

# **Bruton Town Council**

*Internal Audit Report 2022-23 (Interim)*

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*Chris Hall*

*Consultant Auditor*

*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 initial review for 2022-23, undertaken at our offices and during a visit to the Dovecote Building offices on 13 December 2022. We would like to thank the new Town Clerk for her help and hospitality, and also the Chair for providing necessary information in advance of the audit review.

This is our first audit review for Bruton Town Council, following our appointment in May 2022.

## Internal Audit Approach

The objective of this interim review is to provide an appropriate level of assurance to the Council on their governance, procedures and financial control in advance of the main review at the financial year end. Any observations made, therefore, should be seen as an ‘early warning’ of issues that need to be addressed in order to provide full and supportable assurances in the Annual Governance and Accountability Return (AGAR) for 2022-23.

In commencing 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 appropriate 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 interim review are set out in the following detailed report. While we have not seen the need to make formal recommendations at this time, we have made a number of observations throughout this report in order to improve governance and internal control procedures. We are pleased to note, though, that the need for these improvements has already been recognised by the new Town Clerk. Therefore, as long as the key requirements are implemented before the year-end, we can see no reason at this time why the Council should not achieve a reasonable level of assurance on its procedures in support of its 2022-23 AGAR.

Councillors should, therefore, formally consider this report and the observations made therein.

# 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. Five bank accounts are currently in use, two with HSBC (current and deposit), 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 have:

- reconciled the 2022-23 opening balances in Scribe to the closing 2021-22 figures in the Annual Governance and Accountability Return (AGAR), noting that the Assets total has yet to be corrected in Scribe to agree with the AGAR, and noting the comments in the 2021-22 External Audit report;
- 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 note, and support, the intention of the new Town Clerk to review and rationalise the current banking arrangements, which should make administration easier while increasing the Council's interest earnings.

We note that bank reconciliations on all accounts are undertaken on a monthly basis, and reported to the next meeting of the Council. However, there is no evidence that these are subject to periodic scrutiny by an independent Councillor as required by Financial Regulation (FR) 2.2. This is an important check which provides additional assurance to the Council as well as the Town Clerk. We have discussed this with the Town Clerk, who intends to raise it with the Chair of the Finance and Resources Committee.

### *Conclusions*

***There are no specific issues we wish to raise at this time, other than the above observations on the rationalising of the bank accounts, and the need to implement the FR2.2 requirement.***

## 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, although the Town Clerk wishes to review them in accordance with the current NALC Model Forms and their relevance to the Town Council (such as financial limits and delegations). We note that the current SO's and FR's show tendering limits of £60,000, which we feel is too high for a Council of this size, and would suggest that they be reduced at least the NALC Standard of £25,000.

We note that the Council re-affirmed its eligibility to exercise the General Power of Competence (GPoC) in the Annual Meeting of the Full Town Council in May 2022, although we believe this should be reaffirmed following the appointment of the new Town Clerk.

We have commenced our review of the Minutes of the Town Council and Standing Committee meetings for the year to date 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 Town 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 have discussed clear referencing to the lists of payments approved by Council (which form part of the agenda pack), as well as approved assets, published accounts, and audit reports, which could usefully be gathered into a clear Transparency Code heading to satisfy the tenets of Open Government.

### **Conclusion**

*There are no issues arising in this area of our review warranting formal comment or recommendation at this time, other than the above observations concerning the level of tendering in SO's and FR's, and compliance with the Transparency Code 2015.*

## **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. While these are generally sound, we have noted some weaknesses in control that could result in duplicate payments being made, which we have discussed with the Town Clerk. In particular, we feel that more information, such as the date of receipt, the initials of the processor and any internal checker, and the expenditure code used, should be written on the invoice before it is scanned into the Scribe system. We also feel that a reasonable level of random checks could be added to the proposed FR2.2 checks previously referred to.

We have also examined detail of VAT payments / reclaims processed during the year to date by reference to the accounting software control account. We have noted some differences, which may be timing issues, which we have referred to the Town Clerk. We will undertake further work on this during our year-end review to determine whether all VAT has been properly recovered from HMRC.

### **Conclusion**

***There are a number of issues arising in this area which we have discussed with the Town Clerk in order to improve control in this important area of the Council's financial system. We will undertake further substantive work during our year-end review.***

## **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. However, we note that the Council only insures 13.1% of the Dovecote Building (which it directly uses), and would question what the Council would do in the event of a catastrophic loss of the entire building. It should therefore be determined who has the obligation to ensure the rest of the building, and whether the Council's interest is properly recorded there;
- Been unable to find an effective Risk Register, which is a requirement of both the annual AGAR (Section 1, Assertion 5, which we therefore believe was incorrectly asserted in 2021-22) and FR17.1. We understand that the Town Clerk intends to bring a suitable register to the Council for formal approval before the end of the financial year, which should then be reviewed on a periodic basis to inform the Council's ongoing strategy;
- 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 at this time, although we are concerned at the lack of an effective Risk Register, and the Council's exposure to the loss of the Dovecote building.***

## **Budgetary Control & Reserves**

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and the level of precept to be drawn down from the Unitary Authority: also, that an effective reporting and monitoring process is in place. We also aim to ensure that the Council retains appropriate funds in general and earmarked reserves to finance its ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

As the process for determining a budget and Precept for 2023-24 has yet to be concluded, we will review this area during our 2022-23 final review.

### ***Conclusion***

***There are no issues arising in this area of our review warranting formal comment or recommendation at this time. We shall undertake further work in this important area as part of our 2022-23 final review, ensuring that the 2023-24 Budget setting and Precept determination process has been completed appropriately and that the Council has formally recorded the Precept in the Minutes. At that time we shall also examine the year-end outturn report and level of retained reserves.***

## **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 unable to undertake any substantive work on the smaller areas of income, such as cemetery fees (which we understand will shortly be transferred into the appropriate Scribe package) and allotment fees, which are often received in cash with resulting problems in paying into bank accounts. We have discussed with the Town 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 note that allotment fees were reviewed by the Town Committee in June 2022, although at the time of audit there is no evidence of a review of cemetery fees. An annual review of all fees and charges is a requirement of FR9.3.

### ***Conclusion***

***There are a number of issues arising in this area which we have discussed with the Town Clerk in order to improve control in this area of the Council's financial system. We will undertake further substantive work during our year-end review.***

## **Petty Cash Account**

The Council does not maintain a petty cash account. It does, however, make small purchases on a Lloyds Bank credit card, which is in the process of being transferred to the Town Clerk. Payments on this card are processed through the accounts as a normal trade account as detailed above.

### ***Conclusion***

***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, 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 will undertake further substantive work in this area as part of our year-end review, given the significant changes in staff during 2022-23 to date. This will include the payment of the most recent NJC pay award.

### ***Conclusion***

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

## **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 have been given a list of assets as at 31 March 2020, which accords with the figure shown in the 2021-22 AGAR, although we note that the total differs from that held in the Scribe accounting system. The majority of the Council's assets are recorded at Purchase price, which is the correct treatment although no dates or other supporting information is available to confirm this.

However, there are three historic building assets (the Engine House, Patwell Pump and the War Memorial) which are recorded at the Insurance value which is incorrect. As these are historic assets it would be more appropriate to value them at a nominal £1 each, in accordance with Government Accounting requirements.

This would produce a significantly different total on the 2022-23 AGAR from that reported in 2021-22, which would require a restatement of the 2021-22 figure.

### ***Conclusion***

*There are no issues arising in this area of our review warranting formal comment or recommendation at this time, although we feel that an overall asset valuation more in keeping with Government Accounting requirements should be calculated for the 2022-23 AGAR. Further supporting evidence for assets, such as the date of purchase and its physical location (possibly supported by photographic evidence to support any insurance claim) should also be compiled. We will undertake further work in this area during our final 2022-23 review.*

## **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 Town Clerk, who will be bringing a suitable Strategy to the Council for formal approval before the year-end.

There are no loans outstanding to or by the Council.

### ***Conclusion***

*There are no issues arising in this area of our review warranting formal comment or recommendation at this time, other than the need to implement an Investment Strategy.*

Rec. No.	Recommendation	Response
	No recommendations made	