being in place on the relevant computer facilities. With that said, recognition of this risk on the strategic risk register, together with the controls in place to mitigate this risk, is considered to be appropriate.

## **Payroll processing**

Payroll processing continues to be completed by the Clerk to the Parish Council on a monthly basis. This is a time-consuming activity which many organisations outsource. Discussions with the Clerk to the Parish Council have culminated in the potential option to outsource this activity for the Parish Council, particularly bearing in mind the ever-increasing demands on the Clerk to the Parish Council for all other duties carried out. Outsourcing payroll could be a relatively low-cost option to consider, to alleviate the pressures currently being faced by the Clerk to the Parish Council.

## **Business Continuity**

Business continuity is an integral part of business planning and focuses on minimising an organisation's risk of disruption and maintaining its essential functions on an ongoing basis. Emergency cover arrangements are in place and referenced on the strategic risk register, should the Clerk to the Parish Council become ill, albeit on an emergency basis.

However, taking this a stage further, the retirement of the Clerk to the Parish Council is an inevitability that should also be considered, with consequential succession planning. Planning ahead for this situation and potentially securing relevant 'overlap' would ensure the smooth running of the governance arrangements and financial control environment for the Parish Council, at the point at which this situation arises.

## **Bank balances**

The overall bank balance for the Parish Council continues to increase year on year and has exceeded £1 million at 31 March 2022. Earmarked reverses are in place for specific and expected levels of expenditure and the majority of the cash balances are invested in a low-risk interest-earning, instant access account with the Cooperative Bank.

However, sufficient cash balances are available to explore additional options for investment in other, slightly higher interest-earning accounts (eg fixed-term deposit accounts) whilst still maintaining this as being a low risk investment strategy. With the impact of well-publicised changing rates of inflation and base rate increases (3 increases during the latter part of 2021/22 and a further increase in May 2022), this presents the Parish Council with a potential opportunity to achieve a better return on its cash balances.

## **Accounts, records and supporting working papers**

The accounts, supporting records and cross-referenced working papers for 2021/22 continue to be maintained and produced in exemplary form by Alan West (Clerk / Responsible Financial Officer to Thurcroft Parish Council). The continued determination and dedication to ensure strong governance arrangements across the Council throughout unprecedented and challenging times is clearly apparent and should be highly commended. This approach demonstrates continual due diligence and professionalism in all matters of financial control and governance.

Alan's comprehensive knowledge and experience combined with his transparency and openness in discussing and agreeing recommendations arising from this internal audit continue to be valued and appreciated. The flexibility of remote engagement for this review has been adopted for the third year running and have supported this internal audit to be undertaken. I would like to formally thank Alan for his continued professional commitment, engagement and highly commendable support throughout this review.

## RESPONSIBLE FINANCIAL OFFICER'S RESPONSE

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It is my professional opinion that the assurances given in this audit have been based on an audit delivery mechanism which reflects current best practice and combines rigour, context and proportionality.

As such the internal auditor's knowledge of local council and wider related regulation, legislation and its application continues to be evidenced by the lines of enquiry, comment and advice given during the audit process. This not only delivers solid assurances but also provides an informed basis for recommendations focussed on real improvement and development.

The significant value added element of the internal auditor's work reinforces the strength of the overall assurances given and provides confidence to elected members and the public as to the existence of good governance practice within the Council.

The challenges presented by the exceptional circumstances of the coronavirus pandemic inevitably impacted on the normal delivery of the annual internal audit as is outlined in the Executive Summary section under the heading of 'Coronavirus Pandemic'. This did however provide an opportunity for the internal auditor to produce and successfully deliver his report in a way that harnessed available technology and in my opinion has led to the enhancement of what is already an exemplary product.

This approach has now become the norm and I would wish to specifically highlight the internal auditor's positive, flexible and proactive approach, including his willingness to draw attention to different working practices utilising available and relevant technology which has led to an uncompromised internal audit report within tight time scales. All of these factors stand alongside the internal auditor's real world appreciation of the ongoing challenges to good governance and has resulted in my opinion to assurances of the highest order.

## RECOMMENDATIONS

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### Significant recommendations:

- There are no recommendations of significance that are considered to be of high or medium priority.

### Advisory recommendations:

- The recommendations detailed below are low by nature of priority and are therefore considered to be advisory. Consequently, no formal management response is sought against these recommendations for the completion of this review.

Ref	Findings	Advisory recommendations
1	The Council have been operating a more electronic style of banking, including direct-to-bank receipts and payments. Options are being explored to ensure that dual authorisation is restored in respect of payments from the current account to return this financial control to pre-pandemic levels, and the Financial Regulations are subsequently being updated to reflect this once resolved.	It is recommended that the most pragmatic solution is deployed to ensure that dual authorisation is restored for payments from the Council's current account and that the Financial Regulations are subsequently updated to reflect this.
2	Electronic banking arrangements do give rise to a risk in respect of cyber-fraud, although mitigations are in place with ant-virus software being in place on the relevant computer facilities.	It is recommended that the Council's Strategic Risk Register is updated to reflect this risk, together with controls in place to mitigate this risk.
3	The Council operates the payroll 'in-house' and this is completed on a monthly basis by the Clerk to the Parish Council. This is a time-consuming activity and options could be considered for outsourcing this function to alleviate pressures on the Clerk to the Parish Council.	Options for outsourcing the payroll function to be considered.
4	The Strategic Risk Register references business continuity risks arising from the Clerk to the Parish Council becoming ill and mitigates this on an emergency basis. However, succession planning in respect of the potential retirement of the Clerk to the Parish Council could also be considered to ensure the smooth running of the governance arrangements and financial control environment for the Parish Council as and when this situation arises.	It is recommended that the Parish Council consider and develop a clear approach to succession planning to minimise the risks of disruption at the point at which the Clerk to the Parish Council retires.
5	The overall bank balances of the Parish Council continue to rise, exceeding £1 million at 31 March 2022. These balances are sufficient to explore opportunities of higher interest-earning accounts to be utilised (eg fixed term deposit accounts) whilst still maintaining a low risk investment strategy, to gain an increased return on its cash balances.	Consider options to increase the rate of interest earned on cash balances whilst still maintaining a low risk investment strategy.

Dave Huddleston CPFA

Director

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## ASSURANCE DEFINITIONS

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### **Effective:**

- The critical review on the activity provides a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance. The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.
- As a guide there are a few low risk / priority actions arising from the review.

### **Some improvement needed:**

- The critical review on the activity provides a reasonable level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance. There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low. A few specific control or risk issues are identified.
- As a guide there are low to medium risk / priority actions arising from the review.

### **Significant improvement needed:**

- The critical review on the activity identified numerous concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.
- As a guide there are numerous medium and a few high risk / priority actions arising from the review. However, no system failures were identified that could result in damage to the Parish Council's reputation, material financial loss, adverse impact on members of the public or failure to comply with legal requirements.

### **Inadequate:**

- The critical review on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance. There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore, the risk of the activity not achieving its objectives is high.
- As a guide there are a large number of high risks / priority actions arising from the review. Additionally, system failures were identified that could result in damage to the Parish Council's reputation, material financial loss, adverse impact on members of the public, failure to comply with legal requirements.

These definitions are used as a means of measuring or judging the results and impact of matters identified in the audit. The assurance opinion is based on information and evidence considered during the audit. Consequently, absolute assurance cannot be guaranteed that material errors, loss or fraud do not exist.