



Final Internal Audit Report

Harpenden Town Council 2019/20

July 2020

Issued to: Carl Cheevers – Town Clerk
Daniel Williams- Finance Manager

Clerk to supply copy to: Harpenden Town Councillors

Report Status: Final

Reference: Z02/19/001

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.
- 1.2 Harpenden 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 governance and accountability return (AGAR) to be completed and signed.

Overall Audit Opinion

- 1.4 In relation to the Town Council's internal control framework the 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. These elements are detailed in the Assurance by Risk Area table in section 2 below.
- 1.5 It should be noted that internal control objectives K. and M. of the AGAR have not been reviewed because they do not apply to the Town Council.
- 1.6 We have identified some minor findings during our review, from which we have not raised any recommendations. These minor findings are presented below.
- 1.7 We were informed by management that a journaling error has resulted in VAT of £1.91 not being correctly transferred between budget codes. Management has manually adjusted the error within the Year End Accounts. Management have also provided us with assurance that this error has not affected the Year-End Statement of Accounts. However, the error has resulted in a VAT reclaim within the 2019/20 year not being accurate. We were assured by the management that this error will be corrected within the Quarter 1 VAT return for 2020/21. Therefore, we have not raised a finding in relation to this.
- 1.8 Standing Order 2.13 outlines that following the appointment of the Town Mayor and Deputy Town Mayor, the Annual Meeting of the Council shall include a review and adoption of its standing orders and financial regulations. A review of the standing orders shows these were adopted on 8 May 2017. The minutes of the Annual Council meeting held on 13 May 2019 shows the financial regulations being reviewed and adopted, however the minutes did not show that the standing orders were reviewed and adopted. If the standing orders were not reviewed and adopted at the Annual Council meeting for 2019/20, we advise that this is carried out as per standing order 2.13. If this review did occur, we advise that the minutes evidence this process taking place.
- 1.9 We reviewed the Councillors pecuniary interest forms and noted that forms completed in 2015 were being used for two active Councillors in 2019/20. We advise that pecuniary interest forms are completed by Councillors annually and should changes in pecuniary interests occur, forms are updated to reflect these changes. In addition, two Councillors have not signed or dated their pecuniary interest forms. Finally, a

Councillor has outlined that they are a member of St Albans District Council, however their form did not note this interest. We therefore advise that all relevant interests are included on the Councillors forms.

- 1.10 A sample of payments and petty cash purchases were tested. One payment and two petty cash purchases were found to have been included on VAT returns which were outside the tax points of the purchases. These do not change the VAT due to Council but does alter the accuracy of the VAT returns to HMRC, as purchases are not included on the correct quarterly return.
- 1.11 With regards to the accuracy of accounting records, testing showed that the 'paid dates' on the 'Paid Expenditure Transactions' reports for four petty cash purchases were not the same as the receipt dates. As a result, the 'paid date' on the 'VAT Reconciled Statement' was also incorrect. This could lead to VAT reclaims being included on the incorrect VAT return for its tax point.
- 1.12 The budget monitoring reports received by the Corporate Policy and Finance Committee (CPFC) and Community Services Committee were reviewed. Financial Regulation 4.13 outlines that at the end of each financial quarter, 'a statement of receipts and payments to date under each budget head comparing actual expenditure to the appropriate date against that planned as shown in the budget' are to be prepared. We noted that the committees did not receive these reports for the meetings held after quarter 2. Instead the committees received a position update report showing the projected budget outturn position at the end of the year and the variance between the approved budget. Adding to this, for the Community Services Committee held in January 2020, we did not see any budgetary control information being presented to Councillors. The budget monitoring statements which have been presented to Councillors do not show the explanation of variances over £5,000 or at a value of 10% of the budget. This does not appear to meet regulation 4.13.
- 1.13 A letter was sent to the Council from St Albans District Council, requesting that it be informed of the precept requirement by 25 January 2019. However, this date was not achieved with the Council approving the precept at a meeting held on the 28 January 2019 and the precept requirement being sent to St Albans District Council on the 29 January 2019. Whilst we acknowledge this was only a minor delay, we would advise that the district council is notified of the precept requirements as per the required deadlines.
- 1.14 A review of the minutes for the CPFC and Community Services Committee showed that they do not evidence the discussions, challenges and questions by Councillors in relation to its budgets. We noted that under the 'Budgetary Control 2019/20' item, for all six committee minutes reviewed, the commentary outlines that the report was considered by the committee and it was resolved to note the report. It did not however, include any commentary on the discussions that took place.
- 1.15 The Council has purchased four tangible assets with a value above £5,000, as outlined in the Council's asset register. The authorisation of the Council is required when purchasing tangible assets valued above £5,000 as per Financial Regulation 15.2. We understand from discussions with Management that reserves have been released by the Council to purchase these assets and we have reviewed a report to the CPFC showing these reserves being assigned. However, as the process does not clearly outline what assets are being approved for purchase from the reserves, there is

an opportunity to improve the clarity of authorisation to purchase tangible assets. Once aware of the assets proposed for purchase, we advise that the Council are informed of these tangible assets for authorisation to be requested and noted during the meeting.

1.16 For definitions of our assurance levels, please see Appendix B.

Summary of Recommendations

1.17 No recommendations have been made as part of this audit. The audit work undertaken is shown at Appendix A.

1.18 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

1.19 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 accounting records and preparation of accounting statements				
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				
The completion of regular bank reconciliations				
To ensure that the annual return is being completed				
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.

Area	Control	Control Satisfactory
1. Maintenance of proper accounting records and preparation of Accounting Statements	• Accuracy of Accounting Records	Yes
	• End of Year accounts	Yes
2. Adoption of the Council's Financial Regulations, Contract Standing Orders and Governance	• Financial Regulations	Yes
	• Standing Orders	Yes
	• Meeting Minutes and declaration of conflicts of interest	Yes
3. Payment Controls including treatment of VAT and Section 137 expenditure	• Payment of invoices	Yes
	• VAT on payments	Yes
	• Section 137 expenditure	N/A
4. Risk Management Processes	• Risk Assessment	Yes
5. Budget setting and monitoring	• Budget Setting	Yes
	• Precept notification	Yes
	• Budget Monitoring	Yes
6. Income received and VAT	• Receipt of Precept	Yes
	• Receipt of income	Yes
	• VAT on income	Yes
	• Banking of income	Yes
7. Petty Cash Payments	• Petty Cash payments	Yes
	• VAT on cash payments	Yes

Area	Control	Control Satisfactory
8. Payroll records including Income Tax, National Insurance and Pensions	• Pay policy/process	Yes
	• Annual salary increases	Yes
	• Individuals salary increase	Yes
	• Members/Mayors Allowances	Yes
	• Salary deductions paid to external bodies (Tax and Pension)	Yes
9. Completeness of Asset and Investment Registers	• Asset Registers	Yes
	• Investments	Yes
10. Bank Reconciliations	• Bank Reconciliations	Yes
11. Trusteeships	• Trusteeship Accounts	N/A

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.