

# Report to the Harpole Parish Council 8 February 2021

## Effectiveness of Internal Control

### 1. INTRODUCTION

The Accounts and Audit Regulations 2015 require Councils to undertake an annual review of their internal control arrangements and report the outcome of the review to an appropriate meeting of the Council. This review should include a review of the effectiveness of the Council's system for the management of risk. Regulations require a "smaller relevant body" to undertake an annual review of internal audit arrangements. This report examines the current situation and any suggestions for improvement.

### 2. INTERNAL AUDIT

- 2.1 The Accounts and Audit Regulations require a Council to "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control". An annual review of the effectiveness of this system of internal audit is beneficial as part of continually improving governance and accountability. The review is designed to provide sufficient assurance for the Council that standards are being met and that the work of internal audit is effective.

#### Current Arrangements

- 2.2 The Council's Internal Auditor is appointed through Northamptonshire Association of Local Councils (NCALC) which provides the internal audit service for many town and parish councils in Northamptonshire. The Internal Auditor carries out a review each year of our internal controls.

#### Review

- 2.3 Guidance recommends that the review of internal audit covers five categories and these are addressed below.
- 2.4 **Scope of Internal Audit** – The Internal Auditor carries out all relevant work to satisfy the internal audit section of the Annual Return. A report is produced and all recommendations arising from the audit are discussed with the Clerk.
- 2.5 **Independence** – The Internal Auditor is given access to all relevant personnel and to all reports, records and supporting documents. Reports are prepared in their name and there is no influence on any recommendations made. The Internal Auditor has no other role within the Council.
- 2.6 **Competence** – The Internal Auditor is trained by NALC to carry out the internal audit and does so for a number of parish councils. There is no evidence of a failure to carry out internal audit work ethically, with integrity and objectivity.
- 2.7 **Relationships** – The Internal Auditor operates independently within the Council, with freedom to decide their audit priorities and no influence is exerted on the outcome of the audit. The respective responsibilities of officers and internal audit are defined in relation to internal control, risk management and fraud and corruption matters.
- 2.8 **Planning and Reporting** – The Internal Auditor arranges planning of the work with the Clerk and is available throughout the year for advice. Reports are submitted to the Clerk and to Full Council and to the external Auditors with the Annual Return.

2.9 The purpose of the review of internal audit is to assess effectiveness, and it is believed that the Internal Auditor has provided an effective internal audit service to the Parish Council in the year 2019/2020. Audits were undertaken on each section of the internal audit and if required, recommendations were made in the action plan of each of the areas, to improve arrangements and a report submitted.

### **3. INTERNAL CONTROL**

3.1 Internal control is the range of policies, procedures and other arrangements designed to safeguard the assets of the Council, and to reduce the chances of losses through fraud, corruption and error. Internal audit is part of internal control.

3.2 The Parish Council has policies and procedures which are regularly reviewed and can be seen in the minutes throughout the year. These include Financial Regulations and Standing Orders which are agreed annually to ensure their continued relevance.

3.3 There is lack of Councillor oversight of the internal accounting procedures which could be allocated to a single nominated councillor, or could be rotated amongst a group of councillors. Oversight should be exercised at least quarterly.

3.4 The accounting software, which was purchased to provide greater accountability and to assist with councillor oversight, has not been fully utilised.

### **4. RISK MANAGEMENT**

4.1 Another element of internal control is risk management. Risk is the threat that an event or action will adversely affect an organisation's ability to achieve its objectives and to successfully execute its strategies. Risk management is the process by which risks are identified, evaluated and controlled. It is a key element of the framework of governance together with community focus, structures and processes, standards of conduct and service delivery arrangements. A risk assessment review should be undertaken at least annually and should be carried out by the Council.

4.2 The Council has not previously prepared a risk register showing the corporate risks to the Council, however one is attached for approval.

### **5. CONCLUSION**

There are areas for improvement which should be addressed by the Council, but could be delegated to the Finance Committee:

- a) Lack of Councillor oversight
- b) Better use of accounting software
- c) Regular monitoring of risk register.

### **6. RECOMMENDATION**

Members are recommended to accept the report on the effectiveness of internal control and implement the areas for improvement.

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