

Report to Carnforth Town Council

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Date: 25th April 2023

Subject: Annual Internal Audit 2022/23

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 2022/23.

1.2 This report is set out along the structure 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 2022/23 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) 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 and I examined a sample of paid invoices. 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 accounting system incorporates a VAT reporting module which enables the efficient compilation and submission of quarterly VAT Returns.

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. The current Risk Log was reviewed by the Finance and Governance Committee on 11th May 2022 and by Council on 18th May 2022.

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 financial year were £59.6k including £8.2k held in earmarked reserves. This represents a reduction of circa 29k on the level of balances at 31/03/2022, the result of unanticipated levels of spending caused by sudden and increasing inflationary pressures during the year. Those inflationary pressures clearly posed a significant financial challenge over the past 12 months and it is to the Council's credit that the ongoing risks have been recognised and addressed in setting the 2023/24 budget and precept.

5.3 During the audit, I discussed with the Town Clerk and Responsible Financial Officer (TC & RFO) the budget process, impact of inflation, and proposed future levels and use of reserves. We recognise that continuing inflation will inevitably place further pressure on the Council's finances and its reserves and that it will become increasingly important for effective financial monitoring and clarity about spending priorities and appropriate levels of general reserve.

5.4 I understand that a decision was made during the budget process to discontinue the earmarked reserve of £5,000 previously established to cover the potential costs of an unanticipated election. Under current circumstances, this strategy seems reasonable, given that the risk of a further election after May 2023 should be low. I would advise, however, that Councillors should: a) satisfy themselves that general reserves remain sufficient to cover any such unforeseen costs; and b) annually review the risks and the need for an earmarked reserve.

5.5 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 2023.
- 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 at 31st March 2023, although reduced from the 2022 level, remains within an appropriate range for the Council.

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/receipts. My findings and conclusions were as follows:

- a) I concluded that the control objective had been met.
- b) Income is regularly received and banked. The accounting system provides information and reports to identify overdue invoices and allow the efficient collection of debts.
- 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 TC & RFO holds a small cash float of £40, which was established to provide change for the film night events. 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) Arrangements for outsourced payroll processing continue to operate well and provide the TC & RFO with an additional level of independence.

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 TC & RFO. 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 bank account reconciliations were properly carried out during the year.

10.1 I reviewed the year end bank reconciliation and information provided in the TC & RFO'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 & Governance Committee, checked against statements and signed by the Committee Chair.

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 L - The authority published the required information on a website/webpage up to date at the time of the internal audit in accordance with the relevant legislation.

- 12.1 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.
- 12.2 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.
- 12.3 The Council has complied with requirements regarding publication of agendas and minutes during the 2022/23 year and published a report of payments made and the asset register for the year ended 31st March 2022. The Town Council has therefore, in my opinion met good practice standards in this objective.

13 Control Objective M - In the year covered by this AGAR, the authority correctly provided for a period for the exercise of public rights as required by the Accounts and Audit Regulations (during the 2022-23 AGAR period, were public rights in relation to the 2021-22 AGAR evidenced by a notice on the website and/or authority approved minutes confirming the dates set).

- 13.1 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.

14 Control Objective N - The authority has complied with the publication requirements for 2021/22 AGAR

- 14.1 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.

15 Summary

- 15.1 2022/23 was once again a challenging year for a variety of reasons. The Council is to be congratulated for continuing to maintain high standards of governance and financial management during this period, whilst once more taking on further operational responsibilities.
- 15.2 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.

15.3 The Council, its Finance and Governance Committee and the TC & RFO have worked hard to establish robust and effective financial systems and governance arrangements. The prevailing economic climate will inevitably present ongoing challenges and I wish the Council well in meeting them.

15.4 I have made one new recommendation following the audit.

15.5 There are no outstanding recommendations from my previous audits.

15.6 I should like to thank the Town Clerk and Responsible Financial Officer for his assistance and courtesy during the audit.

16 Recommendations

16.1 Given the decision to discontinue the earmarked 'Elections Reserve' of £5,000, the Council should: a) satisfy itself that general reserves remain sufficient to cover any unanticipated costs; and b) annually review the risks and the need for an earmarked reserve.



Derek Whiteway

27th April 2023