

Report to Carnforth Town Council

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Subject: Annual Internal Audit 2020/21

1 Introduction

1.1 I have been pleased to again provide the Town Council with an internal audit review of its 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 2020/21.

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 the 2020/21 financial year, including bank statements, reports to Finance and Governance Committee and Council, etc. My findings and conclusions were as follows:

- a) I concluded that the control objective had been met.
- b) During the audit visit, the Clerk and Proper Officer (C&PO) advised that he was planning a review of the Council's budget headings and 'chart of accounts'. I agree that the current structure is overly detailed and would benefit from some simplification/rationalisation. I have agreed to research professional guidance on this matter to assist with the review.
- c) Notwithstanding the above comments, the accounting system 'Scribe' provides effective record-keeping and reporting appropriate to the Council's size and needs

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 accounting and payments system is well-designed and efficient in relation to the needs of the Council, with strong approval procedures.
- b) The C&PO currently operates a hybrid filing system, involving both physical and digital copies of invoices, etc. Through discussion, we agreed that a single, comprehensive set of records should be maintained (important should HMRC undertake a VAT audit, for example). The C&PO agreed that he would introduce procedures to upload and retain copies of all supporting documents digitally on the Scribe system.

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 what arrangements were in place to review risk. My findings and conclusions were as follows:

- a) I concluded that the control objective had been met.
- b) The current Risk Log was reviewed by the Finance and Governance Committee on 10th June 2020 and approved by Council on 22nd June. The Committee also recommended that arrangements be put in place to review, in more detail, high level risks and all general risks at least twice a year. I fully endorse and encourage the implementation of this approach.

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.

5.2 The level of reserves at the end of the year were £68.9k compared with the previous year's £23.5k. The C&PO explained that this increase is mostly due to the receipt of business grants during the year. The Town Council has resolved to

earmark £14 for various Reserves (by-election, contingency etc) when setting the budget and further funds to carry out essential works at Carnforth Civic Hall.

5.3 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 2021.
- c) Monitoring reports to Finance and Governance Committee and Council are set at a suitable frequency and level of detail.
- d) The closing level of reserves represents a welcome increase on previous years and the Council has followed best practice in earmarking funds to special reserves in addition to maintaining a reasonable level of general balances.

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 and a sample of invoices. My findings and conclusions were as follows:

- a) I concluded that the control objective had been met.
- b) Income is regularly received and banked.
- c) VAT has been properly charged and accounted for.

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 C&PO holds a small cash float of £40, which was established to provide change for the film night events. A formal petty cash system has not been established, although the C&PO informed me that the float had been used on occasion, to reimburse Councillors' expenses from that this year. The transactions are recorded and managed through the Scribe system. My conclusion was therefore that the control objective had been met.

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) The payroll system provides a sound process for calculating and reporting pay and PAYE/NI.
- c) The C&PO has informed me that, from April 2021, the Council's payroll processing has been outsourced to a bureau, thereby providing an additional level of independence. It will be important for the bureau's performance on behalf of the Council to be monitored, especially in the initial months of the arrangements.

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 C&PO. 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.
- b) The record of assets has been updated to include assets acquired during the year.

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 C&PO's periodic monitoring reports. My findings and conclusions were as follows:

- a) I concluded that the control objective had been met, with periodic bank reconciliations being 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 Control Objective K – Exemption from a Limited Assurance Audit

12.1 This Control Objective is not applicable to the Town Council.

13 Control Objective L (New in 2020/21) - The authority publishes information on a website/webpage, up to date at the time of the internal audit, in accordance with the Transparency code for smaller authorities.

13.1 The Transparency Code for Smaller Authorities applies to authorities with a turnover not exceeding £25k. A more detailed and demanding Code applies to larger authorities with a turnover exceeding £200k. The Town Council therefore falls between these two and is not currently required to comply. NALC have, however, strongly encouraged all local councils with a turnover of less than £200k to comply with the Code for Smaller Authorities.

13.2 The Code for Smaller Authorities requires publication on the Council's website copies of Council and Committee agendas and minutes on an ongoing basis and the annual publication of payments over £100 and of the asset register.

13.3 The Council has complied with requirements regarding publication of agendas and minutes during the 2020/21 year and published the annual payments report and asset register for the year ended 31st March 2020. The Town Council has therefore, in my opinion met good practice standards in this objective, which is to be commended.

14 Control Objective M - The authority, during the previous year (2019-20) correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations (evidenced by the notice published on the website and/or authority approved minutes confirming the dates set).

14.1 I reviewed the Council's website for evidence that appropriate public notice had been provided. My findings and conclusions were as follows:

- a) I concluded that the control objective had been met.

15 Control Objective N - The authority has complied with the publication requirements for 2019/20 AGAR

15.1 I reviewed the Council's website for evidence that appropriate publication of the AGAR and External Audit Opinion had been provided. I concluded that the control objective had been met.

16 Summary

16.1 The past year has been an extraordinarily challenging one for all organisations, the Town Council included. The Council is to be congratulated for maintaining and seeking to develop its standards of governance and financial management during this period. It is particularly notable and creditable that the Council has, at this time, embarked on a detailed review of its internal control environment, with reference to expectations set out in the AGAR.

16.2 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.

16.3 As set out in the above paragraphs, I have made the following new recommendations:

- a) a single, comprehensive set of payment records should be maintained, the suggested method being to upload and retain copies of all supporting documents digitally on the Scribe system. (para 3.1(b))
- b) the performance of the newly appointed payroll bureau should be closely monitored, especially in the initial months of the arrangements. (para 8.1(c))
- c) notwithstanding the absence of a regulatory requirement, the Council should continue to publish information in accordance with the Transparency Code for Smaller Authorities. (para 13.3)

16.4 There are no outstanding recommendations from my previous audits.

16.5 I should like to thank the Clerk and Proper Officer for his assistance and courtesy during the audit and I wish the Council every success in the coming year.



Derek Whiteway

8th May 2021