



# Internal Audit Report

## Annual Internal Audit of: Thurcroft Parish Council 2020/21

June 2021

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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 2020/21 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 2020/21 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 timing of this year's internal audit was during stage 3 of the national roadmap out of lockdown arising from the global Coronavirus pandemic. The previous year's internal audit review was the first time this had been carried out on an entirely remote basis, to ensure public and personal safety. This approach has continued to be taken for the current year's internal audit review, building on the success of the previous year. 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, necessitated by the Coronavirus pandemic situation.

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 2020/21.

## 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 2020/21, 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 continue to remain clearly and logically structured and are suitably cross-referenced.
- 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 continues to effectively link decision making to the financial accounts.
- A very clear, transparent and cross-referenced audit trail continues to remain demonstrable throughout the supporting working papers.
- A Major Decision Record under Delegated powers was authorised by the Council at its first meeting (July 2020) after the initial lockdown period commenced to preserve the ongoing effectiveness of the governance arrangements.

### Progress against previous year's recommendations

- Coronavirus Pandemic – Financial Impact
  - At the time of the 2019/20 internal audit review, undertaken in July 2020, the UK was rising out of the first national lockdown and moving into a local lockdown phase. An earmarked reserve of £10k had been established within the accounts for 2019/20 to provide a financial cushion to cater for the potential impacts of the pandemic. Further lockdown periods over the remainder of 2020 and 2021 to date have generated extended periods of lockdown over and above those known in July 2020. Consequently, the earmarked reserve relating to the Coronavirus pandemic has been increased during 2020/21 by a further £5k to £15k as at 31 March 2021. This response is considered to be appropriate and measured.
- Governance arrangements in respect of the Coronavirus Pandemic
  - The Parish Council had needed to respond to and adjust its operational and governance arrangements throughout the pandemic lockdown periods to ensure public and personal safety. As such, revised arrangements were promptly established in full consultation with the Parish Council and culminated in a Major Decision Record under Delegated powers being authorised by the Council at its first meeting after the initial lockdown period commenced. This response to the

pandemic situation ensured the effective continuation of the governance arrangements at Thurcroft Parish Council and is considered to be the most appropriate and proportionate action to preserve those arrangements throughout the pandemic.

- The Review of the Effectiveness of Internal Control has been updated in February 2021 in respect of Significant Internal Control Issues. The statement captures the approach of the response but would benefit from the inclusion of the specific and commendable establishment and approval of the Major Decision Record under Delegated Powers in July 2020. Furthermore, these delegated powers have been carried out and reported back in full to the Council, further strengthening the internal controls and governance arrangements within the Council.
  - Additionally, and directly related to the revised governance arrangements needed in response to the pandemic, the Council now operate a more electronic style of banking, including direct-to-bank receipts and payments. It is understood through discussions with the Clerk to the Parish Council that the Financial Regulations are shortly to be reviewed. It would be beneficial to update the Financial Regulations to reflect the revised arrangements that are now currently in place.
- Expenditure off-setting
    - Expenditure had previously been off-set against income (£3k during 2019/20) in one specific area of the Council's activities. As part of last year's annual internal audit review, it was recommended that banking cash income net of any cash expenditure should be discouraged. This practice was immediately addressed in response to that recommendation, and cash income is now recorded and banked separately from expenditure.

## **Coronavirus Pandemic**

The Coronavirus pandemic has had an unprecedented public health and economic effect on the general public, businesses and organisations across the globe. Parish Councils continue to be no exception to this. The operations, financial standing and governance arrangements have all been affected to varying degrees of significance since March 2020 and the Council has responded in an appropriate and proportionate manner to adapt and protect its financial controls and governance arrangements.

The 2020/21 accounts show that an earmarked reserve of £15k has been set aside in respect of this pandemic to provide funds directly in support of this ongoing issue. This proactive approach is considered to be a positive measure that has been taken by the Parish Council, initially established at the end of 2019/20, and then extended during the course of 2020/21. The adequacy of this fund should continue to remain under constant review as lockdown restrictions ease over the coming months.

The strategic risk register captures issues relating to the pandemic in respect of business continuity and the impact on health and safety and service provision. Mitigating controls are in

place to manage these risks. Due to the extended period of lockdown we are currently in, and the potential slow rise of customer confidence in using the Gordon Bennett Memorial Hall post-pandemic, income levels would not expect to rise immediately back to normal operating levels as they were prior to the pandemic. Whilst an earmarked reserve has been established and routinely assessed for its adequacy, it could be considered appropriate to record the lost income stream on the strategic risk register, until such time that normal levels of income return.

## **Technological Developments**

Over the course of the pandemic, there has been a substantial and unavoidable increasing reliance upon technology in our personal lives and also our professional lives. It is very clear that the use of technology has had several key benefits for the Council ranging from a more efficient banking regime operated by the Council through to carrying out video conferencing facilities for Parish Council meetings and also in support of the annual internal audit.

Future-proofing in technological terms is a vital part of supporting the Council's governance and internal control framework. Whilst it is clear that the use of backup facilities are now embedded in the Council's routine procedures, the computer facilities themselves should be considered for their appropriateness, fit-for-purpose nature and useful life. Ideally, a routine replacement programme should be established to ensure that the risk of breakdown, loss of data, reducing compatibility or out of date functionality is minimised.

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

The accounts, supporting records and working papers for 2020/21 continue to be maintained and produced in exemplary form by Alan West (Clerk / Responsible Financial Officer to Thurcroft Parish Council). The determination, drive and adherence to strong governance arrangements across the Council throughout incredibly challenging times is very apparent and should be highly commended. This approach demonstrates due diligence throughout and remains a continual professional approach in all matters of financial control and governance.

Alan's extensive knowledge and experience combined with his transparency and openness in discussing and agreeing recommendations arising from this internal audit are valued and appreciated. Building on past experiences, the flexibility of remote engagement throughout this review have also supported this internal audit to be undertaken for the second year whilst in some form of national lockdown arising from the pandemic. I would like to formally thank Alan for his continued professional and admirable support and engagement 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 has inevitably impacted on the 'normal' delivery of the annual internal audit as is outlined in the, 'Introduction and Scope' section and under the heading of 'Coronavirus Pandemic' within the internal auditors report. This is the second consecutive year of delivery of the annual internal audit within this prevailing abnormal environment and building on the successful delivery of last year's internal audit the abnormal is now becoming the normal. I would wish once again to specifically highlight the internal auditor's positive and proactive approach, including his willingness to suggest and engage in different working practices utilising available and relevant technology in a fully flexible manner which has led to an uncompromised internal audit report within tight time scales. This approach alongside the internal auditors 'real world' appreciation of the challenges to good governance and business continuity posed by the pandemic has resulted in my opinion to an assurance opinion of the highest value.

## 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 Review of the Effectiveness of Internal Control has been updated in February 2021 in respect of Significant Internal Control Issues. The statement captures the approach of the response but would benefit from the inclusion of the specific and commendable establishment and approval of the Major Decision Record under Delegated Powers in July 2020.	It is recommended that the Review of the Effectiveness of Internal Control be updated to formally record within that document that full Delegated Powers were obtained by the Clerk and approved in July 2020.
2	The Council now operate a more electronic style of banking, including direct-to-bank receipts and payments. It is understood through discussions with the Clerk to the Parish Council that the Financial Regulations are shortly to be reviewed to reflect these revised arrangements.	It is recommended that the Financial Regulations are updated to reflect the revised banking arrangements and then formally approved by the Council.
3	Income at the Gordon Bennett Memorial Hall has naturally reduced significantly throughout the pandemic. This income stream would not be expected to rise immediately back to normal operating levels as they were prior to the pandemic until all lockdown measures ease and customer confidence returns. Whilst an earmarked reserve of £15k exists at 31 March 2021 to support the mitigation of this risk, this lost income stream has not been recorded on the Strategic Risk Register.	It is recommended that the Strategic Risk Register be updated to reflect the lost income stream at the Gordon Bennett Memorial Hall, together with the mitigating actions taken, particularly in respect of establishing an earmarked reserve and the ongoing monitoring of the appropriateness of the level of that reserve.
4	Future-proofing in technological terms is a vital part of supporting the Council's governance and internal control framework. Whilst it is clear that the use of backup facilities are now embedded in the Council's routine procedures, the computer facilities themselves should be considered for their appropriateness, fit-for-purpose nature and useful life.	It is recommended that a routine replacement programme of computer facilities should be established to ensure that the risk of breakdown, loss of data, reducing compatibility or out of date functionality is minimised.

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.