

Public Sector Audit

Broughton Town Council

Internal Audit Report for the year ended 31 March 2022

Public Sector Audit

UK©CS

Registered with
UK Copyright Service
Reg. No.: 284714616

Public Sector Audit

Broughton Town Council

Internal Audit Report for the year ended 31 March 2022

Introduction

Part 2, paragraph 5 (1) of the Accounts and Audit Regulations 2015 imposes a duty on Local Councils to “undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

Internal audit is a key component of the system of internal control. The purpose of internal audit is to review whether the systems of financial and other controls over a council's activities and operating procedures are effective.

At the request of the council I have conducted an Internal Audit review of the council's accounting records in respect of the financial year ended 31 March 2022. I have acted independently and, on the basis of an assessment of risk, carried out a selective assessment of compliance with relevant procedures and controls expected to be in place during the financial year.

The audit has been carried out in accordance with the council's needs and planned coverage. On the basis of the findings in the areas examined, the internal audit conclusions and recommendations have been recorded in the table below.

Public Sector Audit

UKCS

Registered with
UK Copyright Service
Reg. No.: 284714616

Prioritisation of recommendations

In accordance with good internal audit reporting practice and the Governance and Accountability for Local Councils Practitioners Guide, the recommendations contained in this report have been prioritised. The following 'traffic light' system for the prioritisation of recommendations has been adopted: Page | 3

- Significant weakness in internal control requiring urgent attention.
- Moderate weakness in internal control requiring attention within the current year.
- Minor weakness in internal control, or matters of good practice the council may wish to consider, to be addressed within the current year.

Distribution List

Chairman of the Council

All Members of the Council

Clerk to the Council

Public Sector Audit

UKCS

Registered with
UK Copyright Service
Reg. No.: 284714616

The findings of the audit are summarised below

	Test	Findings and Recommendations
1	Have appropriate books of account been properly maintained throughout the year?	<p><u>Appropriate accounting records</u></p> <p>Findings</p> <p>The cash book has been maintained on a combined receipts and payments spreadsheet. It includes the council's main current account and a Community account at HSBC, and two further accounts at Virgin Bank. The Clerk has now obtained bank statements for all of the council's accounts and balanced these, with the exception of 1p, as at the 31st March 2022. Owing to the lack of bank statements prior to the new Clerk commencing her employment, this difference could not be identified. Statements for all of the council's bank accounts are now available online.</p> <p>It is sufficiently well analysed to provide all the information required for the completion of the AGAR.</p> <p>It is noted that the council has now contracted with Rialtas Business Systems (RBS) who provide bespoke software systems designed for Town and Parish Councils. The system will be uploaded in June and will provide budget monitoring reports, bank reconciliations for each of the council's accounts, VAT returns and the year-end Annual Governance and Accountability Return (AGAR).</p> <p>Monthly bank reconciliation confirms that the main current account and the cash book and bank are in agreement.</p> <p>Records are maintained to provide an audit trail from original receipts/invoices and remittance advices to the cash book and bank.</p>
2	Have the council's Financial Regulations and Standing Orders been formally adopted and complied with?	<p><u>Adherence to Financial Regulations and Standing Orders</u></p> <p>Findings</p> <p>The council's Financial Regulations and Standing Orders were reviewed and approved at the council meeting held on the 26th May 2020. The council's previous Clerk has confirmed that, as he could not find his notes of</p>

		<p>the Annual Town meeting held on the 24th May 2021, he was not able to prepare the minutes for this meeting. Owing to this, it is not known whether Financial Regulations and Standing Orders were re-reviewed and approved by the council at this meeting.</p> <p>Both Financial Regulations and Standing Orders are based on the latest NALC Models.</p> <p>Financial Regulation 1.8 formally confirms the appointment of the Clerk as the council's RFO.</p> <p>The Government has announced revised thresholds in respect of tendering for public contracts, which came into effect on the 1st January 2022. The latest 2020 NALC Model, however, has not yet been updated.</p> <p>It is noted that the council does not maintain a document that identifies key tasks which need to be undertaken on a daily, weekly, monthly, quarterly and annual basis. Such a document provides useful information in respect of the routine financial processes undertaken by the council in the event of key staff changes or unexpected staff absences.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The council's Financial Regulations and Standing Orders should be submitted to council for review and approval during 2022/23. Standing orders should be amended to take account of the Government's revised procurement thresholds. ● The council should consider preparing a document identifying key tasks of the council. The document should be updated to reflect current methods of working and reviewed annually for continued relevance.
3	Are payment controls effective and VAT properly accounted for?	<p><u>Adequate payment controls</u></p> <p>Findings</p> <p>I have tested a large sample of payments from throughout the year.</p>

<p>Has the council recorded s137 expenditure separately and is it within the statutory limit?</p>	<p>I have reviewed for completeness, accuracy, correct year of account, authorisation by two council Members, reporting to council and classification within the council's accounts. It is noted that some audit checks have been undertaken by council Members during the year and reported in the minutes. All payments are included in the minutes for authorisation by council and the monthly reconciliations are authorised by the Chairman.</p> <p>I am required to confirm that quotations have been sought for contracts between £3,000 and £25,000 in accordance with the council's Financial Regulations. The Deputy Clerk has confirmed that quotations were sought during the year for such contracts. Any quotations received were scanned into the computer system in support of the agenda papers for the meetings at which they were discussed. For ease of reference the council's new Clerk will maintain a separate file of quotations and estimates received in accordance with Financial Regulations.</p> <p>I have tested that VAT has been identified and correctly recorded in the accounting records for inclusion in the VAT reclaim at the year end.</p> <p>A separate account has not been established in the cash book for s.137 (Local Government Act 1972) expenditure. Such expenditure is subject to specific statutory limitations and should be separately analysed to facilitate these checks. The Clerk has confirmed that s.137 expenditure will be separately analysed in 2022/23.</p> <p>During the year the council made a donation to the Village Hall and recorded this in the cash book as "Donations/Grants." As the Village Hall is a Charity, the council has no specific statutory power to incur such expenditure and should, therefore, have allocated this to s.137. In addition, other grants were made to voluntary bodies and the Royal British Legion during the year which should have also been allocated to.137. The total of such expenditure is within the statutory limit for this power.</p> <p>It is noted that, now the Clerk has obtained the General Power of Competence Module of CiCLA, and the council has formally resolved to use the power and is able to use this statutory power if it so wishes.</p>
---	--

		I have reviewed the council's cheque stubs for evidence of compliance with the two-signature rule. It was noted that one cheque stub has not been initialled by the signatories to signify the agreement of the stub with the details on the cheque and the documentary evidence seen in support of the cheque at the time of signature. The Clerk has confirmed that in the future all cheque stubs will be initialled by both signatories.
4	<p>Has the council assessed the significant risks in delivering its activities and services and regularly reviewed the adequacy of these assessments?</p> <p>Is insurance cover appropriate and adequate?</p> <p>Are financial controls documented and regularly reviewed?</p>	<p><u>Assessment of significant risks</u></p> <p>Findings</p> <p>The council maintains a Risk Assessment document which identifies council risks and the general measures in place to control and mitigate the risks. The document is dated May 2012.</p> <p>The council also contracts with Playsafety Ltd, a RoSPA accredited company, to undertake annual inspections of the Scawby Road play area, the skate park and the Wressle play area. It is noted that the latest inspection reports, dated the 18th August 2021, identify many safety issues requiring attention. The Clerk is aware of the work required and is currently working through the outstanding matters</p> <p>The council's handymen carry out routine inspections of the play park - and note these on their time sheets. Inspection sheets are also completed for both the Wressle play area and the skate park. The sheets identify the areas and equipment inspected and record any damage or issues found. They do not, however, include provision for the recording of actions taken to correct the issues identified.</p> <p>Fire extinguisher checks and emergency lighting checks are undertaken at the Phil Grundy Centre. An annual fire safety check is also undertaken. The council has a Health & Safety Policy which is dated the 29th November 2021. This, however, has not been taken to council for review and approval.</p> <p>Following the financial crisis in 2007/8 the Government put in place measures to require banks to ring-fence their retail banking divisions from their investment banking arms to safeguard investors against riskier banking activities; other measures were also introduced to increase banks capital reserves. The measures introduced by the Bank of England were designed to safeguard customers' bank deposits, together with the Financial Services Compensation Scheme covering the first £85,000 of deposits. The Covid 19 pandemic has</p>

again highlighted the fragility of large organisations in the face of global crises and the possible risk of councils maintaining all of their balances in a single institution. The risk of a major bank collapse is, currently, relatively low but nevertheless should be considered as part of the council's overall risk management strategy. The Clerk and council are aware of this and will consider its options during the current financial year.

Currently, interest rates are historically low but in the event of future increases in the levels of interest paid on deposit accounts the council may wish to consider placing reserves and other funds, not required for the day to day running of the council, into interest bearing accounts which provide higher rates of interest.

I have examined the council's insurance policy and the indemnity limits are considered to be adequate with the exception of Fidelity Guarantee. The Policy wording, however, does not clearly identify whether both officers and council Members are covered for Fidelity Guarantee.

I have reviewed the security of the council's electronic data. The Clerk has confirmed that all electronic data is stored on cloud when working in the office or at home. Both computers are also password protected.

Recommendations

- The council's Risk Assessment document should be reviewed and updated during the current financial year to reflect all current council risks. It should clearly identify the severity of the risks and the detailed control measures in place to mitigate them.
- The council should continue to carry out the essential repairs identified in the professional inspection reports in the coming months. A record of outstanding repairs should be maintained which details the date(s) on which they were completed.
- Provision should be included on the inspection sheets to record any action taken and the date it was carried out. Such information is necessary in the event of any accidents or claims against the council which may arise from the use of council owned equipment.

		<ul style="list-style-type: none"> ● All council Risk Assessments and the Health & Safety Policy should be presented to council annually for review and approval. ● The council should consider whether it wishes to investigate the separation of the funds it holds between different institutions, and the placing of other funds not required for the day to day running of the council, into interest-bearing accounts during the current financial year. ● The council should ensure that both officers and council Members are covered for Fidelity Guarantee when new quotations are sought. ● The council should request quotations for a Fidelity Guarantee indemnity limit of £300,000 to adequately protect the council's interests.
5	<p>Has the annual precept requirement resulted from an adequate budgetary process?</p> <p>Has progress against budget been regularly monitored and reported and were reserves appropriate?</p>	<p><u>Adequate budgetary process</u></p> <p>Findings</p> <p>A detailed budget, which identified each income and expenditure cost centre, was prepared for 2021/22 and was approved by Full Council on 25th January 2021.</p> <p>Quarterly budget monitoring reports, which compare actual income and expenditure against the council's original budget were provided by the previous Clerk to council meetings for review and approval. The council's minutes record that the Clerk provided explanations for any variances between the budgeted and actual figures.</p> <p>The council's balances as at the 31st March 2022 totalled £221,069. This comprised earmarked reserves of £170,000 for future cemetery and buildings projects and the remainder is a general working balance of £51,069. The general balance represents 42% of the council's current Precept requirement and is considered to be adequate and prudent for a council the size of Broughton Town Council.</p>

6	<p>Was all expected income fully received in accordance with the current scale of charges, properly accounted for and promptly banked?</p> <p>Were security controls over cash and cash equivalents effective?</p>	<p><u>Adequate income controls</u></p> <p>Findings</p> <p>All income tested has been reviewed to ensure that:</p> <ul style="list-style-type: none"> ➤ all income due to the council has been received, ➤ income received is in accordance with approved charges, ➤ income is accurately accounted for and correctly coded in the council's accounting system, ➤ income is banked intact, without undue delay. <p>The council's Precept and NLC Grant for 2021/22 totals £119,933 which agrees to the two equal instalments of Precept of £59,966.50 received on 20/04/21 and 30/07/2021 and the NLC grant of £8,142 received on 20/04/21.</p> <p>The charges for allotments were reviewed by the council at the meeting held on the 21st December 2020 and it was resolved to maintain the previous year's charges. The Clerk has confirmed that charges will be reviewed with all other policies at the May meeting.</p> <p>I have checked a sample of allotment income received by the council to the Allotment Register and Scale of Charges. It was found that the incorrect income was received for one plot in April 2021. It is also noted that the Allotment Agreements, signed by the tenants for the current year, have not been signed by the Deputy Clerk as the officer appointed for this purpose. The total income received for the year exceeds the number of plots at £31.00 per year owing to changes in tenancy during the year. The Clerk will ensure that the agreements are signed in the future and income received for plots is in accordance with the approved scale of charges.</p> <p>As noted in section 7 of this report, the income received from allotments is not banked. This is also the case with all other cash income received by the council. The Clerk has now confirmed that cheques and cash are now being banked at the local Post Office every week.</p>
---	--	---

		<p>The council has also received income in respect of room hire, pitch hire, cemetery, Covid grants, VAT refunds, grass cutting, civic dinner and sundry.</p> <p>I have checked a sample of income for room hire, pitch hire and the cemetery, to ensure that the correct charges have been made in accordance with the council's approved Scales of Charges and the income has been correctly accounted for and banked. It was noted that during the summer last year the council charged the Dog Club for the use of the sports hall and outside area. I have agreed the charges for the use of the sports hall but was unable to check the charges raised for the use of the outside area as these are not included on the Scale of Charges.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● Care should be taken to ensure that income received for allotments is in accordance with the approved scale of charges. ● As the Allotment Agreements are legally binding documents, the council's appointed officer should sign the agreements, in the designate place, on behalf of the council. ● The charge that the council wishes to make for the Dog Club to use the outside area should be included on the approved Scale of Charges.
7	<p>Were petty cash payments appropriate and supported by receipts?</p> <p>Was all expenditure approved and reported to members?</p> <p>Has VAT been correctly accounted for?</p>	<p><u>Appropriate petty cash controls</u></p> <p>Findings</p> <p>During the year the council's petty cash comprised cash income which has not been banked. As this was contrary to the Governance and Accountability Guide for Local Councils, which states that "<i>Cash and cheques should be entered into the cash book on the date of receipt and banked promptly and intact (i.e. without any of the cash being kept back for spending)</i>", the Clerk has confirmed that all future income will be banked intact in accordance with this requirement. A £50 cash float will be established and reimbursed as required.</p>

		<p>Recommendations</p> <ul style="list-style-type: none"> ● All petty cash payments should continue to be reported to council as part of the monthly expenditure analysis. The respective invoices/receipts should be provided to council together with all other monthly payments.
8	<p>Do all employees have contracts of employment with clear terms and conditions?</p> <p>Are salaries to employees and all other payments and allowances paid in accordance with council approvals?</p> <p>Has PAYE and NI been correctly deducted and paid to HMRC?</p>	<p><u>Adequate payroll controls</u></p> <p>Findings</p> <p>I have checked the Contracts of Employment for all employees with the exception of the previous Clerk. I was unable to check the salary payments to the previous Clerk as his contract has been removed from the personnel files and the council's computer system.</p> <p>I have agreed the gross pay figures on the payslips for the two furloughed employees to the furlough calculation spreadsheet completed by Turner Warren, the council's external payroll provider. In respect of the partially furloughed figures for the council's Cleaner/Caretakers it was identified that there was an overclaim of furlough made in April 2021 which was subsequently corrected by the payroll provider. The methodology used to calculate the value of the furlough payments was in accordance with Government requirements and I have checked and agreed a sample of the calculations.</p> <p>I have checked all salary payments, except for the previous Clerk, from April 2021 to March 2022 to the original contracts of employment, including any subsequent changes approved by the council and the current 2020 NJC National Pay Award.</p> <ul style="list-style-type: none"> ➤ It was noted that the permanent caretaker/cleaner is contracted for 3 hours per week, which equates to 13 hours per month. He is, however, paid only 12 hours each month. This has been corrected since the interim audit and back pay has been correctly paid. ➤ It was noted that the new Clerk's gross pay has been calculated incorrectly and she has been paid slightly less than was due during January to March 2022. ➤ It was also noted at the interim audit that the Deputy Clerk's letter of appointment confirms a rate per hour equivalent to NJC spinal column point (SCP) 7. The minutes of the Personnel Committee held on the 16th December 2019 also confirm the pay grade of SCP 7. The gross pay for the current year,

however, has been based on NJC's SCP 8. This was discussed at the Personnel Committee held on the 28th March 2022 and the pay scale of SCP 8 was agreed.

The Personnel Committee held on the 28th March confirmed that the Members will review both contracts for the Caretaker/Cleaners.

The interim audit also noted that completed timesheets are submitted weekly and the total hours worked (including the anticipated hours at the end of each month) are sent to the payroll provider to calculate the gross pay due. No adjustments have been made if the anticipated hours paid for the end of each month differ from the actual hours worked. The time sheets have not been reviewed for correctness or authorised by the Clerk or Deputy Clerk. The Personnel Committee held on the 28th March 2022 resolved that overtime will be paid only up to the third week of each month and the last week of each month will be paid the following month. The Clerk has operated the revised system from March 2022 and this ensures that only actual hours worked are paid.

All employees have been subject to PAYE and NI regulations via the payroll prepared by the council's external payroll provider. For the sample checked, PAYE and NI deductions have been correctly paid to HMRC.

Recommendations

- All Contracts of Employment should be held in the council's offices and on the computer system for record purposes and audit verification.
- The Clerk should recalculate her gross pay (including back pay) for January to March 2022 using the correct methodology and pay the small difference during the current financial year.
- All timesheets should be reviewed for correctness and authorised by the Clerk or Deputy Clerk prior to being processed for payment.

9	Is the Asset and Investment Register complete and accurate and reviewed on a regular basis?	<p><u>Appropriate recording of assets</u></p> <p>Findings</p> <p>The council's Asset Register is maintained in a spread sheet format. It records the council's assets and associated values. The register is not in the recommended format, however; it should also include, for each asset, the date acquired, the custodian and details of any disposals.</p> <p>It is not known whether the register was presented to council for review and approval during the year. Neither is it known whether the Asset Register has been routinely compared with the council's insurance policy to confirm that all of the assets that the council wish to insure are adequately covered.</p> <p>Following a review of the council's expenditure records it is noted that previous purchases had not been added to the register.</p> <p>The council does not hold any investments.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The Asset Register should include the date on which each asset is acquired, the custodian of each asset and details of any disposals. ● The register should be checked in detail to ensure that all assets on the register are still held by the council and that all assets owned by the council are included. The Clerk has confirmed that the register will be reviewed during the current financial year. A system of recording new assets as they are purchased should also be introduced to ensure that they are correctly added to the register. ● The register should be presented to council for review and approval annually to confirm that it is correct. The Clerk has confirmed that this will be reviewed with all other policies at the May 2022 meeting. ● The register should be compared with the council's insurance policy to confirm that all of the assets that the council wish to insure are adequately covered. The Clerk has confirmed that she will review this.
---	---	--

10	<p>Were bank reconciliations performed on a regular and timely basis?</p> <p>Has a year-end reconciliation been performed and balanced?</p> <p>Have all bank reconciliations been reviewed by an appointed member and evidenced as such?</p>	<p><u>Adequate bank reconciliations</u></p> <p>Findings</p> <p>Quarterly bank reconciliations were presented to council by the previous Clerk. They included the Town Council's Current Account, two Reserve Accounts and a Petty Cash Account. The council's new Clerk has prepared monthly bank reconciliations for January, February and March.</p> <p>As a result of issues that have arisen at other Town and Parish Councils it is considered to be good financial management that the respective balances on the accompanying bank statements also be signed/initialled by the Chairman as evidence of the checking of the month end bank balances against the reconciliations. The Clerk has confirmed that this is now being carried out in the current financial year as the bank statements for all of the council's bank accounts are available online.</p> <p>A review of the reconciliations confirms that there are no unusual or balancing entries.</p>
11	<p>Were Accounting statements 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, were debtors and creditors properly recorded?</p> <p>Has the previous Internal Audit Report been submitted to council and actioned as necessary?</p>	<p><u>Correct accounting basis and previous Internal Audit Report actioned</u></p> <p>Findings</p> <p>The year-end statements have been prepared on the correct accounting basis (Receipts and Payments) and, therefore, debtors and creditors have not been included.</p> <p>The statements agree with the cashbook and there is an audit trail from underlying financial records to the final accounts.</p> <p>The total of the Asset Register as at 31/03/22 agrees to box 9, fixed assets, on the Accounting Statement on the AGAR.</p> <p>The 2021/22 interim Internal Audit Report was presented to and approved by council on the 28th February 2022. It was resolved to establish a Finance and Audit Committee. The Committee met on 14th March to discuss the report and create an action plan. The Clerk confirmed that the actions would be prioritised and that there were many issues with the Governance and Financial controls that needed addressing.</p>

12	If the council certified itself as exempt from an External Audit Limited Assurance Review last year, has it met the exemption criteria and correctly declared itself exempt?	<p><u>Exemption Certificate</u></p> <p>Findings The council, correctly, did not complete an Exemption Certificate under Section 9 of the Local Audit (Smaller Authorities) Regulations 2015.</p>
13	Did the council correctly provide, during the summer, the proper opportunity for the exercise of public rights in accordance with the requirements of the Accounts and Audit Regulations 2015?	<p><u>Exercise of Public Rights</u></p> <p>Findings A review of the council's website has identified that, during the summer of 2021, the council did not correctly provide the proper opportunity for the exercise of public rights. The council did not publish on its website the statutory Notice of Public Rights in accordance with the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● The council should publish on its website the statutory Notice of Public Rights in accordance with the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015.
14	Did the council comply with the publication requirements for the previous year's AGAR?	<p><u>Publication Requirements</u></p> <p>Findings I have reviewed the council's website and confirmed that the Town Council published the correct documents, with the exception of the statutory Notice of Public Rights, as required by the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● As recorded above, the council should publish on its website the statutory Notice of Public Rights in accordance with the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015.

15	Has the council met its responsibilities as a Trustee?	<u>Trustee responsibilities</u> Findings I have seen no evidence that the council has responsibility for Trust Funds and the Clerk has confirmed that this is the case.
----	--	--

Executive Summary

Many accounting and governance arrangements of the council have been maintained to a good standard and the assistance of the Clerk and Deputy Clerk of the council in the completion of this audit was much appreciated. The 2021/22 audits, however, have also highlighted areas which require attention in order to comply with legislative requirements, Government guidance and best practice. The above “traffic light system” has identified the recommendations in order of priority. Of particular concern was that cash income was not being banked and was being used to fund petty cash disbursements. The new Clerk has confirmed that this practice, which is contrary to Government guidance, has now ceased.

Page | 18

The adoption of the above recommendations and consideration of the advisory note will serve to strengthen the systems, procedures and governance arrangements already in place.

The Internal Audit has been conducted in accordance with the Governance and Accountability for Local Councils – Practitioners Guide 2021.

I confirm that I have no relationship or interest, financial or otherwise, with any member or officer of the council.

Richard Dixon

Public Sector Audit

17th May 2022

Public Sector Audit

UKCS

Registered with
UK Copyright Service
Reg. No.: 284714616