

DKE AUDIT SERVICES

INTERNAL AUDITOR

Specialist provider to Town & Town Councils

Bewdley Town Council

Internal Auditors assessment for the completion of the AGAR Part 3 – Financial Year 2021-22

1. Introduction

I have concluded the Council's annual internal audit. I am therefore able to complete the Annual Internal Audit Report 2021/22 which forms part of the Annual Governance and Accountability Return (AGAR).

My internal audit considers the evidence available to assess and ensure the Council has effective governance arrangements in place for the areas examined. In examining the governance arrangements focus has been placed on compliance with the Council's key governance 'rules', its management of risk and its financial controls. Consideration is given to the size and scope of activities undertaken by the Council.

The internal audit is not designed to identify all weaknesses in the Town Council's systems but, it is a sample examination of systems and of testing those systems. Where weaknesses are identified during the internal audit process, which impact on governance and control, or system enhancement opportunities are identified, recommendations are made.

The responsibility for the prevention and detection of fraud, error and non-compliance with the law or regulations rests with the Council. The internal audit should not be relied upon to disclose all material misstatements or frauds, errors or instances of non-compliance as may exist.

2. Summary

In the section below I have recorded my AGAR responses and offered some comments by way of explanation for these. Members need to be mindful that this assessment is for governance and control during 2021/22 to the time of the audit review.

During the internal audit review no significant control issues or non-compliances have been identified; therefore, I can give a positive response to each of the areas covered by the AGAR (internal auditors section), that apply to the Town Council. One control related recommendation has been made for the Council to consider; and there are process matters raised for the Council to follow-up.

3. Internal Audit Assessment

The table below follows the format of the AGAR, for each section questions have been answered with supporting evidence provided which has been examined and assessed.

AGAR Internal Control Objective, Internal Audit assessment and related comments	Yes /No
A. Appropriate accounting records have been properly kept throughout the financial year.	Yes
<p>The Council has put in place effective procedures to accurately and promptly record all financial transactions, it has maintained up to date accounting records throughout the year, together with all necessary supporting information. Invoices, payment requests and receipts are recorded on the accounting software (Scribe). Copy invoices, payment requests, or other supporting information for transactions are held on file.</p> <p>The cashbook is up to date, and is well structured, payments are reported to the Council at each meeting, and ratification and approval is recorded in the minutes. Overall, an effective internal control environment has been maintained.</p>	
B. This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved VAT was appropriately accounted for.	Yes
<p>Financial Regulations and Standing Orders have been reviewed (May 2021), the Nalc recommended Financial Regulations have been adopted, in doing this the Council has agreed the controls to be followed.</p> <p>Based on a sample examination of a number of payments selected from the cashbook confirmation has been gained that the payments made are supported by invoices, payment requests or other supporting evidence.</p> <p>Quotes for works and services are obtained, and grants awards are supported and approved.</p> <p>Payments have been properly approved and VAT has been appropriately accounted for.</p> <p>Effective management and control over the Council's bank account is present.</p> <p>It should be noted that the Council has made payments for services in respect of Wribbenhall Millennium Green, for which the Council are not responsible for providing (see detail and recommendation below).</p>	
C. This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.	Yes
<p>The Council has a risk management policy that includes risk assessment and risk control arrangements. The Council's risk register includes control arrangements and frequency of review where appropriate.</p> <p>A Financial Control process operates to ensure effective monitoring of financial management risk.</p>	

AGAR Internal Control Objective, Internal Audit assessment and related comments	Yes /No
<p>The insurance policy covers the areas expected for a Town Council and the assets (for which there is an Asset Register) have been insured in line with the assessed values, the Council is aware there is a risk exposure in respect of the insurance arrangements for some assets of significant value, and of the need address this.</p> <p>IT support arrangements have been enhanced and are appropriate to provide effective security and control.</p> <p>Confirmation has been given that an asset inspection schedule operates to ensure repairs and maintenance is undertaken, however this is not evidenced.</p> <p><u>Recommendation 1</u></p> <p>As part of the risk control process records are maintained to demonstrate asset inspections are undertaken. Also, for other areas where checks form part of the control arrangement, there are supporting audit trails to show the risk mitigating checks are undertaken as required. For all inspection and checking processes the outcomes and actions should be documented to satisfactory conclusion.</p>	
<p>D. The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.</p>	Yes
<p>The budget covers the Councils activities showing sources of receipts and payment provision by type; these are included in the budget monitoring reports. The budget setting statement for 2022-23 identifies the funding need based on services and commitments. The precept has been set in accordance with what Members have determined is the spending requirement.</p> <p>Council should ensure a longer-term approach to budgeting is developed through a three-year rolling budget plan.</p> <p>Frequent budget monitoring is undertaken, being recorded in the minutes.</p> <p>The Council regularly reviews and approves its reserves.</p>	
<p>E. Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.</p>	Yes
<p>The Council receives income primarily from the precept, there are other minor sources and sums from the localism arrangement which will reduce over time. Income is controlled and promptly recorded in the cashbook.</p>	

AGAR Internal Control Objective, Internal Audit assessment and related comments	Yes /No
<p>Assurances that expected income is received occurs through the budget monitoring process.</p> <p>The Council do not raise fees that attract VAT.</p>	
<p>F. Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.</p>	<p>Not Covered (Not Applicable)</p>
<p>The Council no longer operates a petty cash system.</p>	
<p>G. Salaries to employees and allowances to members were paid in accordance with this authority's approvals, and PAYE and NI requirements were properly applied.</p>	<p>Yes</p>
<p>The salary payable to the Town Clerk has been approved by Members, as part of the appointment process. For the payments made to the Clerk and other members of staff payments are in accordance with agreed terms and relevant employment related deductions are made. Employer liabilities have been paid.</p> <p>Payroll services are outsourced – to the District Council, effective control operates.</p>	
<p>H. Asset and investments registers were complete and accurate and properly maintained.</p>	<p>Yes</p>
<p>The Council has an Asset Register which is periodically reviewed by Members. Assets are risk assessed, periodically inspected as part of the risk mitigation arrangements (see comment earlier and recommendation), and are properly maintained.</p> <p>See earlier comment in respect of asset insurance.</p> <p>The Asset Register could be enhanced to become a more practical asset management document, as well as a listing assets and values, this could link to risk management (inspection), repairs and maintenance budgets, renewal projections (earmarked reserves).</p>	
<p>I. Periodic bank account reconciliations were properly carried out during the year.</p>	<p>Yes</p>
<p>Evidence shows the Council regularly reconciles its bank accounts with its accounting records, this is recorded in the minutes.</p>	

AGAR Internal Control Objective, Internal Audit assessment and related comments	Yes /No
J. Accounting statements prepared during the year were 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 debtors and creditors were properly recorded.	Yes
The accounting statements have been prepared on the correct accounting basis. The accounting process as reviewed is effective and appropriate; the accounting statements agree to the cash book and are supported by an adequate audit trail from underlying records and explanations.	
K. If the authority certified itself as exempt from a limited assurance review in 2020/21, it met the exemption criteria and correctly declared itself exempt (If the authority had a limited assurance review of its 2020/21 AGAR tick “not covered”).	Not Covered
The Council did not certify itself as exempt from a limited assurance review in 2020/21.	
L. The authority publishes information on a free to access website/webpage up to date at the time of the internal audit in accordance with any relevant transparency code requirements.	Yes*
The Transparency Code applies to Councils with a turnover not exceeding £25,000 and a turnover greater than £200,000. *The Council is currently assessing the requirements of the Transparency Code 2015 as its turnover is greater than £200,000. The Code is designed to increase democratic accountability and ensure that local people can access and scrutinise data covering, for example: <ul style="list-style-type: none"> • how money is spent – all spending transactions over £500 and contracts valued over £5,000; • use of assets – how the council manages its assets; and • decision making – how and by whom decisions are taken, including how much senior officers are paid. 	
M. The authority, during the previous year (2021-22) correctly provided for the exercise of public rights as required by the Accounts and Audit Regulations (evidenced by the notice published on the website and/or authority approved minutes confirming the dates set).	Yes
Evidence confirms the Council correctly provided for the exercise of public rights as required by the Accounts and Audit Regulations.	
N. The authority has complied with the publication requirements for the 2020/21 AGAR (see AGAR Page 1 Guidance Notes).	No

AGAR Internal Control Objective, Internal Audit assessment and related comments	Yes /No
The Council was required to publish the notice and Sections 1, 2 & 3 of the AGAR by 30 September. These were published on 26 November 2021. The following statement was received from the external auditor – ‘we have not been able to complete our review work in time to enable to smaller authority to publish the required documentation in line with statutory requirements’.	
O. (For local councils only) Trust funds (including charitable) – The council met its responsibilities as a trustee.	No
The Council (as a body) has trust or charitable responsibilities and evidence has not been provided to show the Council has met all of its responsibilities – see detail below.	

Other Areas

Internal Control areas and Internal Audit comments
Review of the implementation of recommendations from the previous year’s Internal and External Audit Reports
<p><u>From last internal audit report (carried over from the internal audit report 2019-20)</u></p> <p>Comment - The Wribbenhall Millennium Green Trust (a registered charity) is responsible for an area of land; the Councillors are trustee of the site by default and are responsible for site maintenance. I have been advised that the Town Council has no access to the Trust’s bank account and holds funds due to be banked. There is an Annual General Meeting and the Trust should be meeting throughout the year. The Charity Commissions website states that documents are 340 days overdue and the charity has failed to provide information on its finances within 10 months of its financial year end.</p> <p>Recommendation - As the Council is the Trustees of the Wribbenhall Millennium Green Trust (a registered charity - charity number: 1079242) then compliance with the requirement of a charity must be complied with.</p> <p>Recommendation update 2020-21 – This recommendation has not yet been implemented; Covid-19 restrictions have been a contributing factor for this.</p> <p>Recommendation update 2021-22 – The Charity Commission website shows that on 10 March 2021 the Council (in its role as Trustee) submitted the accounting statement to the Charity Commission for the year 2019-20. The return showed the Charity received no receipts and made no payments within the year. The requirements place on the Council in respect of its Trustee role are specified in the AGAR Assertion 9 which states;</p>

Internal Control areas and Internal Audit comments

- 5.105. Certain local councils have powers to be appointed as trustee of local, usually charitable, trusts and fulfil this role as either custodian or managing trustee.
- 5.106. Charitable trusts in England are regulated by the Charity Commission which sets out minimum standards of accounting and audit requirements where these are not covered by the Trust Deed. The Charity Commission also requires annual reporting by registered charities.
- 5.107. The same requirements apply to charities that have re-registered as CIOs (Charity Incorporated Organisations). Authorities need to make sure that all returns for all entities are correctly managed.
- 5.108. A CIC (Community Interest Company) is not a Charity. Authorities undertaking projects and activities with CICs must be very clear about the separate legal framework that covers these bodies.
- 5.109. If the authority has disclosed that it is a sole managing trustee it must also complete the associated assertion in the annual governance statement.
- 5.110. Authorities should ensure that each trust or charity has its own bank account. Only amounts paid and received through that account should appear in the accounts of the charity.
- 5.111. If, exceptionally, the authority's bank account is used to receive monies intended for the trust or to pay for any expenditure on behalf of a trust (prior to recovery from the trust account), then these transactions, including any irrecoverable VAT, must be included in the AGAR of the authority as being its own receipts/income and payments/expenditure during the year and to the extent that they are yet to be recovered or paid over reconciled as debtor and creditor amounts.
- 5.112. Where, following legal advice, authorities are wholly managing the assets of a charity, a Memorandum of Understanding should be in place.
- 5.113. Meetings of the authority when it is acting as charity trustee must take place separately from those of the authority acting as the authority. Separate minutes must be kept. In order to avoid confusion, trust business should always be minuted separately from authority business. Separate notices and agendas for meetings should be issued.
- 5.114. Charity VAT is covered by VAT Notice 701 which is entirely separate from Notice 749 for smaller authorities. Advice should be sought if there is uncertainty.
- 5.115. The value of trust property must not be shown in the authority's books of account and on the AGAR as authority property. Trust assets held by the authority as custodian or managing trustee should, however, be recorded in the authority's asset register and identified there as 'charity assets held by the authority as trustee' with their value excluded from the total.

The Council should, as a matter of urgency, review how it acts and operates in respect of Wribbenhall Millennium Green ensuring it fulfils its responsibilities as sole trustee. The Council must also ensure it accounts properly for financial transactions relating to the Charity. The review should consider the Council's position and options in relation to the structure of the Charity.

From last external audit report

Internal Control areas and Internal Audit comments
The smaller authority should investigate the VAT balance and ensure it has been accounted for correctly. If any amendment is necessary, please ensure that the prior year comparatives are corrected when completing next year's AGAR. This has been actioned.
Any other governance or financial control issues arising during the internal audit
None
Any 'unusual' matters arising from the review of the minutes of Council and Committee meetings (the approach to risk and control)
None
Any matters referred by the Council or the Clerk for review
None

The draft version of this report was discussed and agreed by the Town Clerk.

The internal auditor wishes to acknowledge the support and assistance provided by the Town Clerk during the internal audit review.

Duncan Edwards

Internal Audit undertaken on 10 March 2022

Duncan Edwards (2021/22 internal audits)