



Final Internal Audit Report

Harpenden Town Council 2018/19

June 2019

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

Town Clerk to supply a copy to: Harpenden Town Council Councillors

Report Status: Final

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Overall Assurance: Good

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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 covering the 2018/19 financial year.
- 1.2 Harpenden Town Council is the largest parish in the St Albans District with a population of almost 30,000, represented by 16 Councillors across the Town.
- 1.3 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

- 1.4 In relation to the Town Council's internal control framework the overall audit opinion is that we can provide overall **good 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.
- 1.5 The audit work undertaken as part of this internal audit review is detailed in Appendix A.
- 1.6 For definitions of our assurance levels, please see Appendix B.

Summary of Recommendations

- 1.7 No recommendations are made in this report for the areas covered by this audit and therefore there is no management action plan included.
- 1.8 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

- 1.9 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	Satisfactory	Good
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.	N/A	N/A	N/A	N/A
Overall				

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

3. AUDIT COMMENTARY

VAT Returns

- 3.1 For one of the payments reviewed, there was an amount included for disbursements where VAT, although not applicable, had been claimed. This was highlighted in April 2019 and will be deducted in the first quarter VAT return for 2019/20. The other payment to this company which also had a disbursement item where VAT was not applicable had been treated correctly.

In view of the action already taken in respect of the matter noted above, no formal recommendation has been made in this report.

Bank Reconciliations

- 3.2 Bank reconciliations were carried out monthly, sometimes before one of the bank statements had been received. For one of the month's reconciliation there was a difference which was immediately identified but not corrected until year end. All corrections should be made as soon as they are found in case another officer has to carry out the end of year accounts due to an unexpected absence.

In view of the actions already taken, no formal recommendation has been made.

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>Both Financial Regulations and Standing Orders were not due for review this year; with the latest documents having been adopted in May 2017. However, Financial Regulations were subject to some amendments which were approved in March 2018.</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. We did find that for one payment too much VAT was claimed back due to a disbursement where VAT was not applicable. This will be corrected on the next VAT return. See item 3.1 in the audit commentary.</p> <p>The council business card was used appropriately.</p> <p>The Accounts Sub-Committee review payments made and 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 registers were reviewed by the Risk Sub-Committee and then agreed by the Corporate Policy and Finance Committee on 5 December 2018 who suggested some changes before being approved by Full Council on 28 January 2019. The risk management process is effective.</p>

No	Control Area	Work Undertaken
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 2018/19 started in October 2017 with the Council committees highlighting projects to continue with and identifying new areas of spend. The budget setting was agreed by the Corporate Policy and Finance Committee on 5 December 2017 and approved by Full Council on 29 January 2018.</p> <p>Performance against the budget is monitored quarterly by the Corporate Policy and Finance Committee with large variances reported. Reserves held are at an appropriate level. The Community Services Committee also receive budget monitoring reports to review for their services only.</p>
5.	<p>Income Income including the precept 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 in full.</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>

No	Control Area	Work Undertaken
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>All staff at the council are paid using NJC rates so the increase was in accordance with that scheme.</p> <p>All PAYE and NI was properly accounted for and paid in a timely manner to HMRC.</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 the new additions of 2 minibuses, play area equipment and computers. They were accurately recorded and the insurance included these items.</p>
9.	<p>Property Properties owned by the Council are well managed and maintained</p>	<p>No new properties were purchased by the council this financial year but existing properties are well managed and maintained. This can be seen by the spending and monies budgeted to spend if required.</p>
10.	<p>Bank Reconciliation Regular bank reconciliations are completed and errors investigated and cleared promptly.</p>	<p>Bank reconciliations are completed monthly. Errors are investigated and found but not cleared promptly. See item 3.2 in the audit commentary.</p> <p>Bank charges are charged on the HSBC account and are the same every month. The charges are entered when notification of</p>

No	Control Area	Work Undertaken
		these charges has been received. However, the bank is slow in issuing the bank statement, so the bank charges can remain outstanding.
11.	<p>Year-End Procedures Year-end accounts are prepared on the correct accounting basis (e.g. 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 annual return is reviewed and approved by the Full Council and sent to the external auditors in a timely manner.</p>
12.	<p>Managing the Risk of Fraud Processes and controls minimise the risk of fraud.</p>	<p>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.</p>
13.	<p>Trusteeship The Council has met its responsibilities as a trustee.</p>	<p>The Council do not act as trustees so do not have any trustee responsibilities.</p>
14.	<p>Review of previous Audit Recommendations Recommendations from previous assurance reviews have been implemented in a timely manner.</p>	<p>There were no audit recommendations in the report for the 2017/18 financial year.</p> <p>The External Auditors made a comment that the council had not</p>

No	Control Area	Work Undertaken
		provided them with a document which the council did not perceive as being required, this they sent when requested. It had not been included that the document was subsequently received.

Assurance Level	Definition
Good	The design and operation of the internal control framework is effective, thereby ensuring that the key risks in scope are being well managed and core objectives will likely be achieved. There are minor reportable audit findings.
Satisfactory	The internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements.
Limited	The system of internal control is only partially effective, with important audit findings in key areas. Improvement in the design and/or operation of the control environment is necessary to gain assurance risks are being managed to an acceptable level, and core objectives will be achieved.
No	The system of internal control has serious gaps, and controls are not effective in managing the key risks in scope. It is highly unlikely that core objectives will be met without urgent management intervention.

Priority Level			Definition
Corporate	Critical		Audit findings which, in the present state, represent a serious risk to the organisation as a whole, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate controls is required immediately.
Service	High		Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
	Medium		Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	Low / Advisory		Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.