



Final Internal Audit Report

Harpenden Town Council 2020-21

June 2021

Issued to: Carl Cheevers – Town Clerk
Daniel Williams – Finance Manager

Clerk to provide copies to: Harpenden Town Councillors

Report Status: Final

Reference: 2296/21/001

Overall Assurance: Good

INDEX

<u>Section</u>	<u>Page</u>
1. Executive Summary	3
2. Assurance by Risk Area	5
Appendix A – Audit work undertaken	6
Appendix B - Definitions of Assurance and Recommendation Priorities	8

1. EXECUTIVE SUMMARY

Introduction

- 1.1 This review was undertaken as part of the planned provision of internal audit services to Harpenden Town Council.
- 1.2 The purpose of the tests performed on a selection of key controls is to give the Town Council assurance that internal controls are operating effectively and to enable the annual return to be completed and signed.

Overall Audit Opinion

- 1.3 In relation to the Town Council's internal control framework the audit opinion is that we can provide overall **good assurance** that there are effective controls in operation for those elements of the risk management processes covered by this review to meet the Town Council's objectives. These are detailed in the Assurance by Risk Area table in section 2 below.
- 1.4 In reaching our overall assurance opinion, we have concluded that appropriate, up to date and approved documents are in place and accounting records are accurately maintained throughout the year to enable the production of a balancing set of accounts for the council to sign off along with the annual return.

Audit Commentary

- 1.5 The Financial Regulations are reviewed annually but there is no evidence that the Standing Orders are also reviewed, not complying with Standing Order 2.13 which states that standing orders should be reviewed annually in May. At the previous audit, the point was raised that even if the document is not updated, the latest document should show that it has been reviewed and minuted that no amendments have been made by the Full Council. As the previous report was issued after the May 2020 meeting, compliance should have taken place in the May 2021 meeting (not included in the 2020-21 audit undertaken here).
- 1.6 Our audit testing showed that Income and Expenditure is supported by valid authorised invoices and accurately recorded separating VAT where appropriate. VAT claims are made quarterly in a timely manner.
- 1.7 Risk Strategy and Risk Register were updated, reviewed and adopted in January 2021 after being reviewed by the Accounts and Risk Sub-Committee in November 2020. They included many risks in relation to the Coronavirus pandemic.
- 1.8 The budget was put together by the Town Clerk and the Finance Manager in November 2020 and discussions took place with the Corporate Policy and Finance Committee and the Community Services Committee on their elements of the budget. A report was then written requesting approval for a precept of £1,069,930 leaving a deficit of £46,190 which would need to be funded from the Council's reserves. At present the reserves are at a very good level due to the large capital receipts added to the reserve from the sale of land but could be gradually depleted if expenditure was to continue to exceed income and the precept. In January 2020, the Corporate Policy and Finance Committee reviewed the budget figures and passed to the Full Council to

approve after which the precept notification letter was sent to St Albans District Council to meet the end of January deadline.

- 1.9 Budget monitors are produced on a monthly basis but are monitored at all Corporate Policy and Finance Committee meetings throughout the year. The budget monitors show the end of year forecast and has papers attached with a detailed narrative report on the figures.
- 1.10 Staff are paid in accordance with the NJC rates with the pay award for 2020/21 received in September 2020. Members of staff could have an increase of an increment if applicable within their pay scale in April 2020. At the Corporate, Policy and Finance Committee meeting following the pay award being announced, the members are asked to note the pay award which was 2.75% for 2020/21. The Town Council are in a location to receive a fringe allowance. For the new starter on 8 June 2020, the pay award and fringe allowance were paid for the whole of June, rather than from 8 June. Following audit testing, this was identified and subsequently a deduction of £12.17 was to be made in the May 2021 payroll for the new starter.
- 1.11 Bank reconciliations are carried out monthly and we reviewed a sample of these and confirmed that the cash book figures matched the bank statements. We reviewed the Current Account for October 2020 and included all the investments and savings accounts for September 2020 and at year end, 31 March 2021 which are included in the final accounts.
- 1.12 During the Coronavirus pandemic, most staff have been working at home with remote access to systems. Through our testing, we have confirmed that the internal control environment and governance arrangements have remained strong with the changes to operational delivery resulting from the pandemic.
- 1.13 For definitions of our assurance levels, please see Appendix B.

Summary of Recommendations

- 1.14 No formal recommendation for improvement in control areas were made so a management action plan has not been appended. Two points have been made at 1.5 and 1.10 of the Executive Summary above. The audit work undertaken is shown in Appendix A.
- 1.15 The responsibility for a sound system of internal control rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should internal audit work be relied upon to identify all circumstances of fraud or irregularity.

2. ASSURANCE BY RISK AREA

2.1 Our specific objectives in undertaking this work, as per the Terms of Reference, were to provide the Council with assurance on the adequacy and effectiveness of internal controls, processes and records in place to mitigate risks in the following areas:

Risk Area	None	Limited	Satisfactory	Good
Maintenance of proper financial records				
Compliance with the Council's Financial Regulations and proper accounting for VAT				
Adequacy of Risk Management arrangements				
Effective budgeting and budgetary control				
Identification of income due and timely collection and banking of such monies				
Proper administration of petty cash				
Proper administration of salaries of employees including PAYE and allowances for Town/Parish Councillors				
Maintenance of an accurate and reliable Asset Register and insurance				
Properties owned by the council				
The completion of regular bank reconciliations				
The proper preparation of year-end accounts				
To ensure that the annual return is being completed				
Processes are in place to combat fraud or irregularities				
The Council has met its responsibilities as a trustee.				
Overall				

2.2 See definitions for the above assurance levels at Appendix B

Area	Control	Control Satisfactory
1. Maintenance of proper accounting records and preparation of Accounting Statements	• Accuracy of Accounting Records	Yes
	• End of Year accounts	Yes
2. Adoption of the Council's Financial Regulations, Contract Standing Orders and Governance	• Financial Regulations	Yes
	• Standing Orders	Yes
	• Meeting Minutes and declaration of conflicts of interest	Yes
3. Payment Controls including treatment of VAT and Section 137 expenditure	• Payment of invoices	Yes
	• VAT on payments	Yes
	• Section 137 expenditure	Yes
4. Risk Management Processes	• Risk Assessment	Yes
5. Budget setting and monitoring	• Budget Setting	Yes
	• Precept notification	Yes
	• Budget Monitoring	Yes
6. Income received and VAT	• Receipt of Precept	Yes
	• Receipt of income	Yes
	• VAT on income	Yes
	• Banking of income	Yes
7. Petty Cash Payments	• Petty Cash payments	Yes
	• VAT on cash payments	Yes

Area	Control	Control Satisfactory
8. Payroll records including Income Tax, National Insurance and Pensions	• Pay policy/process	Yes
	• Annual salary increases	Yes
	• Individuals salary increase	Yes
	• Members/Mayors Allowances	Yes
	• Salary deductions paid to external bodies (Tax and Pension)	Yes
9. Completeness of Asset and Investment Registers	• Asset Registers	Yes
	• Investments	Yes
10. Bank Reconciliations	• Bank Reconciliations	Yes
11. Trusteeships	• Trusteeship Accounts	N/A

Assurance Level	Definition
Good	The design and operation of the internal control framework is effective, thereby ensuring that the key risks in scope are being well managed and core objectives will likely be achieved. There are minor reportable audit findings.
Satisfactory	The internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements.
Limited	The system of internal control is only partially effective, with important audit findings in key areas. Improvement in the design and/or operation of the control environment is necessary to gain assurance risks are being managed to an acceptable level, and core objectives will be achieved.
No	The system of internal control has serious gaps, and controls are not effective in managing the key risks in scope. It is highly unlikely that core objectives will be met without urgent management intervention.

Priority Level			Definition
Corporate	Critical		Audit findings which, in the present state, represent a serious risk to the organisation as a whole, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate controls is required immediately.
Service	High		Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
	Medium		Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	Low / Advisory		Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.