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Internal Audit Report for Halstead Town Council

16th April 2018

External Auditor precept figures; 2017-18, £167,206; 2016-17 £154,300

I have completed my internal audit of Halstead Town Council for the year 2017 -18 and can confirm that the record-keeping is at a high standard with a sound approach to governance and management of assets. I am pleased to report to Members of the Council that there has been a significant improvement in the standard of financial record-keeping and reporting. At the last audit it was noted that

- *the Council is now aware of the requirements of accrual accounting and will either amend the accounting package to provide the correct reports or adopt a local government specific accounting system that will do this automatically.*
- *While reviewing the accounts it became clear that previous years were inconsistent in the way that accruals were managed, and the accounts have been restated to provide a clean starting point for the 2017-18 accounts*

In the year following this audit, the council has restated its accounts to correct historical inconsistencies in the way that money has been accounted. The new accounting regime allows the council to receive reports from the Sage package so there is now a high degree of confidence in the reporting structure. The Councillors and Officers are to be congratulated on the way that this has been implemented.

The Council has extended the risk assessment process to consider non-tangible assets like reputation.

There are further opportunities to integrate the Sage accounting package into the workflow and the Council could consider using the software for purchase order processing.

I note that the accounts are now verified by a Councillor who is not a signatory or chair of the Council or finance committee as required by Financial regulations section 2.2.

In the last audit, it was noted that there is no formal structure to the staff salary scales and that consideration should be given to formally evaluation some, or all the posts to ensure that the correct pay scales are approved. The Council has considered the matter and concluded that there is no requirement for re-evaluation and has confirmed its decision that the pay scales are based on LC2 above substantive.

Matters outstanding from previous audits.

It was noted that several small items had been purchased without a purchase order number, and the Council should consider a practical way of enforcing this requirement. There are still some items being purchased without order numbers, but the office now issues bulk purchase orders for specific projects.

Members should be aware that my work cannot be relied upon to identify the occasional omission nor to disclose breaches of trust or statute, neglect or fraud which may have taken place, and which are the responsibility of the members to guard against. Finally, I would like to thank the Clerk and staff for their help and co-operation when carrying-out this audit.

Michael Letch MBA, MCMI, ACQI, LRSC.

Internal Control	Testing		Comments
Proper bookkeeping	• Is the cashbook maintained and up to date?	Y	Daily updates are taken.
	• Is the cashbook arithmetic correct?	Y	Cashbook is managed through Sage 50 accounting package. The accounts were restated in April 2017 to correct historical anomalies.
	• Is the cashbook regularly balanced?	Y	Accounts are balanced on receipt of weekly statements.
a) standing orders and financial regulations adopted and applied; and	Has the Council formally adopted standing orders and financial regulations?	Y	Both adopted in previous audit year and still current. Standing orders will be revised in 2018.
	Has a Responsible financial officer been appointed with specific duties?	Y	Appointment of Clerk & RFO confirmed in April 2017. The clerk is employed on NALC/SLCC standard terms and conditions.
b) payments controls	Have items or services above the de minimus amount been competitively purchased?	Y	The refurbishment of the hall has been a significant project, but it has been managed in-house, with many small orders being placed.
	Are payments in the cashbook supported by invoices, authorised and minuted?	Y	Direct Debits are agreed annually and reviewed in April. Debits are reported as payments on account for approval by the committee. The Council cheques are printed from Sage in duplicate with one copy initialled by the authorising Councillors and retained in lieu of a cheque stub.

	Has VAT on payments been identified, recorded and reclaimed? Is s137 expenditure separately recorded and within statutory limits?	Y Y	Council is VAT registered. VAT is reclaimed quarterly at the correct rates based on the Sage 50 reporting module. HMRC have incorrectly refused a payment, which will be adjusted in the next claim period. The council is up to date on VAT transactions. Section 137 spend reported in year-end accounts.
Risk management arrangements	Does a review of the minutes identify any unusual financial activity? Do minutes record the Council carrying out an annual risk assessment? Is insurance cover appropriate and adequate? Are internal financial controls documented and regularly reviewed?	N Y Y Y	See note on revaluation of year end accounts and re-statement of annual accounts in Sage. Risk assessment undertaken in January 2018. Physical and financial risks are considered, and intangible risk policy approved in minute 18/292. Policy was reviewed in previous audit and remains adequate for the Council's needs. The quotation from Zurich was accepted in Minute 17/181 and remains current for the audit year. The independent review of reconciliations as required in financial regulation 2.2. has now been implemented.

Budgetary Controls	Has the Council prepared an annual budget in support of its precept?	Y	The Council held a budget workshop in December which prepared a draft budget for approval at the January meeting. The precept of £172,901 and budget of £320,522 was accepted but not stated explicitly in the minutes.
	Is actual expenditure against the budget regularly reported to the Council?	Y	From October 2017, budget reports are produced from Sage. Monthly reports seen and approved.
	Are there any significant unexplained variances from budget?	N	Accounts were restated to correct for long-term inaccuracies. This was approved in minute 264.e
Income Controls	Is income properly recorded and promptly banked?	Y	The Council's main income is from car parking revenue which is reported monthly by site. Receipts can be traced to bank statements and ticket machine outputs.
	Does the precept recorded agree to the Council Tax authority's notification?	Y	Notification figure is £167,206 for 2017/18 which agrees to the precept demand.
	Are security controls over cash and near-cash adequate and effective?	Y	The Council manages a significant amount of cash which is generated from the car park income. This is reported by machine in a sequentially numbered report and reconciled against paper record from meter. Income figures are analysed into cash collection sheets, then entered into Sage.Once collected and analysed, cash is then banked as lump sum. The PDQ (credit card reader) income is recorded as individual items which were reconciled against bank statements.

Petty cash procedures	Is all petty cash spent recorded and supported by VAT invoices/receipts?	Y	All purchases are supported by receipts.
	Is petty cash expenditure reported to each Council meeting?	Y	Petty cash is now treated as a separate account in Sage. The reimbursement is made by cash withdrawal from cashpoint which is reported on the Debit Card log.
	Is petty cash reimbursement carried out regularly?	Y	Expenditure is small and reimbursed at need. The annual spend is approximately £1,000 and a balance of £200 is maintained.

Payroll Controls	Do all employees have contracts of employment with clear terms and conditions?	Y	All employees are employed on NALC/SLCC standard terms and conditions. 1% payrise agreed June minute 17/34 as part of a two-year agreement.
	Do salaries paid agree with those approved by the Council?	Y	
	Are other payments to employees reasonable and approved by the Council?	Y	Only minor expenditure on mobile phones allowance and occasional expenses claims by staff are recorded. Typically, these are between £20 - £100 and cover travelling and subsistence.
	Have PAYE/NIC been properly operated by the Council as an employer?	Y	Payroll is managed through Moneysoft program which is administered and updated under maintenance agreement.

Assets controls	Does the Council maintain a register of all material assets owned or in its care? Are the assets and Investments registers up to date? Do asset insurance valuations agree with those in the asset register?	Y Y Y	A short register is included in the insurance schedule, and full register kept for management purposes. Assets now reported through Sage. The Council has experienced adverse publicity caused by correcting an exaggerated valuation of an asset. To prevent further problems of this nature, the significant assets should be revalued and restated on the insurance register as agreed in minute 454.
Bank Reconciliation	Is there a bank reconciliation for each account? Is a bank reconciliation carried out regularly and in a timely fashion? Are there any unexplained balancing entries in any reconciliation? Is the value of investments held summarised on the reconciliation?	Y Y N Y	The council receives regular bank reconciliations via Sage to compare with bank statements. Frequency of reconciliation is appropriate to the activity on the account with the current account being formally reconciled at least monthly. All accounts reconcile to zero in Sage 50. From October, reports are delivered from this package. Council receives a monthly report of income from capital, and an annual summary of investments.

Year-end procedures	Are year-end accounts prepared on the correct accounting basis (Receipts and Payments or Income and Expenditure)? Do accounts agree with the cashbook? Is there an audit trail from underlying financial records to the accounts? Where appropriate, have debtors and creditors been properly recorded?	Y Y Y Y	The Council correctly operates a receipts and payments system. The cashbook is managed through Sage Line 50 and the computer account is the definitive record of expenditure. All Council reports are generated through this system. Expenditure is agreed by resolution and the sum approved is now recorded as part of the resolution. Purchase orders should be used for all expenditure. There are still some purchases that are not being covered by order numbers, but the office has established bulk purchase orders for specific projects and could consider including this in the scope of their sage finance package. Council are advised of all purchases in a committee report which is supported by invoices or direct debit authorisations.

Data Protection	Does the council have a data protection policy that applies to staff, councillors and volunteers? Does the council obtain explicit permission to hold data where necessary?	Y N	DPA-compliant Data Protection Policy in place. GDPR compliant policies to be considered in April 2018 To be considered in April 2018

	Is there a data retention scheme in use?	N	Council has FoIA policy, publication policy. Data retention to be considered in April 2018
	Has a Data Protection Officer been appointed?	Y	Minute 442.