



Final Internal Audit Report

Bishop's Stortford Town Council 2019/20

June 2020

Issued to: James Parker – Chief Executive Officer
Mark Westwood – Chief Financial Officer

**CEO to supply
copy to:** Bishop' Stortford Town Councillors

Report Status: Final

Reference: Z356/20/001

**Overall
Assurance:** Satisfactory

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1. EXECUTIVE SUMMARY

Introduction

- 1.1 This review was undertaken as part of the planned provision of internal audit services to Bishop's Stortford 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, we can provide overall **Satisfactory 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 most areas reviewed during our audit had a good level of internal control. However, there are a minority of areas where the level of internal control should be improved.
- 1.5 The Council also acts as a Trustee to the Swarder Field and Market Square Toilets registered charities. However, it does not appear to have complied with the Charities Act 2011 by producing a statement of accounts or alternatively a receipts and payments account and a statement of assets and liabilities. In addition, the Council does not appear to have complied with section 162 of the Charities Act 2011, as it has not produced an annual trustee report.
- 1.6 We also reviewed a sample of income received by the Council. We identified that some income received was not consistent with the charges approved by the Council. This was in relation to the hiring of Swarder Field. In addition, we noted that the Council operates a Cash Statement to track investments. The Cash Statement shows the balances of active investments, however there is an opportunity to improve control by tracking additional information.
- 1.7 There were other minor findings resulting from our audit review, but we have not included recommendations in the management action plan relating to these. Firstly, management advised us that a sum of £17.50 for cutlery was incorrectly charged to the Council. The sum should instead have been charged elsewhere, but an error was made resulting in this being charged to the Council. We understand that the sum has since been moved to budget code 580 (Suspense) and that the Council will issue an invoice to correct this minor error.
- 1.8 We identified minor inaccuracies in the treatment of VAT for some of the petty cash payments sampled during the audit. Our testing identified that the OTS VAT code was understated by £1 in Q2 of 2019/20 to take account of an additional £1 in the petty cash tin. At the same time the petty cash expenditure on the Council's September 2019 cashbook was understated by £1. As VAT is not claimed on the OTS code there is no effect on the Q2 VAT return, however the Council's VAT records for the OTS code and cashbook records are not completely accurate. In addition, for two petty

cash purchases, VAT claims were made on the incorrect VAT returns. These were included on VAT returns outside the tax point of the purchases (included on the next quarters VAT returns). Management confirmed that where the value of petty cash purchases within a defined period is small, any inclusion on the VAT return will be delayed until it is of a more substantial value. Management also confirmed that a Q2 payment of £70 was assigned to the OTS VAT code, when it should have been included under Code E. This error was noticed by management during the audit. The error does not change the VAT due to the Council for Q2 but does alter the accuracy of the VAT return to HMRC.

- 1.9 We reviewed the meeting minutes for the Finance and Policy Committee and confirmed budget monitors have been presented to facilitate a quarterly review of the accounts. We noted that the meeting minutes do not ordinarily detail the questions and discussions from Councillors on the budget. Instead general statements such as 'Members asked a number of questions of detail which were answered by officers at the time' are used in the minutes. We received management assurance that discussions and challenges on the budgets were made by Councillors and questions may also be asked in advance of meetings.
- 1.10 In addition, we reviewed the Councils Financial Regulations and noted several references to the 'Finance and General Purposes Committee' (FGPC), which is no longer in operation. We understand that a merging of Committees has taken place resulting in the FGPC being renamed the 'Finance and Policy Committee'. We advise these references are updated. In addition, we noted through discussions with management, that regulation 5.2 may not be reflective of what occurs in practice. We therefore advise that the Council reviews its Financial Regulations to ensure that all regulations appropriately align with the practices in operation.
- 1.11 For definitions of our assurance levels, please see Appendix C.

Summary of Recommendations

- 1.12 Our recommendations for any improvement in control are included at Appendix A and details of the audit work undertaken is included at Appendix B. To strengthen the internal control environment, we have made three recommendations. One of the recommendations is considered high priority and two are considered low priority.
- 1.13 The one high priority recommendation is in relation to the Councils responsibility as a Trustee (see paragraph 1.5). With regards to the Councils responsibility as a Trustee, we recommend the Council follow the requirements set out in the Charities Act 2011, this includes (but is not exclusive to) section 132 (1), 133 and 162.
- 1.14 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.

Annual Governance Statement

1.15 This report provides Satisfactory levels of assurance to support the Annual Governance Statement.

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 accounting records and preparation of accounting statements				
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				
The completion of regular bank reconciliations				
To ensure that the annual return is being completed				
The Council has met its responsibilities as a trustee.				
Overall				

2.2 See definitions for the above assurance levels at Appendix C

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
1.	<p>Trusteeship Accounts and Reports</p> <p>The Council acts as a Trustee for the Sworder Field and Market Square Toilets Charities and is registered as their Trustee on the Charity Commissions register of charities.</p> <p>We are aware that the Council maintains a separate cost centre within the Financial Accounts for each charity, enabling the income and expenditure to be logged appropriately. We also understand that the income of each charity is lower than the expenses incurred, which is subsequently paid by the Council.</p> <p>However, Under section 132 (1) and 133 of the Charities Act 2011, it is outlined that the Trustee must either prepare a statement of accounts for each financial year, or where the income of the charity does not exceed £250,000 the trustee may elect to prepare a receipts and payments account and a statement of assets and liabilities. The income of each charity falls below £250,000, however through discussions with</p>	High	<p>We recommend that while the Council assumes the role of Trustee to the Sworder Field and Market Square Toilets charities:</p> <ol style="list-style-type: none"> 1. The Council (as trustee) follows all relevant requirements set out under the Charities Act 2011 for the Sworder Field and Market Square Toilets. 2. For each financial year, the Council prepares a statement of accounts as per section 132 (1) or a receipts and payments account and statement of assets and liabilities as per section 133 of the Charities Act 2011 (whichever is applicable for the year). 3. The Council preserves the statement of accounts or the account and statement for the specified period as outlined under the Charities Act 2011. 4. The Council produces an Annual Trustee report for each financial year as 	<p>Receipts and payments accounts and an Annual Trustee Report have been produced for 2019/20 and will be submitted to Council for approval at the meeting on 29 June 2020.</p> <p>Accounts and an Annual Trustee Report will be produced for each financial period going forward.</p> <p>Responsible Officer: Mark Westwood, CFO.</p>	29 June 2020

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	<p>management we determined that neither section 132 (1) or 133 of the Charities Act 2011 has been complied with.</p> <p>In addition, section 162 of the Charities Act 2011 outlines that a charity trustee must prepare an annual report in respect of each financial year. Management confirmed that no annual trustee report been completed for Sworder Field or Market Square Toilets.</p> <p><u>Associated Risk</u></p> <p>Should any person through the appropriate methods, request a copy of the charities most recent accounts (under section 132 (1) or 133 of the Charities Act 2011), the Council will be unable to provide this person with the necessary documentation. This could potentially result in the Charities Trustees being guilty of an offence under section 173 of the Charities Act 2011.</p>		<p>required under section 162 of the Charities Act 2011. The Council must refer to the Charities Act 2011 to determine the relevant information for inclusion.</p> <p>5. The Council preserves the annual trustee report as per the requirements outlined under the Charities Act 2011.</p>		

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
2.	<p>Income Charges</p> <p>The Scale of Charges for 2019/20 was approved by the Council on 17/12/18. This included the charges to be applied to customers renting Sworder Field. A sample review of income showed that a customer had been charged the incorrect rate for renting Sworder Field in 2019/20. The customer was not charged at the Council approved rate on both the Operational Day and Non-Operational Day bookings, resulting in a total undercharge of £105.</p> <p>Whilst it is unclear exactly why the error occurred; management confirmed it is likely to be a result of human error with entering the costs on the Council's booking system. Management confirmed that the error was identified in Quarter 3 of 2019/20 and changes were made to the way the charges are entered onto the booking system by staff. We understand the booking system now uses the daily value for booking Sworder Field and this is now pre-set into the Council's system. Management confirmed that changes</p>	Low	<p>We recommend:</p> <ol style="list-style-type: none"> 1. An annual review is undertaken of the booking software to ensure that charges levied match those approved by the Council. 2. Staff responsible for completing bookings are provided with copy of the approved charges and review them to ensure they are familiar with the correct charges. 	<p>As stated the error has already been rectified for 2020/21.</p> <p>The Scale of Charges will be distributed to responsible staff after approval by Council in future.</p> <p>The booking software will be reviewed for correctness after it is updated following the approval of the Scale of Charges.</p> <p>Responsible Officer: Mark Westwood, CFO.</p>	December 2020





No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	<p>to charges will be updated on the system as required. However, it is unclear how changes to charges are communicated to Council staff who are responsible for completing the bookings.</p> <p><u>Associated Risk</u></p> <p>Customers are not charged the approved rate for services as agreed by the Council. This could result in customers being undercharged or overcharged. This could lead to a financial loss by the Council or damage to the Council's reputation in the case of overcharging.</p>				
3.	<p>Investment Register</p> <p>Financial Regulation 12.3 states: 'The Chief Executive Officer shall ensure that an appropriate and accurate Register of Assets and Investments is kept up to date.'</p> <p>We are aware the Council operates a Cash Statement which logs the balance of investment accounts and fixed term deposits, but this does not currently record some key investment</p>	Low	<p>We recommend the Council records the following on its Cash Statement for each investment:</p> <ul style="list-style-type: none"> • The Counterparty invested with. • The expected maturity (fixed term). • The start date of the 	<p>The Counterparty invested with is already displayed on the Cash Statement. Notes will be added at the end of the report stating the maturity value and start and end dates of the investments.</p> <p>Responsible Officer: Mark Westwood, CFO.</p>	20 July 2020

No.	Finding / Associated Risk	Priority	Recommendation	Management Response	Target Date
	<p>information. It would be beneficial to the Council to expand the information which is recorded on the Cash Statement.</p> <p><u>Associated Risk</u></p> <p>The Council does not operate a Register of Investments, which could lead to inability of tracking the key investment information.</p>		<p>investment, end date of investment and duration of investment (fixed term).</p> <ul style="list-style-type: none"> Withdrawal notice periods (where applicable). 		

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	N/A
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	In Part
	• 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	In Part

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.
	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.
Service	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.