



Report of a Review of the Effectiveness of 2021/2022 Internal Audit for Stanway Parish Council



Review carried out by Kate Houlihan

June 2023

Section 1 – Background and Scope of Review

1.1. Local Council Consultancy (LCC) was requested to carry out a desk-based review of the effectiveness of Stanway Parish Council's internal audit and provide a written report to its Audit Committee using the review process set out in Governance & Accountability for Smaller Authorities 2021 (the Practitioner's Guide). The Joint Panel on Accountability and Governance (JPAG) recommends that Authorities should at least annually out a review of the effectiveness of their overall internal audit arrangements.

1.2. Reviews should be evidence based, ideally with evidence gathered during the course of the financial year.

1.3. Evidence will include:

- Previous review and action plan
- Annual report by internal audit
- Reports of the external auditor
- Other reports from the internal auditor

1.4. The JPAG further advises that the review should be designed to provide sufficient assurance that standards are being met and that the work of internal audit is effective.

1.5. Other than complying with regulations and ensuring standards are met, the review ensures that that the body and its councillors or committee are fully aware of the role and activities of the internal auditor. They can ensure that they are not only complying with the legislation, but also obtaining other benefits for the body from the internal audit. By understanding what is being done and when, the body can often ensure that it directs the internal auditor's work and then uses the reports of the internal auditor to make improvements. The internal audit may also highlight risks that need to be addressed. By ensuring the internal audit is effective, it becomes more than a statutory box ticking exercise and value can be obtained for the body.

1.6. The role of the internal auditor can be likened to that of the "critical friend" role undertaken by school governors, by testing and questioning current practices they are seeking not just to prove compliance but support improvement and development.

1.7. Kate Houlihan, LCC Associate, was appointed to carry out the review. Kate is a CiLCA qualified and experienced Clerk who is also an Internal Auditor for the Northamptonshire County Association of Local Councils.

1.8. The review was carried out remotely, drawing on documents and evidence provided by

from the Council's website, and a conversation with Gordon Mussett the Council's Internal Auditor.

1.9. It is important that the Council considers the outcomes of these reviews, in carrying out this review I noted that the review for 2018-2019 dated August 2019, and the review for 2019-20, dated December 2020, were not considered by the Internal Audit Committee (IAC) until June 2021, and again in the November Internal Audit Committee meeting.

1.10. However, it was pleasing to note that the review for the 2020 -2021 year was considered by the Corporate Governance Committee in October 2022, and led to a restructuring of the Council's committees. I hope that this reduction in meetings has had a positive impact on the workings of the Council.

Section 2 – Report on the Review of the Effectiveness of Internal Audit 2021/2022

2.1. It is noted that the period under review covers 1 April 2021 to 31 March 2022, this will have seen Covid restrictions lifted and a return to "business as normal".

2.2. This was a very busy period for the Council. Consideration of the Stanway Lakeland Centre, the Corporate Governance Review, tenders for updated play equipment, staffing changes; including the appointment of a new clerk, as well as the day-to-day management of council facilities made this an exceptionally busy time for the Council.

2.3. The Parish Council's final Internal Audit for 2021/2022 was carried out in May 2022, with interim audits undertaken in August 2021 and October 2021. The Internal Auditor was not able to positively complete Annual Internal Audit Report (AIAR) within the Annual Governance & Accountability Return (AGAR) as he found weaknesses in two of the Internal Control Objectives which were:

C "this authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these".

And

H "Asset and Investment registers were complete and accurate and properly maintained."

The Internal and External Auditor's reports are shown in Appendix 1.

2.4. The External Auditor (EA) gave a qualified audit opinion for the 2021-2022 year. Their report was issued on 25 September 2022. The EA identified that expenditure on staff mileage and ancillary expenses was wrongly allocated to Box 2 "staff costs" within the Accounting Statements. The External Auditor also stated that the Council **must** take action

to identify the weaknesses identified by the Internal Auditor.

2.5. 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. This review sets out a number of expected standards in the table below along with the evidence found during the review.

| Expected Standard | Evidence of Achievement | Areas for development / Details of Evidence Reviewed. |
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| 1. Scope of internal audit | <p>Terms of reference to have been approved by Full Council.</p> <p>Scope of audit work takes into account risk management processes and wider internal control.</p> | <p>A copy of the terms of reference for the Internal Audit Service provided by Mr Mussett were supplied by Stanway Parish Council's Finance Officer. These Terms of Reference (TOR) are due to be reviewed every three years. It is not clear when the TOR are due to be reviewed.</p> <p>However, the minute confirming Mr Mussett as internal auditor for the year 2021/2022 27/May/2021 does not refer to the terms of reference.</p> <p>It would be straightforward for this agenda item to be expanded to include "it is proposed to confirm the appointment of xx as Internal Auditor for the year xy/yy and to re-confirm the terms of reference for the service. I would note that this issue was also raised in the 2020/2021 review."</p> <p>I note that the Council intended to go out to tender for Internal Audit work from 2022/23.</p> <p>The scope of audit work as detailed in the terms of reference is comprehensive.</p> |
| 2. Independence | <p>Internal Auditor has direct access to those charged with governance (see Financial Regulations).</p> <p>Reports are made in own name to management.</p> <p>Auditor does not have any other role within the council</p> | <p>All reports to Council are made in the name of Gordon Mussett who has no other role within the Council.</p> <p>During a phone conversation with Mr Mussett, it was confirmed that he has no other role within the Council.</p> <p>All internal audit reports are clearly made in the name of Mr Mussett.</p> |
| 3. Competence | <p>No evidence that internal audit work has not been carried out ethically, with</p> | <p>Mr Mussett is an experienced Clerk and auditor who has worked for a number of councils within the area.</p> |

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| | integrity and objectivity. | His reports are comprehensive and demonstrate a strong understanding of best practice as detailed in the Practitioners Guide. |
| 4. Training and Understanding | <p>Responsibilities for officers and internal audit are defined.</p> <p>The responsibilities of council members/officers are understood; training is carried out as necessary.</p> | <p>For internal audit to be fully effective it is essential for officers and members to fully understand the process.</p> <p>In the review for the previous year, I suggested that it may be useful for councillors and staff to undergo training in this area. The minutes do not show any evidence of councillor training, but the Clerk was undertaking CiLCA training, and the Finance Officer had undertaken ILCA.</p> <p>As elections were held for Stanway Parish Council in May 2023 now would be an ideal time for new councillors to undergo training and long-standing councillors may benefit from refresher training.</p> |
| 5 Audit Planning | <p>How is the audit planned? Is the scope agreed with the auditor?</p> <p>Is there an audit plan? Has the plan been approved by the council [date]?</p> | <p>In June 2021 the Internal Audit Committee agreed an audit plan for the 2021 / 2022 year: To DECIDE on the Internal Audit plan for FY 2021/2022. It was AGREED that the following matters should form part of the Audit Plan for the coming year:</p> <ol style="list-style-type: none"> 1. Review of outstanding recommendations 2. Review of Health and Safety Policies 3. Recommendations/advice on reasonable requirements for Health & Safety, Training within the Risk Management Framework. <p>The planning of the audit work was a positive step, however the subsequent recommendations from the Internal Auditor were not always followed up in a timely manner.</p> |

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| <p>Audit Reporting</p> | <p>Internal Audit has been reported.</p> <p>Has a clear plan for any actions needed been agreed?</p> | <p>The reports of the Internal Auditor are regularly reviewed by the Full Council, the Internal Audit Committee (IAC) and the Community Governance Committee (CGC). Other committees such as Staffing are passed items to review as needed.</p> <p>I identified three instances where the IA identified weaknesses to the council, and whilst there is strong evidence each of the audit reports was considered, progress on the actions during the review period was slow. No timescales were agreed for the actions needed.</p> <p>1) In his Interim Report of August 2021 the Internal Auditor identified that risk assessments and asset registers needed to be reviewed. His report was submitted to the CGC and IAC committees and Council, and whilst there is evidence of work being carried out the work was not completed. This led to the Internal Auditor answering no to sections C and H of the AIAR.</p> <p>I would usually expect a council to undertake two types of risk assessment, firstly operational risk assessments, for example for maintenance staff using machinery, or a risk assessment to manage a community event.</p> <p>And secondly a financial or “corporate” risk assessment, looking at the financial and governance risks a council face. There is evidence of operational risk assessments being considered during the review period. But I can find no evidence of a financial risk assessment being adopted by the Council. (I have looked at minutes beyond the period of this review but was unable to see any clear evidence that this had subsequently taken place)</p> |
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| | | <p>2) Again, in August 2021 the IA, identified the Asset Register needed consideration, but the review does not appear to have been completed and adopted by the Community Governance Committee until December 2022.</p> <p>3) In October 2021 the Internal Auditor identified the need for the Council to “adopt (personnel policies) without delay” But again progress on this was lengthy consideration originally consideration was given to appointing an external contractor to carry out the work before the CGC asked officers to review policies in house in March 2022. A staff handbook including relevant policies was then adopted by the staffing committee in November 2022.</p> <p>The final Internal Audit report for 21/2022 was approved by Full Council in May 2022. But there is no reference in the minute acknowledging the actions that needed to be taken.</p> |
| <p>Add value, be forward looking and assist the organisation in achieving its objectives</p> | <p>Demonstrated through positive management responses to recommendations and follow up action as called for.</p> | <p>Whilst stated in the introduction, this was an exceptionally busy time for the Council, actions raised by Internal and External Auditors do not appear to be given a high enough priority. The Council should not consider a qualified audit or an “other matters” report to be an acceptable outcome to the process. The Council may need to have provided additional resource to ensure that weaknesses in governance identified by the Internal Auditor were actioned in a timely way.</p> |

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| Ensure the right resources are available | Adequate resource is made available for internal audit to complete its work. Internal auditor understands the body and the legal and corporate framework in which it operates. | The Internal Auditor is supported by officers and members as necessary and is able to complete his work effectively. |
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Section 3 – Summary and Recommendations

1. Based on the evidence examined during this review, the Internal Audit process for Stanway Parish Council did not work wholly effectively during the period reviewed.
2. Actions raised within the Internal Audit sometimes took too long to be addressed.
3. For 2021/2022 the External Auditor gave a qualified audit opinion and raised an “others matters” report. However, this was simply “noted” at Council. An action plan identifying how and when each of the matters raised by the External Auditor should have been made. If the recommendations made by the Internal Auditor had been addressed the External Auditor would not have raised all the items in their report.
4. Members especially those new to the Council will benefit from training on all aspects of Council governance.

Section 4 – Post Script

1. This report was originally prepared in June 2023; however the draft was not received (which was an error with my email). I therefore took the opportunity to review the AGAR for 2022/2023 to ensure that matters raised in the 2021/22 audit had been addressed. However no internal audit reports for 2022/23 could be found on the Council's website and at the time of writing this post script the Annual Governance and Accountability return for 2022/23 had not been published on the Councils website. These documents should have been published before the 1st 2023.