



# Internal Audit Review 2024

## Nelson Town Council Memorandum

Where information resulting from audit work is made public or is provided to a third party by the client or by Veritau then this must be done on the understanding that any third party will rely on the information at its own risk. Veritau will not owe a duty of care or assume any responsibility towards anyone other than the client in relation to the information supplied. Equally, no third party may assert any rights or bring any claims against Veritau in connection with the information. Where information is provided to a named third party, the third party will keep the information confidential.



## 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 2023).
- 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 on the basis of 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 also visited Nelson Town Council during May 2024 to assess the internal controls in operation for 2023/24.
- 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 2023/24. 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 2023/24. In respect of Petty Cash, as the council did not use this during the financial year, we have signed that objective as 'not covered'.
- 8 Further information on relevant control objectives A to J is detailed below.

### **Maintenance of Accounting Records**

- 9 The council uses the Rialtas Suite finance system package. Income and expenditure was coded to individual cost centres. Transactions from April 2023 to March 2024 had been input on to the Rialtas Suite finance system on an ongoing basis. Accurate and up to date records will help to provide complete, accurate and up-to-date financial information through-out the year, for officers and members.

### **Preparation of Accounting Statements**

- 10 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**

- 11 We reviewed 2023/24 total expenditure with previous years and obtained an understanding for all significant year on year variances. We also tested a sample of payments.
- 12 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.
- 13 In line with the council's financial regulations, the Finance and General Purposes Committee received monthly schedules of all payments made.

### **Risk Management**

- 14 The council has a Risk Assessment Policy & Risk Register, with evidence within the Full Board meeting minutes to suggest a review had been conducted. The risk registers also reflected this with future action dates and new 'risk owners'.

- 15 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 Setting and Monitoring**

- 16 The budget for 2023/24 was approved at Full Council on 11<sup>th</sup> January 2023. The budget set expenditure at £858,564 which was slightly higher than levels of expenditure incurred last year. The precept was the same level as in 2021/22 and 2022/23.
- 17 Actual expenditure in 2023/24 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 2023/24*

<b>No.</b>	<b>2023/24 Budget (£)</b>	<b>2023/24 Actual (£)</b>
Income	723,174	708,319
Expenditure	858,564	704,736
(Deficit) / Surplus	(135,390)	3,583

- 18 Regular financial information was provided to members during 2023/24 which helped to support regular budget monitoring. Reports produced from the accounting system were reviewed at the Finance and General Purposes Committee at monthly committee meetings.

### **Reserves**

- 19 In respect of reserves, Governance and Accountability for Smaller Authorities (March 2023) says a body should ideally review reserves annually as part of the budget assessment process (section D, page 29). This is helpful, especially, for example, when incurring expenditure which is funded by reserves, to inform the budget and precept setting process.
- 20 From the minutes of the meeting, we could not see how reserves were effectively considered as part of the 2023/24 budget setting process.
- 21 The guidance also explains ‘There is, in practice, no upper or lower limit to earmarked reserves / capital receipts reserves save only that they must be held for genuine and identifiable purposes and projects, and their level should be subject to regular review and justification (at least annually and at budget setting) and should be separately identified and enumerated’ (5.38, page 38).
- 22 Nelson Town Council has accumulated reserves of £1.089m at 31 March 2024. The council has 7 earmarked reserves totalling £337,804. The

balance of those 7 earmarked reserves has not changed in at least the last three years (i.e. nothing has been spent or added to).

- 23 We understand the council has plans to spend some monies held in earmarked reserves over future years. However we have not seen a review of general and earmarked reserves during 2023/24. The council may also want to put in place a General Reserve Policy (1.13, page 9) to help support any annual review which should also feed into the budget setting process.
- 24 The surplus of £3,583 in 2023/24 means the year end reserves total £1,088,525 which is 1.58 times the 2023/24 precept raised, so below the threshold to provide an explanation to external audit.

**Area for Improvement 1:** A review of general and earmarked reserves should be undertaken annually (and documented) by the council.

**Area for Improvement 2:** Sufficient information be provided to ensure existing revenue reserve balances are formally considered as part of the budget setting processes from 2024/25.

### **Income**

- 25 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'.
- 26 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 from July to December 2023, with all income accounted for and reconciled with the bank statements.

### **Payments to Employees**

- 27 Payroll is provided by Blackburn and Darwen Council which should give the council comfort that PAYE and NI is being properly deducted. We reviewed two months' payments highlighting that the calculations were made appropriately. The Council's expenditure on staffing costs appears consistent with the budgeted spend for 2023/24. Variances were consistent with the staffing changes that have taken place over the period reviewed.

### **Bank Reconciliations**

- 28 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).

- 29 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 2024) bank reconciliation was completed, and we have no matters to report to members from our review.

### **Asset Registration**

- 30 Internal control objective H states ‘Asset and investments registers were complete, accurate and properly maintained’.
- 31 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’.
- 32 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	19-24	A review of general and earmarked reserves should be undertaken annually (and documented) by the council.			
2	19-24	Sufficient information be provided to ensure existing revenue reserve balances are formally considered as part of the budget setting processes from 2024/25			