

# Report to Carnforth Town Council

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Date: 3<sup>rd</sup> May 2024

**Subject: Annual Internal Audit 2023/24**

## 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 2023/24.

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 2023/24 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.
- c) Picking up on previous discussions, the Town Clerk and Responsible Financial Officer (TC & RFO) informed me of changes made to the Council's 'chart of accounts' and the level of detail included in reports to Councillors. I fully support the changes that have been made.

**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 the arrangements in place to review risk. My findings and conclusions were as follows:
- a) I concluded that the control objective had been partially met. Following cancellation of the Finance and Governance Committee in May 2023, the Council's Risk Log was not subject to a formal review during the year. Plans are in place for the Risk Log to be formally reviewed at the Annual Council meeting in May 2024. The TC&RFO advised me that the Council has taken a proactive approach to assessing risk on its governance arrangements and on significant projects considered during the year.
  - b) Financial risk is appropriately reviewed during the Council's budgeting and monitoring processes.

**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 £39.8k including £8.2k held in earmarked reserves. This represents a reduction of circa 20k on the level of balances at 31/03/2023 and £49k on the level at 31/03/2022. These reductions have been driven largely by a) high inflationary pressures during the past two years and b) the Council's proposed investment in refurbishing the Crag Bank Village Hall.

- 5.3 I discussed with the Town Clerk and Responsible Financial Officer (TC & RFO) the budget process, impacts of inflation, and proposed future levels and use of reserves. Whilst inflationary pressures have eased recently, they will inevitably place further pressure on the Council's finances and its reserves. The need for effective financial monitoring and clarity about spending priorities and appropriate levels of general reserve will continue.
- 5.4 The JPAG 'Practitioners Guide' advises that a Council's general reserves should be within 3 and 12 months of net revenue expenditure. With the Council's non-earmarked general fund reserves now reduced to c£31k, this is now close to the lower threshold. As in my report for 2022/23, I would advise that Councillors should: a) satisfy themselves on an ongoing basis that general reserves remain sufficient to cover unforeseen costs; and b) at least annually review the risks and the need for earmarked reserves.
- 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 2024.
  - 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 31<sup>st</sup> March 2023, although reduced from the 2023 level, remains within the JPAG recommended range for the Council but there is a heightened need for regular monitoring and review.

**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.
- 6.2 I discussed with the TC&RFO the Council's arrangements to review and set its schedule of Fees and Charges. The TC&RFO explained that the 2023 review had been delayed from its usual position in February until September 2023. My advice is that this timing, during the Autumn (September-November) would be more appropriate to feed into the forthcoming budget process for the following year.
- 6.3 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, using the services of a bureau, provides a sound process for calculating and reporting pay and PAYE/NI.

**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 2023/24 year and published a report of all payments made and the asset register for the year ended 31<sup>st</sup> March 2023. 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 2023-24 AGAR period, were public rights in relation to the 2022-23 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 2022/23 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 The Council is to be congratulated for continuing to maintain high standards of governance and financial management during this period, whilst considering projects requiring significant financial and organisational resources.

15.2 In summary, it is my opinion that the Council has established the necessary elements 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 work of the Council, its Finance and Governance Committee and the TC & RFO and staff have all contributed to maintaining robust and effective financial systems and governance arrangements.

15.4 I have made one new recommendation (ref 16.1) following the audit.

15.5 My second recommendation (ref 16.2), regarding levels of financial reserves, builds on the recommendation made during my 2022/23 audit. There are no other 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 The Council should consider establishing the annual review of Fees and Charges during the Autumn on a permanent basis.
- 16.2 Given the further reduction in the level of its general reserve, the Council should: a) take steps to satisfy itself on an ongoing basis that general reserves remain sufficient to cover unforeseen costs; and b) at least annually review the risks and the need for earmarked reserves.



**Derek Whiteway**

**3<sup>rd</sup> May 2024**