

# **Bruton Town Council**

*Internal Audit Report 2022-23 (Final)*

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*For & on behalf of  
Auditing Solutions Ltd*

## **Background**

**Statute requires all town and parish councils to arrange for an independent internal audit examination of their accounting records and systems of internal control and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR).**

This report sets out the work undertaken in relation to our final review for 2022-23, undertaken at our offices and during a visit to the Dovecote Building offices on 1 June 2023. We would like to thank the Town Clerk for her help and hospitality during this review.

## **Internal Audit Approach**

The objective of this final review is to provide an appropriate level of assurance to the Council on their governance, procedures and financial control for the year 2022-23, in support of the assurances the Council is required to sign against in the Annual Governance and Accountability Return (AGAR) for 2022-23.

In concluding our review for the year, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts / AGAR. Our programme of cover is designed to afford reasonable assurance that the Council has appropriate and robust financial systems in place that operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Internal Audit Report' as part of the Council's AGAR process, which requires independent assurance over a number of internal control objectives.

## **Overall Conclusion**

Details of the work undertaken on the Council's accounting and other records during this final review are set out in the following detailed report. There are a number of areas (namely income control, the developing Asset Register and the absence of an Investment Strategy) where we can offer no assurance. We have also found necessary corrections to the Accounting Statement in Section 2 of the AGAR for 2022-23.

While we have not seen the need to make formal recommendations, we have made a number of observations throughout this report in order to improve governance and internal control procedures. Councillors should, therefore, formally consider this report and the observations made therein.

In summary, we note the considerable efforts made by the Clerk since her formal appointment in January 2023 in dealing with a range of complex inherited issues. 2022-23 should, therefore, be seen as a transitory year, and the Council should provide appropriate support to staff to ensure that an unqualified AGAR report is received for 2023-24.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

Our objective here is to ensure that the accounting records are being maintained accurately and that no anomalous entries appear in cashbooks or financial ledgers. The Council uses the Scribe accounting software, which allows for good analysis of transactions. At the time of audit four bank accounts were still use: an HSBC current account (closed in early May 2023), two with Unity Trust (current and Instant Access), and an historic savings account with Scottish Widows that shows no activity apart from minor interest earnings. We note that this position is still undergoing rationalisation in accordance with Council's acceptance of the observations in our interim report.

We have:

- Ensured that the cost and expenditure coding structure remain appropriate for purpose;
- Checked and agreed the Scribe bank reconciliations as at the time of audit for all accounts to the supporting bank statements. We have noted one small amendment to the reconciliation as at 31 March 2023, relating to an unrepresented payment, and also observed that the outstanding balance on the Lloyds Credit Card should not form part of the bank reconciliation process. We have discussed the necessary amendments to Section 2 of the AGAR with the Clerk (we expand on this point below).

As at 31 March 2023 the Council was holding considerable sums (over £200,000) in current accounts which attract no interest earnings. We have been informed that a transfer to a deposit account has since been made, following Council approval. We would suggest that the monitoring of bank balances, and the transfer of surplus funds to an interest-earning account, can be delegated to the Clerk in accordance with Financial Regulation (FR) 5.5c, although Council may wish to amend the financial limit. Any such transfer should be minuted at the next Council meeting and could be subjected to the FR 2.2 check referred to below.

We note that bank reconciliations on all accounts are undertaken on a monthly basis, and reported to the next meeting of the Council. We are pleased to note that, following the comments in our interim report, they are now subject to periodic scrutiny by an independent Councillor as required by FR 2.2.

### *Conclusions*

*There are no issues arising in this area of our review warranting formal comment or recommendation, other than our observation concerning the transfer of surplus funds to interest-earning accounts.*

## Review of Corporate Governance

Our objective here is to ensure that the Council has a robust series of corporate governance policies, procedures and documentation in place; that Council and Committee meetings are conducted in accordance with the adopted Standing Orders (SOs) and that, as far as we are able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation.

We note that the Standing Orders (SOs) and Financial Regulations (FRs) have been adopted by the Council in May 2022, and were further reviewed in May 2023. Further to the observation in our interim report we have been informed that tendering limits in both documents have been reduced to £30,000, which is still higher than the NALC Standard of £25,000 but is more appropriate to the spending levels of the Council.

We understand that the eligibility to exercise the General Power of Competence (GPoC) was re-approved in May 2023. We note that, in the 2022/23 accounts, no expenditure was made against the alternative Section 137 of the Local Government Act 1972.

We have concluded our review of the Minutes of the Town Council and Standing Committee meetings for the year to establish whether any issues exist that may have an adverse effect, through litigation or other causes, on the Council's current or future financial stability. No such issues have been identified to date.

We note that the Exercise of Public Rights, undertaken with regard to the 2021-22 Accounts in July / August 2022, was properly undertaken in accordance with the Accounts and Audit Regulations.

We have discussed with the Clerk the level of compliance with the Transparency Code 2015. This requires a range of information to be clearly available on the Council's website. We note improvements in this area since our interim report, and that the Clerk is working to improve this still further.

### ***Conclusion***

***There are no issues arising in this area of our review warranting formal comment or recommendation.***

## **Review of Expenditure**

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Payments are supported by suitable documentation, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due and/or an acknowledgement of receipt, where no other form of invoice is available;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct expense codes have been applied to invoices when processed; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have determined, and test checked, the procedures for receiving, processing and making due payments, with no issues arising. We support the Clerk's intention to introduce a random independent check in this area as part of the FR2.2 check referred to above.

We have discussed with the Clerk a revised procedure for processing transactions made on the Council's credit card, which should be treated in the same way as any supplier's invoice, rather than a bank account balance.

We have also examined detail of VAT payments / reclaims processed during the year to date by reference to the accounting software control account. There is a balance of £31,080.09 outstanding at 31 March 2023 to be reclaimed.

### ***Conclusion***

***There are no issues arising in this area of our review warranting formal comment or recommendation, other than our observation about the correct treatment of the Council's credit card.***

## **Assessment and Management of Risk**

Our aim here is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks to minimise the opportunity for their coming to fruition. We have: -

- Examined the Council's current insurance policy, renewed from 1 June 2022 through BHIB brokers. We note that the following covers are in place: Employers Liability at £10M, Public & Products Liability at £10M, Officials Indemnity at £500,000 and other covers, including property, which we consider appropriate for the Council's current requirements. Further to discussions with the Clerk, we now feel that, in the unlikely event of the loss of the Dovecote Building, there is sufficient cover under Business Interruption to maintain the Council's administrative functions;
- Noted that the Council approved its Risk Register in March 2023, which meets the requirement for an annual review, although we note that this will now become a standing issue at meetings of the Finance and Resources Committee;
- Noted that the Jubilee playpark is now subject to a weekly visual check as well as an annual safety review. We have discussed with the Town Clerk the need for these inspections to be documented, in order to justify the Council's position in the event of any insurance claim.

### ***Conclusion***

***There are no issues arising in this area of our review warranting formal comment or recommendation.***

## Budgetary Control & Reserves

Our aim here is to ensure that: -

- The Council has undertaken a budget determination exercise, which forms the basis of the annual precept request from the parent Council.
- The Council has received regular reports identifying the budget position throughout the year.
- The Council has formally approved the establishment of specific reserves.
- The utilisation of reserves and the return of unused balances to the General Fund are reported to the Council at regular intervals.
- Year-end reserves and General Fund balances are reviewed to ensure that they are both appropriate and are likely to be utilised.

We note that, at its January 2023 meeting, the Council formally established a Precept of £160,616 for 2023-24, following detailed review by the Finance and Resources Committee.

We note that the Council receives a report on the current budgetary position at each meeting, which is evidence of sound internal control.

We note that the Scribe system shows a total of £113,989 as at 31 March 2023 to various projects as Earmarked Reserves. Allowing for the year-end cash balance of £236,585 (amended, as detailed below), this leaves a General Reserve of £122,596, which represents around 76.3% of the agreed Precept against a Best Practice level of 50%. This level of General Reserve is therefore very high, probably exceeding the risk from unforeseen events, and should be kept under review.

### *Conclusions*

*There are no issues arising in this area of our review warranting formal comment or recommendation, other than our observation about the high level of the General Reserve.*

## Review of Income

The Council receives income, in addition to its Precept and VAT recoveries, from cemetery fees, allotment rents, event fees, and miscellaneous grants.

We have undertaken a sample check of large income transactions within the Scribe system, with no issues arising.

At the time of audit, we were still unable to undertake any substantive work on the smaller areas of income, such as cemetery fees (which are still in the process of being transferred to a Scribe package) and allotment fees, which are often received in cash with resulting problems in paying into bank accounts. We have discussed with the Clerk the need to maintain accurate records of receipts, possibly via a spreadsheet, and to ensure that monies are kept intact until they are banked and not used for other purposes (eg. minor petty cash transactions).

We are not able, therefore, to give any assurance in this area in our 2022-23 AGAR report.

We note that both cemetery and allotment fees were reviewed by the Council in January 2023, which meets the requirement for an annual review of all fees and charges in accordance with FR9.3.

### **Conclusion**

*We are unable to give a substantive assurance in this area for 2022-23. However, we note the efforts of the Clerk to review and improve controls in this area, which is an inherited issue.*

## **Petty Cash Account**

*The Council does not maintain a petty cash account. Therefore there are no issues arising in this area of our review warranting formal comment or recommendation.*

## **Review of Staff Salaries**

In examining the Council's payroll function, we aim to confirm that salary payments are in line with the Council approved pay rates and that extant legislation is being appropriately observed as regards adherence to the requirements of HMRC legislation in relation to the deduction and payment over of income tax and NI contributions, together with pension contributions.

We note that the Council's payroll is managed by an external contractor (Pata Payroll).

We have test-checked the payroll for October 2022 and March 2023, agreeing detail of the basic salary payments to each employee. We have also checked the accuracy of the tax, NI and pension deductions by reference to the relevant tax and NI tables and percentage bandings applying to staff contributing to the Local Government Pension scheme with no issues arising.

We note that the most recent NJC pay award was approved by the Council in November 2022.

We note that two locum financial assistants have been employed during the year. We have discussed with the Clerk the proper treatment of payments to such staff in accordance with AGAR requirements, in that Section 2, Box 4 should only contain salary payments and not contractor's invoices. This will require an adjustment between Boxes 4 and 6 in Section 2 of the 2022-23 AGAR, as detailed below.

### **Conclusion**

*There are no issues arising in this area of our review warranting formal comment or recommendation, other than necessary corrections to the final accounts.*

## **Fixed Asset Registers**

All Councils are required to keep a record of their assets, to be valued at original purchase cost or, where this is not easily determined, an appropriate value which can be a nominal £1. This figure, which is only then changed by the addition or deletion of specific items, is reportable in the annual AGAR (Section 2, Box 9).

We note that the Council is still largely relying on the list of assets as at 31 March 2020, although some amendments have been made on the Scribe system. The majority of the Council's assets are recorded at Purchase price, which is the correct treatment although few dates or other supporting information is currently available to confirm this. We note the growing use of a £1 nominal value, as approved by Government Accounting, for historic building assets such as the Engine House, Patwell Pump and the War Memorial.

While, therefore, we can give no assurance on the accuracy of the figure shown in Section 2, Box 9 of the 2022-23 AGAR, we are confident that the Clerk is undertaking substantial work to resolve this issue during 2023-24.

### ***Conclusion***

***We are unable to give a substantive assurance in this area for 2022-23. However, we note the efforts of the Clerk to review and improve controls in this area, which is an inherited issue.***

## **Investments and Loans**

The Council holds no investments other than its accounts with its current banks. However, as those balances exceed £100,000 in total, it is a requirement of Government Accounting (JPAG Para. 1.11) that an Investment Strategy be approved and subjected to annual review. This is part of Assertion 1 of the Annual Governance Statement of the AGAR.

We have discussed this with the Clerk. While there was insufficient time to produce such a Strategy during 2022-23, we are assured that it is a high priority for 2023-24.

There are no loans outstanding to or by the Council.

### ***Conclusion***

***We are unable to give a substantive assurance in this area for 2022-23. However, we are confident that it will be implemented during 2023-24.***

## **Statement of Account and AGAR**

The AGAR incorporates the Council's Annual Accounts, which are subject to external audit scrutiny and verification.

As referred to above, we have discussed with the Clerk some corrections to Section 2 of the draft AGAR for 2022-23, namely:

- the need to correct the figure in Box 4 (Staff costs) to remove payments other than direct payroll, ie. contractor's payments. These total at least £3,420 to the current Accounts Assistant, and initial payments to the former Locum Clerk before she was formally put on the payroll. The final figure needs to be deducted from Box 4 and added to Box 6 (All other payments);

- the need to correct the final cash balance (Boxes 7 and 8) to allow for a small unrepresented payment and the removal of the outstanding credit card balance from the bank reconciliation. We have calculated this revised figure to be £236,585. The resulting difference will also need to be offset against Box 6.

We have discussed these amendments with the Clerk.

### **Conclusions**

***Other than the financial corrections to Section 2 of the 2022-23 AGAR detailed above, and those areas highlighted in this report where we can offer no assurance, there are no further matters arising in this area of our review process and we have duly signed off the Internal Audit Certificate at Page 3 of the AGAR, assigning appropriate assurances in all relevant categories.***

Rec. No.	Recommendation	Response
<b>No recommendations made</b>		