



Final Internal Audit Report

Harpenden Town Council

June 2018

Issued to: Carl Cheevers – Town Clerk
Paul Smith – Finance Manager

Town Clerk to supply a copy to: Harpenden Town Councillors

Report Status: Final

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Overall Assurance: Full

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1. EXECUTIVE SUMMARY

Introduction

- 1.1 This review was undertaken as part of the planned provision of internal audit services to Harpenden Town Council.
- 1.2 The purpose of the tests performed on a selection of key controls is to give the Town Council assurance that internal controls are operating effectively and to enable the annual return to be completed and signed.

Overall Audit Opinion

- 1.3 In relation to the Town Council's internal control framework the overall audit opinion is that we can provide overall **full assurance** that there are effective controls in operation for those elements of the risk management processes covered by this review to meet the Town Council's objectives. These are detailed in the Assurance by Risk Area table in section 2 below and definitions of our assurance levels are in Appendix B.
- 1.4 The Town Council has a robust budget setting process and budgetary control is reviewed at each meeting of the Corporate Policy & Finance Committee. Financial management of income and expenditure, including the payment of salaries, is carried out in accordance with the Council's Financial Regulations. The full risk assessment review that took place ensured that controls were in place to mitigate all the risks to the Town Council.
- 1.5 A new property was built on the council's land which was one of the additions to the asset register at the end of the year and was insured in a timely manner.
- 1.6 The cash book including entries for VAT was recorded correctly in year supported by balancing monthly bank reconciliations. This resulted in accurate end of year figures for the annual accounts and end of year return.

Summary of Recommendations

- 1.7 No recommendations are made in this report for the areas covered by this audit.
- 1.8 The audit work undertaken to complete this audit is detailed in Appendix A.
- 1.9 The responsibility for a sound system of internal control rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should internal audit work be relied upon to identify all circumstances of fraud or irregularity.

Annual Governance Statement

- 1.10 This report provides good levels of assurance to support the Annual Governance Statement.

2. ASSURANCE BY RISK AREA

2.1 Our specific objectives in undertaking this work, as per the Terms of Reference, were to provide the Council with assurance on the adequacy and effectiveness of internal controls, processes and records in place to mitigate risks in the following areas:

Risk Area	None	Limited	Moderate	Substantial	Full
Maintenance of proper financial records					
Compliance with the Council's Financial Regulations and proper accounting for VAT					
Adequacy of Risk Management arrangements					
Effective budgeting and budgetary control					
Identification of income due and timely collection and banking of such monies					
Proper administration of petty cash					
Proper administration of salaries of employees including PAYE and allowances for Town/Parish Councillors					
Maintenance of an accurate and reliable Asset Register and insurance					
Properties owned by the council					
The completion of regular bank reconciliations					
The proper preparation of year-end accounts					
To ensure that the annual return is being completed					
Processes are in place to combat fraud or irregularities					
The Council has met its responsibilities as a trustee.					
Overall					

2.2 See definitions for the above assurance levels at Appendix B.

No	Control Area	Work Undertaken
1.	<p>Financial Regulations & Standing orders The Council's Financial Regulations and Standing Orders specify appropriate systems of accounting and internal control.</p>	<p>The financial regulations and the standing orders were rewritten last year to comply with the National Association of Local Councils model. They were approved and adopted by the Full Council at the council meeting on 26 June 2017.</p>
2.	<p>Payments Payments are evidenced by valid authorised invoices and the treatment of VAT is correct.</p>	<p>Payments made were evidenced by authorised invoices and were recorded splitting off the VAT which was claimed back quarterly from HMRC. The council business card was used appropriately.</p> <p>The accounts sub-committee review the payments made and the income received on a bi monthly basis as an internal check.</p>
3.	<p>Risk Management The Council has effective risk management processes to manage risks to the achievement of its objectives.</p>	<p>The Risk Register was reviewed in detail by the risk management sub-committee to ensure all risks for the council are included and updated where necessary. It was reviewed by the Corporate Policy and Finance Committee on 5 December 2017 before being approved by the Full Council on 29 January 2018.</p>
4.	<p>Budget Setting & Monitoring The annual precept requirement resulted from an adequate budgetary process, performance against budget is monitored and reserves are appropriate.</p>	<p>The budget setting process for last year started back in October 2016. A number of changes were made during the process which was finally approved by the Full Council on 30 January 2017.</p> <p>Performance against the budget is monitored quarterly by the</p>

		<p>Corporate Policy and Finance Committee.</p> <p>Reserves held are at an appropriate level.</p>
5.	<p>Income Income is received in full, properly recorded and promptly banked. VAT treatment is correct. Security of cash is effective.</p>	<p>The annual precept is received in a timely manner from St Albans City and District Council in one payment at the start of the year.</p> <p>All other income is received in full and properly recorded with the correct treatment of VAT. It is held securely at the council offices prior to banking promptly and intact.</p>
6.	<p>Petty Cash Petty cash payments are supported by valid receipts, expenditure is approved and VAT appropriately accounted for.</p>	<p>Petty cash is used for small payments and supported by valid receipts. All expenditure is approved and the VAT is treated appropriately.</p> <p>Petty cash held at the council offices is kept to a minimum and held securely overnight in the safe.</p>
7.	<p>Payroll Salaries to employees and members allowances are paid in accordance with contracts and council approvals. Income tax and NI deductions are properly accounted for.</p>	<p>Salaries pay award for 2017/18 were noted on 8 June 2016 where NJC increases had been agreed for two years. All PAYE and NI was properly accounted for and paid in a timely manner to HMRC.</p> <p>A review of the staff structure of the council took place resulting in 3 regrading's, these were correctly applied. The Town Clerk on achieving his CiLCA qualifications received an increase in accordance with his contract.</p> <p>Members' allowances and part of the Town Mayors allowance were appropriately dealt with through the payroll with part of the Town Mayors allowance being available as required.</p>

8.	<p>Asset Register Asset / investment registers are complete and accurate.</p>	<p>Asset Registers and investments were completed at the end of the year including new additions and any deletions as necessary. They were accurate and included a new property on land they already owned. The insurance was updated to include this.</p>
9.	<p>Property Properties owned by the Council are well managed and maintained</p>	<p>Properties owned by the Council are maintained as necessary and a bi annual survey is carried out to identify any other works that may not have been picked up to include in the budget. Repairs budgets hold a contingency element to cover any unforeseen works that may need to be carried out.</p>
10.	<p>Bank Reconciliation Regular bank reconciliations are completed and errors investigated and cleared promptly.</p>	<p>Bank reconciliations are completed monthly and are all complete and balance. Any errors that may occur would be investigated and cleared promptly.</p>
11.	<p>Year-End Procedures Year-end accounts are prepared on the correct accounting basis (eg. Receipts & Payments or Income & Expenditure), agreed with the Cashbook and supported by an adequate audit trail from underlying records including debtors and creditors. The annual return is completed and returned in a timely manner.</p>	<p>Year-end accounts are produced using the Income and Expenditure method.</p> <p>The accounts agreed with the cashbook, bank statements and supporting records with an adequate audit trail.</p> <p>The accounts for last year [2016/17] were restated due to the way the newly appointed external auditors wanted the CCLA on call investment money recorded.</p> <p>The annual return is reviewed and approved by the Full Council and sent to the external auditors in a timely manner.</p>

12.	Managing the Risk of Fraud Processes and controls minimise the risk of fraud.	A range of controls were found to be in place to minimise the risk of fraud to the Council. These form part of the risk register and are reviewed annually.
13.	Trusteeship The Council has met its responsibilities as a trustee.	The Council do not act as trustees so do not have any trustee responsibilities.
14.	Review of previous Audit Recommendations Recommendations from previous assurance reviews have been implemented in a timely manner.	No recommendations were made by the Internal and External Auditors in the previous year to follow up implementation.

Levels of assurance	
Full Assurance	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
Substantial Assurance	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
Moderate Assurance	Whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk.
Limited Assurance	There are significant weaknesses in key control areas, which put the system objectives at risk.
No Assurance	Control is weak, leaving the system open to material error or abuse.

Priority of recommendations	
High	There is a fundamental weakness, which presents material risk to the objectives and requires urgent attention by management.
Medium	There is a significant weakness, whose impact or frequency presents a risk which needs to be addressed by management.
Merits Attention	There is no significant weakness, but the finding merits attention by management.