

BRAUNSTONE TOWN COUNCIL

27th JUNE 2019

Item 5 - Internal Audit Report 2018/2019 and Internal Audit arrangements 2019/2020

Purpose

To receive the Internal Auditor's Report in respect of compliance with relevant procedures and controls in operation during the financial year ended 31st March 2019 and to appoint an Internal Auditor for 2019/2020.

Roles and Responsibilities

The Council members as a whole are responsible for ensuring that the Council maintains proper accounting records together with an appropriate system of internal control along with responsibility for the preparation of annual accounts and the completion of the 'Local Councils in England – Annual Return'.

The Council is required to appoint an Internal Auditor who is independent of the Council's Governance and Financial arrangements.

The internal auditor is responsible for reporting to the Council on the adequacy of the systems of internal control.

Scope of Audit and Reporting Requirements

In carrying out the internal audit, the auditor will have full regard to the guidance on Internal Audit set out in "Governance and Accountability for Smaller Authorities in England – A Practitioners' Guide to Proper Practices to be applied in the preparation of statutory annual accounts and governance statements" (March 2018) published by the Joint Panel on Accountability & Governance. Section 4 sets out "Non-statutory guidance for internal audit at smaller authorities".

In addition to the information in Section 4, the Town Council asked the Internal Auditor to consider the following key systems and processes as part of the review:

- proper book-keeping including the cash book;
- standing orders and financial regulations;
- payment controls;
- income controls;
- budgetary controls;
- petty cash procedure;
- payroll controls;
- asset control;
- bank reconciliations;
- year-end procedures; and
- risk management arrangements.

In addition to this work, the Council requires the Internal Auditor to:-

- complete and sign the Internal Audit Section of the Annual Governance and Accountability Return; and
- provide the Council with a written report of findings upon completion of the audit.

Audit Timetable

Unless specifically required by the Council at any other stage during the financial year, the internal audit will commence after the end of year accounts have been finalised by the Responsible Financial Officer and prior to the meetings of Corporate Governance Sub-Committee and Policy & Resources Committee in June which will consider the Annual Governance Statement, Accounting Statements alongside the Internal Audit Report.

Appointment of Internal Auditor

The Council previously used North West Leicestershire's Internal Audit Services, who also provide Audit Services to Blaby District Council under a shared services arrangement. On 19th October 2017, North West Leicestershire's Internal Audit Services contacted the Town Council to advise that due to capacity issues going forward and depending on the outcome of the continuing recruitment exercise, they may not be in the position to provide the Town Council's internal audit, since they may not have a suitably qualified person in the post to be able to sign off our Annual Return because this would need to be undertaken by a qualified accountant.

The Leicestershire and Rutland Association of Local Councils (LRALC) set up an Internal Audit Service from 1st April 2018 which, for a fee, provides any member Council with a continually trained and developed, competent, independent, and indemnified Internal Auditor.

With no internal auditor for the 2017/18 financial year, the Council approached the Leicestershire and Rutland Association of Local Councils to request an internal auditor for that year (Policy & Resources Committee, 22nd February 2018, minute 77 and Council, 22nd March 2018, minute 5625) which was provided through their counterparts in Northamptonshire who provided John Marshall to be an LRALC Internal Auditor for Braunstone Town Council in 2017/18.

The cost to Braunstone Town Council for 2017/18, based on having an electorate in excess of 10,000 was £440. This compared to £846 for the Internal Audit by North West Leicestershire District Council in May 2017.

Having received the Internal Audit for 2017/18, the Council agreed on 28th June 2018 (minute 5662) that the Leicestershire and Rutland Association of Local Councils Internal Audit Service be appointed to undertake the Town Council's Internal Audit for the Year Ending 31st March 2019. The fee, based on our electorate of 12709, was also £440.

Internal Audit for 2018/2019

The Internal Audit was undertaken remotely during April and May and a visit was undertaken on Wednesday 22nd May 2019. A copy of the Internal Audit Report is attached at Appendix 1.

The Responsible Financial Officer has reviewed its recommendations, and in consultation with the Council's Management Team, has drafted a response to the Internal Auditor's Recommendations, which is attached at Appendix 2.

The Internal Auditor has completed the appropriate section of the Annual Governance and Accountability Return, which is attached at Appendix 3, to confirm that appropriate accounting arrangements are in place.

This is the second year that the Council has used the Internal Audit service provided through Leicestershire and Rutland Association of Local Councils. Given the service is both competent and represents value for money; it is recommended that the Council appoint Leicestershire and Rutland Association of Local Councils to be the Council's Internal Auditor for 2019/20.

Committee consideration of Internal Audit Report

The Internal Auditor's Report and associated Action Plan was considered by both Corporate Governance Sub-Committee and Policy & Resources Committee on 13th June 2019 and both approved the recommendations set out below.

Recommendations

1. That the observations of the Internal Audit (attached at Appendix 1 of the report) be noted and that the recommendations for improvement, along with the proposed response, as set out in the Improvement Action Plan (attached at Appendix 2 of the report), be adopted; and
2. that the Leicestershire and Rutland Association of Local Councils Internal Audit Service be appointed to undertake the Town Council's Internal Audit for the Year Ending 31st March 2020.

Reasons

1. To ensure that the observations of the Internal Audit would be addressed with appropriate and balanced measures.
2. To ensure arrangements were in place for compliance with Accounts and Audit Regulations.

APPENDIX 1**Annual Internal Audit Report**

(to be read in conjunction with the Annual Internal Audit Report in the Annual Governance and Accountability Return)

Name of council:	Braunstone Town Council		
Name of Internal Auditor:	John Marshall	Date of report:	23.05.2019
Year ending:	31 March 2019	Date audit carried out:	22.05.2019

Internal audit is the periodic independent review of a council's internal controls resulting in an assurance report designed to improve the effectiveness and efficiency of the activities and operating procedures under the council's control. Managing the council's internal controls should be a day-to-day function of the staff and management and not left for internal audit. This report is based on the evidence made available to me. It would be incorrect to view internal audit as the detailed inspection of all records and transactions of a council in order to detect error or fraud. Consequently the report is limited to those matters set out below.

The council is required to take appropriate action on all matters raised in reports from internal and external audit and to respond to matters brought to its attention by internal and external audit. Failure to take appropriate action may lead to a qualified audit opinion.

To the Chairman of the Council:

I met with Darren Tilley, Executive Officer and Town Clerk on 22 May to carry out the year-end internal audit of the Council. I would take this opportunity to thank Darren and his staff for their time and assistance.

During the course of the audit, I examined the Council's arrangements for the management and control of its business in the areas of bookkeeping, due process (ie compliance with the proper practices as set out in the Practitioners' Guide), risk management, budget setting and monitoring, payroll, asset register, bank reconciliations, internal control, data security and back-up and year-end procedures.

I also sought evidence that the previous year's reports from Internal and External Auditors had been properly reported to and actioned by the Council; they had. As a result of this audit, I would draw your attention to the following issue that the Council should consider and address *viz*,

- as the annual turnover exceeds £200,000, the Council must comply with the government's Local Government Transparency Code 2015; the information that must be made publically available is set out at Annex A of the Code. Not all of that information is currently displayed on the Council's website - I particularly noted deficiencies regarding pay multiples and contract information - and a review should be conducted to ensure that the required information is a) displayed and b) current
- I identified some inconsistencies between the Council's Standing Orders and Financial Regulations with respect to some financial requirements, especially in respect of contracts and tendering. Additionally, the internal controls regime put in

place by the Council as a result of comments made by me in last year's report should be incorporated into the Financial Regulations at reg 2.2.

Through examination of information provided on the council's website and the inspection of hard evidence and questioning, I tested all of the objectives of Internal Controls that I am required to consider and that are set out in the Annual Governance and Accountability Return (AGAR). Standards of governance and financial management remain high at this Council and based on my findings in the areas examined, I am satisfied that in all significant respects the internal control objectives were achieved throughout the financial year. Accordingly, I have completed and signed off the Internal Audit Report, part of the Annual Return (AGAR) as required.

John Marshall, CiLCA
 Internal Auditor to the Council
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The figures submitted in the Annual Governance and Accountability Return are:

	Year ending 31 March 2018	Year ending 31 March 2019
1. Balances brought forward	312,803	268,199
2. Annual precept	519,556	574,107
3. Total other receipts	275,113	188,871
4. Staff costs	462,129	463,924
5. Loan interest/capital repayments	63,786	60,891
6. Total other payments	313,358	269,580
7. Balances carried forward	268,199	236,782
8. Total cash and investments	250,239	229,438
9. Total fixed assets and long term assets	4,549,629	4,551,639
10. Total borrowings	335,103	289,474

APPENDIX 2 – INTERNAL AUDIT IMPROVEMENT PLAN

Observation	Risk	Recommendations	Priority	Braunstone Town Council Response to Recommendations	Officer Responsible	Action Date
As annual turnover exceeds £200,000, the Council must comply with the Local Government Transparency Code 2015 (the information that must be made publically available is set out at Annex A of the Code).	Not all of that information is currently displayed on the Council's website, particularly noted deficiencies regarding pay multiples and contract information, which could result in challenge.	A review should be conducted to ensure that the information required by the Local Government Transparency Code 2015 is a) displayed on the Council's website and b) current.	M	<ol style="list-style-type: none"> 1. Undertake review of information, ensure it is updated and republish on the Council's Website. 2. Schedule and undertake an annual review. 	Executive Officer & Town Clerk	Sept 2019
<p>Inconsistencies between the Council's Standing Orders and Financial Regulations with respect to some financial requirements.</p> <p>The Budget controls recommended by the Internal Audit 2018 have not been included in Financial Regulations.</p>	<p>Potential contractors (for contracts over £3,000 and below £25,000) may challenge the process.</p> <p>The quarterly report to Policy & Resources Committee may be discontinued without due process.</p>	<p>Update Financial Regulation on contracts and tendering to reflect Standing Orders.</p> <p>Include internal controls implemented following last year's internal audit at Financial Regulation 2.2.</p>	M	Include changes in annual review of Financial Regulations to be considered by Policy & Resources Committee in April 2020 and Annual Council in May 2020.	Executive Officer & Town Clerk	March 2020

Braunstone Town Council

This authority's internal auditor, acting independently and on the basis of an assessment of risk, carried out a selective assessment of compliance with relevant procedures and controls to be in operation during the financial year ended 31 March 2019.

The internal audit for 2018/19 has been carried out in accordance with this authority's needs and planned coverage. On the basis of the findings in the areas examined, the internal audit conclusions are summarised in this table. Set out below are the objectives of internal control and alongside are the internal audit conclusions on whether, in all significant respects, the control objectives were being achieved throughout the financial year to a standard adequate to meet the needs of this authority.

Internal control objective	Agreed? Please choose one of the following		
	Yes	No*	Not covered**
A. Appropriate accounting records have been properly kept throughout the financial year	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B. This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C. This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
D. The precept or rates requirement resulted from an adequate budgetary process progress against the budget was regularly monitored, and reserves were appropriate	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
E. Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
F. Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
H. Asset and investments registers were complete and accurate and properly maintained	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I. Periodic and year-end bank account reconciliations were properly carried out	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
K. IF the authority certified itself as exempt from a limited assurance review in 2017/18 it met the exemption criteria and correctly declared itself exempt. ("Not Covered" should only be ticked where the authority had a limited assurance review of its 2017/18 AGAR)	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
L. During summer 2018 this authority has correctly provided the proper opportunity for the exercise of public rights in accordance with the requirements of the Accounts and Audit Regulations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

M. (For local councils only)	Yes	No	Not applicable
Trust funds (including charitable) – The council met its responsibilities as a trustee	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

For any other risk areas identified by this authority adequate controls existed (list any other risk areas on separate sheets if needed)

Date(s) internal audit undertaken: 22/05/2019
 Name of person who carried out the internal audit: John Marshall

Signature of person who carried out the internal audit: *John Marshall*
 Date: 22/05/2019

*If the response is no you must include a note to state the implications and action being taken to address any weakness in control identified (add separate sheets if needed)

**Note If the response is not covered please state when the most recent internal audit work was done in this area and when it is next planned or, if coverage is not required, the annual internal audit report must explain why not (add separate sheets if needed)