

## Report to Carnforth Town Council

Author: Derek Whiteway

Date: 2<sup>nd</sup> May 2019

### Subject: Annual Internal Audit 2018/19

## 1 Introduction

- 1.1 At the request of the Town Clerk, an internal audit review has been undertaken of the Council's financial and internal control systems, with the objectives of:
- a) Providing assurance as to the adequacy and effectiveness of the systems in place and making recommendations as appropriate; and
  - b) Providing an opinion on to the extent of compliance with 'Internal Control Objectives' as set out in the standard form of Annual Internal Audit Report included in the Annual Governance and Accountability Return (AGAR) for 2018/19.
- 1.2 This report is structured along the lines of the 'Internal Control Objectives' specified in the AGAR.

## 2 Control Objective A - Appropriate accounting records have been properly kept throughout the financial year.

- 2.1 My review considered the accounting records for 2018/19 financial year, including bank statements, reports to Finance Committee and Council, VAT working papers, etc. My findings and conclusions were as follows:
- a) I concluded that the control objective had been met. No significant discrepancies were found, with exception of a small number of minor errors in the recording of figures, which have been brought to the attention of the Town Clerk.

**3 Control Objective B - This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.**

3.1 My review considered the payments system and the reports produced. A sample of paid invoices were examined. My findings and conclusions were as follows:

- a) I concluded that the control objective had been met. The payments system is well-designed and efficient in relation to the needs of the Council, with strong approval procedures.
- b) All sampled payments were properly incurred and supported by a valid invoice.

**4 Control Objective C - This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.**

4.1 My review considered the most recent risk assessment record and whether any view of risk had been undertaken. My findings and conclusions were as follows:

- a) I concluded that the control objective had been met.
- b) A revised risk assessment was considered by Finance Committee in July 2018 and recommended to Council for adoption.

**5 Control Objective D - The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.**

5.1 My review considered the budget monitoring reports, the budget and precept setting process and the overall financial position of the Council. My findings and conclusions were as follows:

- a) I concluded that the control objective had been met.
- b) A thorough and appropriately detailed budget process was carried out, resulting in precept approval in January 2019.
- c) Monitoring reports to Finance Committee and Council are now set at a suitable level of detail.
- d) The level of reserves at the end of the year (£17k at 31/03/19) is much reduced against the previous year (£29k at 31/03/18), reflecting higher financial demands during 2018/19. The increase in precept for 2019/20 is

justified with reference to this additional spending and to spending plans for 2019/20.

- e) Given the above, it is important that robust financial monitoring continues during 2019/20 and that work is continued to assess financial risks and determine an appropriate level of reserves in the long-term.

## 5.2 Recommendations:

**1. That, as part of the review of risk, attention is given to the level of financial risk facing the Council and this is used to determine a target level of reserves for the medium to long-term.**

## **6 Control Objective E - Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.**

- 6.1 My review considered the income paid into the bank accounts, the invoice list maintained and the current schedule of charges. My findings and conclusions were as follows:
  - a) I concluded that the control objective had been met.
  - b) Income is regularly received and banked into two bank accounts
  - c) VAT has been charged and declared to HMRC appropriately

## **7 Control Objective F - Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.**

- 7.1 The Council does not currently operate any petty cash based systems, therefore this objective is not applicable.

## **8 Control Objective G - Salaries to employees and allowances to members were paid in accordance with this authority's approvals, and PAYE and NI requirements were properly applied**

- 8.1 My review considered the Payroll system being operated and examined a sample of payments to employees. My findings and conclusions were as follows:
  - a) I concluded that the control objective had been met.

- b) HMRC's own 'Basic PAYE Tools' system is used, providing a sound process for calculating and reporting pay and PAYE/NI.
- c) Clarity has now been achieved about the treatment of all elements of pay processed through the payroll and this is working efficiently.

## **9 Control Objective H - Asset and investments registers were complete and accurate and properly maintained**

9.1 I examined the current Asset Register and discussed its contents with the Town Clerk. The Council does not currently hold any investments. My findings and conclusions were as follows:

- a) I concluded that the control objective had been met, subject to the following observations:
- b) The record of assets has been updated to include assets (office equipment, etc) acquired during the year.
- c) A planned formal review of the Asset Register has not yet been carried out and it is recommended that this be done at the earliest opportunity.

### **9.2 Recommendations:**

<p><b>2. That the planned formal review of the Asset Register is carried out as soon as practically possible.</b></p>
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## **10 Control Objective I - Periodic and year-end bank account reconciliations were properly carried out**

10.1 I reviewed the year end bank reconciliation and information provided in the Town Clerk's periodic monitoring reports. My findings and conclusions were as follows:

- a) I concluded that the control objective had been met
- b) The new cash book arrangements have facilitated the production of periodic bank reconciliations, reported to each meeting of the Finance Committee.

**11 Control Objective J - Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate debtors and creditors were properly recorded.**

11.1 I reviewed the Council's bank statements, monitoring reports and the draft Annual Governance and Accountability Return (AGAR). My findings and conclusions were as follows:

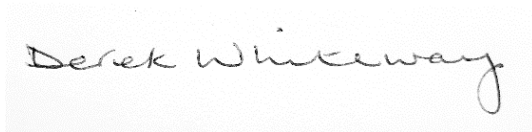
- a) I concluded that the control objective had been met.
- b) The correct accounting basis (receipts and payments) has been employed.
- c) Receipts and payments have been agreed to the underlying records maintained.

## **12 Summary**

12.1 In summary, it is my opinion that the Council has established all the elements necessary to provide a sound system of internal control, and these have operated effectively to provide assurance as to the accuracy of the accounts.

12.2 It is pleasing to note that the recommendations made following my audit of the 2017/18 accounts have been implemented and that the measures taken have clearly helped strengthen the Council's financial arrangements.

12.3 I should like to thank the Town Clerk for his input and courtesy during the audit and I wish the Council every success in the coming year.

A handwritten signature in black ink that reads "Derek Whiteway". The signature is written in a cursive style and is positioned above a light grey rectangular background.

**Derek Whiteway**

**2<sup>nd</sup> May 2019**