



# Internal Audit Review 2023 Nelson Town Council Memorandum

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## Introduction and scope

- 1 Local councils in England must complete an Annual Governance and Accountability Return (AGAR) which includes an Annual Governance Statement, Accounting Statements, and an Annual Internal Audit report.
- 2 Proper practices for Town Councils and the preparation of the AGAR is included in Governance and Accountability for Smaller Authorities (March 2022).
- 3 Internal Audit is a key component of the council's system of internal control. The purpose of internal audit is to review and report to the council whether its systems of financial and other internal controls and procedures are effective.
- 4 As part of the AGAR the council's internal auditor, acting independently and based on an assessment of risk, carries out assessments of compliance with relevant procedures and controls in operation throughout the financial year.
- 5 We completed some work remotely and visited Nelson Town Council in June 2023 to assess the 2022/23 internal controls.
- 6 This work has allowed us to complete the Annual Internal Audit report and form judgements on the operation and effectiveness of Nelson Town Council's internal control arrangements in 2022/23. These findings should help inform members, in respect of the judgements on internal control arrangements they make as part of the relevant Annual Governance Statement disclosures in Section 1 of the AGAR.

## Findings

### Overall Assessment

- 7 We have provided a 'Yes' conclusion to all applicable areas of internal control when providing our assessment on arrangements at the council in 2022/23.
- 8 This report provides some insight behind our judgements on each internal control objective.

### Maintenance of Accounting Records

- 9 Internal control objective A of the Annual Internal Audit report requires 'appropriate accounting records have been kept properly throughout the year'. Page 9 of Governance and Accountability for Smaller Authorities (March 2022) provides some additional insight. For example, there should be effective procedures in place to accurately and promptly record all financial transactions. Up to date accounting records should be maintained throughout the year, together with all necessary supporting information. The accounting records must contain entries from day to day of all sums of money received and expended by the council.
- 10 The council uses the Rialtas Suite finance system package. Income and expenditure is coded to individual cost centres. Transactions from April 2022 to March 2023 have been input on to the Rialtas Suite finance system on an ongoing basis by an Officer from Pendle Borough Council working on a casual basis for the council.
- 11 Since September 2019 the council has been without a permanent Town Clerk and Responsible Financial Officer (RFO). They have temporarily employed a finance staff member from Pendle Borough Council on a casual basis until which time the RFO position is filled. Nelson Town Council are aware of the need to replace the Town Clerk and RFO, however recent recruitment drives have proven unsuccessful. Due to the repeated unsuccessful recruitment drives, the board members approved the Assistant Town Clerk position to full-time hours with effect from October 2022.

### Preparation of accounting statements

- 12 The financial statements and the proposed disclosures for the AGAR were supported by detailed information from the electronic accounting system. They were also prepared on the appropriate (income and expenditure) basis. We agreed the figures in the return to information from the financial system.

## **Payments**

- 13 We reviewed 2022/23 total expenditure with previous years and obtained an understanding for all significant year on year variances. We also tested a sample of payments.
- 14 All transactions had been appropriately authorised. All expenditure was consistent to underlying documents. VAT had been appropriately considered. No issues were noted with the payments expenditure we tested.
- 15 In line with the council's financial regulations, the Finance and General Purposes Committee received monthly schedules of all payments made.

## **Risk Management**

- 16 Risk management is the process whereby authorities methodically address the risks associated with what they do and the services which they provide. It is an ongoing activity that comprises the following elements:
- identifying risks;
  - assessing risks;
  - addressing risks;
  - reviewing risks;
  - reporting risks.
- 17 Further details on risk management and the expected arrangements is included in pages 47-50 of Governance and Accountability for Smaller Authorities (March 2022). Paragraph 5.98 on page 50 for example explains 'Once the key risks have been identified and assessed they should be recorded, for example in a risk register. Members should review the risk register not less than annually. This could be achieved by risk management being a standing item at authority or committee meetings.'
- 18 A weakness in control we noted last year was a lack of review of the risk management policy and the risk register. The documents provided to us this year had been updated in March 2023, with evidence within the Full Board meeting minutes to suggest a review had been conducted. The risk register also reflected this with future action dates and new 'risk owners'.
- 19 The council has insurance in place. Insurance covers expected areas such as fidelity guarantee (loss of money or property sustained as a direct result of acts of fraud, theft or dishonesty by an employee in the course of employment) and public liability.

## Budget and Reserves Management

- 20 Budget setting and budget monitoring are key internal controls for the council. The council needs to prepare and approve a budget before the beginning of the year and prior to setting the precept. In-year performance should be monitored during the financial year.
- 21 Governance and Accountability (paragraphs 5.7-5.9, p33-34) explains the key requirements for effective budget setting and monitoring. Paragraph 5.9 outlines the key stages in the budgeting process being
- decide the form and level of detail of the budget;
  - review the current year budget and spending;
  - determine the cost of spending plans;
  - assess levels of income;
  - bring together spending and income plans;
  - provide for contingencies and consider the need for reserves;
  - approve the budget;
  - confirm the precept or rates and special levies; and
  - review progress against the budget regularly throughout the year.
- 22 The budget for 2022/23 was approved at Full Council on 9<sup>th</sup> February 2022. The budget set expenditure at £780,854 which was slightly higher than levels of expenditure incurred last year. The precept was kept at the same level as in 2021/22. There was a £376,303 budget surplus in the 2021/22 year.
- 23 Actual expenditure incurred in 2022/23 was below the amounts the council's budget setting process identified, as is shown in the table below:

*Figure 1: A small surplus was achieved in 2022/23*

No.	2022/23 Budget (£)	2022/23 Actual (£)
Income	676,554	695,969
Expenditure	780,854	674,923
(Deficit) / Surplus	-104,300	21,046

- 24 A weakness in control we noted during part of the year was a lack of budget monitoring. We reported this as a finding last year but there has not been any noticeable improvements. Consistent and effective budget monitoring is not taking place. Budget monitoring should primarily take place through reports produced from information within the Rialtas Suite system that are reviewed at the Finance and General Purposes Committee. It was not clear that this information was consistently available and reviewed at the monthly committee meetings.

- 25 Council reserves have increased significantly over recent years, so the requirements of the guidance is becoming more relevant for the council. In respect of reserves Governance and Accountability for Smaller Authorities (March 2022) says that a body should ideally review reserves as part of the budget assessment process. We could not see how reserves were effectively considered as part of the 2022/23 budget setting.
- 26 Governance and Accountability also explains that 'As authorities have no legal powers to hold revenue reserves other than those for reasonable working capital needs, or for specifically earmarked purposes, whenever an authority's year-end general reserve is significantly higher than the annual precept or rates and special levies, an explanation should be provided to the auditor.' External audit require an explanation be provided as part of the annual reporting to them when reserves exceed two times the annual precept.
- 27 The surplus of £21,406 in 2022/23 means the year end reserves total £1,084,942 which is 1.57 times the 22/23 precept raised, so below the threshold to provide an explanation to external audit.

**Area for Improvement 1:** Budget monitoring by members should take place monthly through reviewing up to date and accurate reports produced through the Rialtas Suite system. Budget setting procedures should be reviewed to ensure they follow the requirements of Governance and Accountability for Smaller Authorities (March 2022)

**Area for Improvement 2:** Existing revenue reserve balances should be considered as part of Budget setting processes from 2024/25.

### **Income**

- 28 Internal control objective E states 'Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for'.
- 29 We saw large areas of income such as the precept were reflected in the financial statements and had been received in the bank. A review was carried out on the Unity Hall room hire and sound system hire across the 22/23 financial year, with all income accounted for and reconciled with the bank statements.

### **Petty Cash**

- 30 Internal control objective F states 'petty cash payments were properly supported by receipts; all petty cash expenditure was approved, and VAT appropriately accounted for'.
- 31 The council's financial regulations outline 'the RFO shall maintain a petty cash float of £250 for the purpose of defraying expenses which are not practical to be paid via the normal ordering and invoicing routine'.

- 32 There were no payments made using petty cash during the financial year. Since the float was depleted and not refilled due to absence of a Town Clerk and RFO from September 2019, the Council have opted to not have any petty cash.

### **Payments to Employees**

- 33 Payroll is provided by Blackburn and Darwen Council which should give the council comfort that PAYE and NI is being properly deducted. We reviewed one month's payments highlighting that the calculations were made appropriately. The Council's expenditure on staffing costs appear consistent with the budgeted spend for 22/23. Variances were consistent with the staffing changes that have took place over the period reviewed.

### **Bank Reconciliations**

- 34 Nelson Town Council financial regulations require that 'A bank reconciliation shall be produced monthly by the RFO and be submitted to the Finance and General Purposes Committee for verification, this activity is to be evidenced and reported upon, including any exceptions. A member other than the cheque signatory shall be appointed from the committee to verify the bank reconciliations (for all accounts) produced by the RFO. The committee member appointed for that meeting shall sign the reconciliations and the original bank statements as evidence of verification. This activity shall on conclusion be recorded in the minutes of the Finance and General Purposes Committee.' These expectations are in line with those included in 5.25 of Governance and Accountability (March 2022).
- 35 We saw that Bank reconciliations were completed monthly by the Assistant Town Clerk. They were submitted to Finance and General Purposes Committee and verified appropriately. A year end (31<sup>st</sup> March 2023) bank reconciliation was completed, and we have no matters to report to members from our review.

### **Asset Registration**

- 36 Internal control objective H states 'Asset and investments registers were complete, accurate and properly maintained'.
- 37 An up to date and accurate asset register is the starting point for any system of financial control over assets. Governance and Accountability for Local Councils states 'local councils must maintain an asset register to ensure fixed assets are appropriately safeguarded. This includes items of a capital nature where values tend to be high, and which have a useful life of more than one year'.
- 38 The council has an Asset Registration policy in place. It has been approved at Full Council at the same time as the approval of the Annual Return. The Council had a few new assets added to the register, however they were of small value.

## Appendix 1 - Action Plan to address issues raised

Action Number	Report Reference	Issue	Agreed Action	Responsible Officer	Timescale
1	20-27	<p>Budget monitoring by members should take place monthly through reviewing up to date and accurate reports produced through the Rialtas Suite system. The council have a Finance &amp; General Purposes Committee who could review this.</p> <p>Budget setting procedures should be reviewed to ensure they follow the requirements of Governance and Accountability for Smaller Authorities (March 2022)</p>			
2	20-27	Existing revenue reserve balances should be considered as part of Budget setting processes from 2024/25.			