

Yorkshire Internal Audit Services
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Councillor Sajid Ali
Chair of Nelson Town Council
Town Hall
Market Street
Nelson
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30 May 2017

Dear Councillor Ali,

I have concluded the annual audit of the Council's financial accounts. The accounts are very well maintained by the clerk, and appropriate controls supporting the governance framework have been in place. There were no significant issues arising. The results of my audit are detailed below.

Annual Return

I have carried out the final audit of the Council's financial accounts for the year 2016-17 and I am pleased to inform you that I have signed the internal audit section of the Annual Return for Local Councils as required. Since the turnover of the Council has exceeded £200,000 the basis of the accounts will need to change from receipts and payments to income and expenditure. Once the £200,000 threshold has been exceeded the Council must change to income and expenditure basis for its accounts within three years. Since the turnover level is expected to remain above £200,000 in future years it would be appropriate to produce the 2017-18 accounts on an income and expenditure basis. When turnover exceeds £200,000 the external auditors require an intermediate review form to be completed, which is then to be submitted with the accounts. The form can be obtained from the external auditors direct.

Recommended Action

To conform with the Accounts and Audit Regulations 2015 the Council should move to income and expenditure for the basis of its accounts for 2017-18.

Obtain an intermediate review form from the external auditors to be completed and submitted with the Annual Return.

Bookkeeping

The Council's cash book and bank accounts were checked. All cash book entries were agreed to bank statements, bank reconciliations were carried out throughout the year and the year end bank reconciliation was agreed. VAT was appropriately identified in the accounts and reclaimed during the year, subject to an additional £30 being identified on the purchase of the walkie-talkies, which may be claimed as part of the next VAT submission.

Standing Orders, Financial Regulations and Payment Controls

I confirmed that appropriate standing orders and financial regulations are in place, up to date and have been adopted by the Council. Council minutes have been reviewed, all minutes have been numbered, signed and all expenditure has been appropriately authorised.

I sample tested large value items to ensure that they had been purchased competitively in accordance with standing orders. The outcome of testing was satisfactory, although I note that maintenance contracts in respect of multi-use games areas, and for the Christmas lights, have been taken over directly from Pendle Borough Council, and will need to be subject to competitive tendering when the contracts are up for renewal. Tenders were reviewed for the renovations work at Unity Hall and found to be satisfactory, but will be subject to contract audit at our next visit, to ensure that the final contract sum is in accordance with the tender.

Risk Management Arrangements

The Council's risk assessment has been reviewed by the Full Council during the year, including the operation of internal financial controls. All the expected insurance policies of public liability, employer's liability and fidelity guarantee are in place and values are consistent with the risks covered.

Budgetary Controls and Financial Health

The annual precept request was underpinned by an annual budget. Actual expenditure was monitored against budgeted expenditure during the year and reported to members, including explanations for significant variances.

As part of our review of financial health we normally recommend a working balance carried forward of about 26 weeks of annual expenditure. This is to provide sufficient funds for any unbudgeted items, or large adverse variances for budgeted items, or delays in receiving income such as the precept, which may arise during the year. This year's balance carried forward of £65,299 represents less than nine weeks expenditure, and as such puts the Council at risk of being unable to pay its bills if unforeseen expenditure arises.

Recommended Action:

The Council should move towards increasing its level of balances to nearer 26 weeks expenditure as part of its budgetary process over the medium term (five years).

Income Controls

Income has been agreed to supporting documentation, sources and values are consistent with the previous year.

Payroll Controls

There is a signed contract of employment for the clerk, and I tested that the salary paid is consistent with rates agreed by members. I also tested that tax and national insurance were within expected parameters, but noted that no national insurance had been paid.

Recommended Action:

The Clerk should contact HMRC to ensure that the payroll deductions with respect to national insurance have been correctly calculated.

Asset Controls

All material assets owned by the Council are maintained in an asset register. The register is up to date and insurance cover for the assets is consistent with the asset valuations.

General

The Council's turnover has more than tripled from £99,000 in 2015-16 to £392,000 in 2016-17 and it is likely to increase still further in future years as a consequence of taking over and running assets from Pendle Borough Council. This provides a number of issues for the Council to consider:

- (i) Larger councils operate with a payment card system to enable the clerk to purchase small value items relatively easily from internet suppliers under delegated authority which helps the smooth running of the organisation

- (ii) for Councils with turnovers exceeding £200,000 we normally undertake an interim audit part way through the year, as well as at year end, as the complexity of the organisation and potential risk of error or misstatement increases.

Recommended Action:

Members should consider

- (i) authorising the operation of a payment card system for small purchases under the delegated authority of the clerk
- (ii) operating a system of an interim and final visit by internal audit to ensure that appropriate testing can be undertaken by internal audit to give sufficient assurance over the operation of the Council's financial controls as the Council becomes larger and more complex.

Again I should like to thank you and your clerk for the help and assistance given during the audit.

Yours sincerely,
Howard Miller
Yorkshire Internal Audit Services

