

BRAUNSTONE TOWN COUNCIL

24th JUNE 2021

Item 5 – Internal Audit Report 2020/2021 and Internal Audit arrangements 2021/2022

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 2021 and to appoint an Internal Auditor for 2021/2022.

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 2020) published by the Joint Panel on Accountability & Governance. Section 4 sets out "Non-statutory guidance for internal audit at smaller authorities".

The Internal Auditor:-

- provides the Council with a written report of findings upon completion of the audit; and
- completes and signs the Internal Audit Section of the Annual Governance and Accountability Return.

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 Town Council has used the Leicestershire and Rutland Association of Local Councils (LRALC) Internal Audit Service since 2017/18 which, for a fee, provides any member Council with a continually trained and developed, competent, independent, and indemnified Internal Auditor. The person appointed by LRALC to undertake Braunstone Town Council's Internal Audit is John Marshall.

Having received the Internal Audit for 2019/20, the Council agreed on 25th June 2020 (minute 5859) 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 2021. The fee, based on our electorate of 12,652, is £440.

Internal Audit for 2020/2021

The Internal Audit was undertaken remotely during April and May and the Internal Auditor conducted a meeting with the Executive Officer & Town Clerk via Zoom Video Conferencing on Friday 28th May 2021. A copy of the Internal Audit Report is attached at Appendix 1.

The Internal Auditor has completed the appropriate section of the Annual Governance and Accountability Return, which is attached at Appendix 2, to confirm that appropriate accounting arrangements are in place.

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 3.

Outstanding Recommendations from Internal Audit 2018/2019

Two recommendations were made by the Internal Auditor in 2019 and the Action Plan was approved by Corporate Governance Sub-Committee, Policy & Resources Committee and Council in June 2019. One recommendation was to review information published on the Council's website and the other an amendment to be included in the annual review of the Financial Regulations.

Due to the Covid-19 Incident it was not possible to complete these actions by 31st March 2020. Therefore, in June 2020, Policy & Resources Committee resolved that these improvement actions be rolled forward and implemented by May 2021.

The update to the Financial Regulations were accommodated in the review of Standing Orders and Financial Regulations, approved and adopted by the Annual Council meeting held on 13th May 2021.

The review of the Transparency Code information on the Council's website was further delayed due to the process of restructuring the website and the post which was undertaking this work being currently vacant. The work commenced in May 2021 and all categories of information are now included on the Financial and Open Data page of the Council's website. However, the format and previous years data

requires updating and will be completed by August 2021.

Arrangements for 2021/2022 Internal Audit

This is the fourth 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 2021/22.

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 10th June 2021 and both approved the recommendations set out below (Minute 6).

Recommendations

1. That the observations of the Internal Audit (attached at Appendix 1 of the report) and confirmation of compliance with the internal control objectives (attached at Appendix 2 of the report) be received and noted;
2. that the recommendations for improvement, along with the proposed response, as set out in the Internal Audit Improvement Action Plan (attached at Appendix 3 of the report), be adopted; and
3. 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 2022.

Reasons

1. The Internal Auditor, having tested all the aspects of the Council's internal controls, was satisfied that in all significant respects the internal control objectives were achieved throughout the financial year to a standard adequate to meet the Council's needs.
2. To ensure that the observations of the Internal Audit would be addressed with appropriate and balanced measures.
3. To ensure arrangements were in place for compliance with Accounts and Audit Regulations.

Annual Internal Audit Report

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

APPENDIX 1

Name of council:	Braunstone Town Council		
Name of Internal Auditor:	John Marshall	Date of report:	28.05.2021
Year ending:	31 March 2021	Date audit carried out:	28.05.2021

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:

Due to the Covid-19 pandemic and as a consequence of the legal distancing restrictions imposed by the UK government I carried out the audit remotely, by e-mail and Zoom. I would thank Darren Tilley, Clerk and RFO for his co-operation and assistance in delivering the audit; having the year-end data available promptly at the end of what has been a very difficult year for clerks and councils, together with the quick response to my queries by Darren and his staff has been very helpful.

I firstly examined the publicly available information displayed on the council's website including the council's policies, procedures, agendas, minutes, financial and other records. I sought evidence that the previous year's Internal and External Audit reports had been properly reported to and where necessary acted upon by the Council; they had.

In respect of the 2 issues raised by me, I noted that work had either been completed or was in train and well advanced but delayed as a result of the distractions caused by the C-19 pandemic. I noted that last year, the External Auditor (EA) drew attention in section 3, part 2 'other matters' of the 2019/20 Annual Governance and Accountability Return (AGAR) to the fact that the council had not properly provided for the exercise of public rights. It appears that the statutory notice had not been posted in a timely manner, as soon as practicable after the council had signed off the AGAR. That said, the chosen dates were within the permitted (and extended, due to C-19) legal window for publication. I am required to confirm, at question M of the 2020/21 Annual Internal Audit Report (AIAR) whether 'the authority [last year] correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations'. I note that the EA raised this in section 3.2 of last year's AGAR as an 'other matter' rather than an 'except for' issue ie those relating to a failure to meet relevant legislation and regulatory requirements.

When viewed in the context of the wider picture, I consider the council met the standard as worded in question M and have concluded that it is appropriate for me to enter 'yes' to that question.

I then 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 and year-end procedures and compliance with the display of information, including the exercise of public rights.

I looked particularly at the arrangements that the council put in place in response to the C-19 restrictions, to manage the processes and procedures that would normally require documents including Minutes, invoices etc to be physically examined and / or signed. Where changes have been made, I am satisfied that the modified arrangements have been introduced without any significant diminution in the overall standard of internal controls.

Where necessary, I requested and was provided with supplementary evidence to enable me to reach a conclusion regarding the enquiries I am required to make as set out in the AIAR. This supplementary information was provided in the form of written answers to the questions raised together with scanned documents and our discussions over Zoom.

I discussed with Darren the content of the risk assessment, not because it is defective but because I identified items (details below) that I consider are worthy of inclusion. As part of its financial and risk management process, it would be prudent for the council to consider these risks and review whether any changes are necessary; indeed, I am aware from email correspondence with Darren since the audit that work in that respect is already under way.

- the sums held in some bank accounts significantly exceeds the limit of protection (£85,000) afforded by the Financial Services Compensation Scheme; that carries a degree of risk, as demonstrated by the Icelandic banking crisis of 2008
- the need to be able to access and operate all current and deposit accounts is paramount; the risk of not being able to do so most commonly arises when the mandate(s) and signing / authorisation arrangements are out of date. It would be prudent to explicitly identify that risk along with the council's arrangements for regular review to maintain the currency of mandates and signing / authorisation arrangements
- there is also a place for considering 'softer', especially reputational risks. The council sets out a strong and positive mission statement on its home page and has put a number of policies in place that seek to deliver those aims and goal through its staff and its actions. The council, through its diligent staff and engaged councillors consistently demonstrates high standards of compliance and performance. That in turn builds public confidence that attracts customers, willing partners and potential funding eg grants that then lead to prosperity; a loss of reputation is a business risk that the council should always bear in mind.

The council's response in the early stages of the pandemic coupled with the evolving arrangements put in place to manage its business going forward from March 2020 demonstrates a level of preparedness that was and remains second to none.

In conclusion, I am pleased to be able to report that having tested all the aspects of the council's internal controls that I am required to consider, based on the information made

available to me I am satisfied that in all significant respects, the internal control objectives were achieved throughout the financial year to a standard adequate to meet the council's needs. Accordingly, I have completed and signed off the Annual Internal Audit Report as required.

John Marshall, CiLCA
 Internal Auditor to the Council
 07505 139832
wjm.marshall1@gmail.com

The figures submitted in the Annual Governance and Accountability Return are:

	Year ending 31 March 2020	Year ending 31 March 2021
1. Balances brought forward	236,782	245,340
2. Annual precept	604,817	646,304
3. Total other receipts	222,249	1,124,855
4. Staff costs	479,396	485,278
5. Loan interest/capital repayments	60,765	66,628
6. Total other payments	278,347	846,418
7. Balances carried forward	245,340	618,175
8. Total cash and investments	233,698	621,657
9. Total fixed assets and long term assets	4,555,705	4,563,475
10. Total borrowings	242,998	1,128,008

The proper practices referred to in Accounts and Audit Regulations 2015 are set out in *Governance and Accountability for Smaller Authorities in England (March 2021), A Practitioners' Guide*. A copy of the current guide is available for free download from this page:

<https://www.pkf-littlejohn.com/services-limited-assurance-regime-useful-documents-and-links>

Annual Internal Audit Report 2020/21

BRAUNSTONE TOWN COUNCIL

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During the financial year ended 31 March 2021, this authority's internal auditor acting independently and on the basis of an assessment of risk, carried out a selective assessment of compliance with the relevant procedures and controls in operation and obtained appropriate evidence from the authority.

The internal audit for 2020/21 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	Yes	No*	Not covered**
A. Appropriate accounting records have been properly kept throughout the financial year.	✓		
B. This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.	✓		
C. This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.	✓		
D. The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.	✓		
E. Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.	✓		
F. Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.	✓		
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.	✓		
H. Asset and investments registers were complete and accurate and properly maintained.	✓		
I. Periodic bank account reconciliations were properly carried out during the year.	✓		
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.	✓		
K. If the authority certified itself as exempt from a limited assurance review in 2019/20, it met the exemption criteria and correctly declared itself exempt. (If the authority had a limited assurance review of its 2019/20 AGAR tick "not covered")			✓
L. If the authority has an annual turnover not exceeding £25,000, it publishes information on a website/webpage up to date at the time of the internal audit in accordance with the Transparency code for smaller authorities.			✓
M. The authority, during the previous year (2019-20) correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations (evidenced by the notice published on the website and/or authority approved minutes confirming the dates set).	✓		
N. The authority has complied with the publication requirements for 2019/20 AGAR (see AGAR Page 1 Guidance Notes).	✓		
O. (For local councils only) Trust funds (including charitable) – The council met its responsibilities as a trustee.			✓

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: 28/05/2021
 Name of person who carried out the internal audit: John Marshall, CiLCA

Signature of person who carried out the internal audit: 
 Date: 28/05/2021

*If the response is 'no' please 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).

APPENDIX 3 – INTERNAL AUDIT IMPROVEMENT PLAN

Observation	Risk	Recommendations	Priority	Braunstone Town Council Response to Recommendations	Officer Responsible	Action Date
The sums held in some bank accounts significantly exceeds the limit of protection (£85,000) afforded by the Financial Services Compensation Scheme	Carries a degree of risk, as demonstrated by the Icelandic banking crisis of 2008.	Consider the risk and review whether any changes are necessary.	M	Consider this risk when reviewing Corporate Risks as part of the Annual Governance Review and identify any mitigating actions as necessary.	Executive Officer & Town Clerk	June 2021
The need to be able to access and operate all current and deposit accounts is paramount	The risk of not being able to do so most commonly arises when the mandate(s) and signing / authorisation arrangements are out of date.	Explicitly identify the risk along with the council's arrangements for regular review to maintain the currency of mandates and signing / authorisation arrangements	M	Review Bank Mandates at Policy & Resources Committee in August 2021. Include changes in annual review of Financial Regulations in April and May 2022.	Resources & Facilities Manager Executive Officer & Town Clerk	Aug 2021 March 2022
A loss of reputation is a business risk that the council should always bear in mind	Loss of public confidence and customers in turn has financial consequences.	Consider the risk and review whether any changes are necessary.	L	Consider this risk when reviewing Corporate Risks as part of the Annual Governance Review and identify any mitigating actions as necessary.	Executive Officer & Town Clerk	June 2021