



# **Internal Audit Report: Review of Internal Controls Thetford Town Council**

Prepared for the Board of Councillors

Year ended 31st March 2021

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## **IMPORTANT NOTICE**

### **Purpose**

This report and the work connected are subject to the terms and conditions of the engagement letter dated 15<sup>th</sup> January 2019 between the Councillors of Thetford Town Council and Ensors Accountants LLP. It contains our factual findings in relation to the internal objectives and control procedures within the Council where the responsibility for the internal processes resides with the Council.

### **Confidentiality**

Use of this Document is strictly for the purposes as described above. This document should not be circulated, copied or used in any way except as described above.

### **Distribution**

This document has been prepared for the use of the Board of Councillors. This Document and all other information supplied should not be copied, reproduced or distributed to others at any time without the prior written consent of Ensors Accountants LLP.

Ensors do not accept or assume responsibility to anyone other than the Board of Councillors of Thetford Town Council for this report, or for the opinions we have formed.

### **Sources of Information**

The sources of information that we have had at our disposal in preparing this report are as follows:

- Access to the financial records and systems of the Council;
- Other non-financial information such as Council meeting minutes and internal procedure documents as provided by Tina Cunnell and Alan Yorke.

### **Procedures Adopted**

Our report indicates the degree and extent to which we have carried out our review, and the conclusions that we have drawn from its findings.

Our work does not constitute an audit as defined under the UK Companies Act 2006; neither does this report constitute a prospectus.

Where we have been provided with purportedly third party documentation, we have not carried out any further verification work on such evidence – for instance asking the originator for confirmation that it is genuine.

## 1. EXECUTIVE SUMMARY

**1.1.** Internal Audit is a statutory requirement for local authorities under the revised Accounts & Audit Regulations 2015, which states that a local authority shall maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices.

**1.2.** The regulations state the due dates for publication of the accounts and annual governance statement. These, together with a narrative statement on the use of resources should be published by no later than 30 June. The audit opinion should also be published by this date.

**1.3.** The Public Sector Internal Audit Standards define the way in which internal audit should undertake its functions and requires that a written report is submitted to those charged with governance, which should include an opinion on the overall adequacy and effectiveness of the Council's control environment. The Annual Opinion supports the Annual Governance Statement (required under Regulation 13(1)(b) of the Accounts and Audit Regulations 2015).

**1.4.** This report summarises the scheduled, unplanned and investigation work undertaken by internal audit during the financial year 2020/21. It focusses on the outcomes of audit reviews, management actions, counter fraud activities and service performance.

**1.5.** The Regulations also require that a formal review of the 'effectiveness of the system of internal audit' is conducted. The Annual Audit Opinion together with the review of conformance with the Public Sector Internal Audit Standards (PSIAS) provides this assurance.

**1.6.** The role of Internal Audit is to provide independent and objective assurance on the adequacy of the Council's control environment, comprising risk management, internal control, and governance by evaluating its effectiveness as a contribution to the proper economic, efficient and effective use of resources.

### 1.7 Responsibilities

The Council is governed by the financial regulations which set out the conduct of the financial transactions of the Council which may be amended or updated by resolution of the Council. The Council is responsible in law for ensuring that its financial management is adequate and effective as well as having a sound system of financial control, facilitating the effective exercise of its functions, including arrangements for the management of risk and the prevention and detection of fraud and corruption.

The Responsible Financial Officer (RFO), under the policy direction of the Council, is responsible for the administration of the Council's financial affairs, ensuring compliance with agreed accounting control systems, the maintenance of accurate accounting records and the timely production of financial management information in accordance with proper practice.

Our review and testing is focused on this system and its associated internal controls as well as compliance with the Council's financial regulations.

## 1.8 Objectives and Scope



The overall objectives of this review are to assess the adequacy and effectiveness of the system of internal controls designed to manage and mitigate the risks relating to the Council in accordance with our engagement letter dated 15<sup>th</sup> January 2019.

In summary, the scope of the review covers the following areas: Appropriate book-keeping has been maintained, Financial regulations met, Risk assessments are adequate, Budgetary process, Income complete, Petty cash protected, Payroll authorised, Assets safeguarded, Bank Reconciliations, Accounting basis consistent and correct, Limited assurance review consideration, provision for the exercise of public rights and whether the Council has met its responsibilities as a trustee.

Further enquiries were also made regarding compliance with financial regulations and appropriateness of policies and procedures, further detail on the scope of the review is provided in Section 2 of the report.

## 1.9 Summary Assessment

Our review of the internal controls operating over the Council's financial system and administration procedures determined that a good system of internal control exists. There were two minor weaknesses in the effectiveness of the internal controls which may place some of the system objectives at risk.

Assessment Type	Assessment Grade	Symbol
Evaluation of control design	Satisfactory	
Effectiveness of control operation	Substantial	

## 1.10 Key Findings

We have raised five recommendations, all of which are categorised as significance level 2. Level 2 recommendations provide scope for improvement to be made, but are not of a fundamental nature. These are shown below:

### Level 1

No recommendations of significance level 1 have been made.

### Level 2

- It is recommended that the council retain sufficient documentation in regards to grant monies received.
- It is recommended that the council ensure the appropriate number of quotes are obtained for all expenses and that they are filed in a way which makes them easy to locate.
- It is recommended that the council ensures bank reconciliations are signed off to indicate that they have been reviewed.

### Level 3

No recommendations of significance level 3 have been made.

Full details of the recommendations are shown in sections 4 and 5 of the report.

## 2. SCOPE OF ASSIGNMENT

### 2.1 Objective

The overall objective of this review was to assess whether Thetford Towns Council's systems of internal control are sufficient and adherent to the internal control objectives set out in section 2.3 below.

### 2.2 Approach and methodology

The following procedures were adopted to identify and assess risks and controls and thus enable us to recommend control improvements:

- Ascertain the nature of the systems and processes in operation through discussions with key members of staff;
- Evaluation of the current systems of internal control through walkthrough and other non-statistical sample testing;
- Identification of control weaknesses and potential process improvement opportunities;
- Discussion of our findings with management and further development of our recommendations; and
- Preparation and agreement of an internal audit report with the Town Clerk / Deputy Town Clerk.

### 2.3 Areas covered



























The review was carried out to evaluate and test controls over the following areas:

- Appropriate accounting records have been kept properly throughout the year.
- The Council financial regulations have been met, payments were supported by invoices, all expenditure was approved, and VAT was appropriately accounted for.
- The Council assessed the significant risks to achieving its objectives and reviewed the arrangements to manage these.
- The annual precept requirement resulted from adequate budgetary process, progress against the budget was regularly monitored and reserves were appropriate.
- Expected income was fully received, based on correct prices, properly recorded and promptly banked and VAT was appropriately accounted for.
- Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT was appropriately accounted for.
- Salaries to employees and allowances to members were paid in accordance with Council approvals and PAYE / NI requirements were properly applied.
- Assets and investment registers were complete and accurate and properly maintained.
- Periodic and year-end bank account reconciliations were properly carried out.
- Accounting statements prepared during the year were prepared on the correct accounting basis (income and expenditure basis) and agreed to cash book. Where supported by an adequate audit trail from underlying records, and were appropriate debtors and creditors were properly recorded.
- Trust funds (including charitable). The Council met its responsibilities as a trustee.
- The council has correctly provided for the exercise of public rights as required by the Accounts and Audit Regulations
- If the Authority has met the criteria for an exemption from a limited assurance review.
- The council has published information on its website which is up to date at the time of the internal audit in accordance with the Transparency code for smaller authorities.
- The council has complied with the publication requirements of the 2019/20 AGAR.





In addition, general enquiries were also made regarding the appropriateness of the Council's various policies and procedures.

### 3. ASSESSMENT OF CONTROL OBJECTIVES

The following table sets out in summary the control objectives we have covered as part of this review. Our assessment is risk based determined against the adequacy of controls in place, the effectiveness of said controls and any resulting recommendations.

Control Objectives Assessed	Description / Observations	Design of Controls	Operation of Controls	Observation or Recommendation
Proper book-keeping	Appropriate accounting records have been kept properly throughout the year.			Observation
Financial Regulations met	The Council financial regulations have been met, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.			Recommendation 1
Risk assessment adequate	The Council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.			Observation
Budgetary process	The precept or rates requirement resulted from adequate budgetary process, progress against the budget was regularly monitored and reserves were appropriate.			Observation
Income complete	Expected income was fully received, based on correct prices, properly recorded and promptly banked and VAT was appropriately accounted for.			Recommendation 2
Petty cash protected	Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT was appropriately accounted for.			Observation
Payroll authorised	Salaries to employees and allowances to members were paid in accordance with Council approvals and PAYE / NI requirements were properly applied.			Observation
Assets safeguarded	Assets and investment registers were complete and accurate and properly maintained.			Observation
Bank reconciliations	Periodic and year-end bank account reconciliations were properly carried out.			Recommendation 3
Accounting basis consistent and correct	Accounting statements prepared during the year were prepared on the correct accounting basis (income & expenditure basis) and agreed to cash book. Were supported by an adequate audit trail from underlying records, and were appropriate debtors and creditors were properly recorded.			Observation
The council has met its responsibilities as a trustee	Trust funds (including charitable). The Council met its responsibilities as a trustee.			Observation
Provision for the exercise of public rights	The authority has demonstrated that during summer 2019 it correctly provided for the exercise of public rights as required by the Accounts and Audit Regulations.			Observation
Exemption from limited assurance review	The authority did not meet the exemption criteria of a limited assurance review and correctly did not declare itself exempt.			Observation



Control Objectives Assessed	Description / Observations	Design of Controls	Operation of Controls	Observation or Recommendation
Publishing of information	Information has been published on the councils website at the time of the internal audit in accordance with the Transparency Code for smaller authorities.			Observation
Publication of AGAR	The council has complied with the publication requirements for 2019/20 AGAR.			Observation

The classifications of our risk assessment for the design and operation of controls are set out in more detail in Appendix A.

#### 4. OBSERVATIONS AND RECOMMENDATIONS FROM THE PREVIOUS REVIEW

As part of our work, we have followed up on the initial recommendations and actions that were proposed in previous years. The final column includes details of whether or not the proposed actions have been successfully implemented based on the results of our most recent review.

Recommendations from the previous review	Management's response and proposed actions	Results of follow up testing
<p><u>Progress on observation made during internal audit for year ended 31 March 2020:</u></p>		
<p><b>Ensure appropriate authorisation of credit card expenditure is given and evidenced</b></p>		
<p>A significant number of cases were identified where appropriate authorisation was not given on the credit card proforma.</p> <p>There were several cases, mostly dated between September 2019 and March 2020, where the credit card proforma had not been signed off by neither the card holder nor Town Clerk or Deputy Town Clerk in line with the council's financial regulations. A few cases were also identified where the card holder had signed the form but not the Town Clerk or Deputy Town Clerk.</p> <p>In addition, it was noted that in some cases, the monthly schedules submitted to the finance team had not been signed by the Town Clerk or the Mayor.</p> <p>It was recommended that improvements were made to ensure appropriate authorisation of credit card expenditure is given and evidenced by signature on the proforma schedule by either the Town Clerk or the Deputy Town Clerk. Card holders should also ensure they sign their own proforma schedule.</p> <p>In addition, the council's systems and controls state that the monthly schedules submitted to the finance team must also be approved by the Town Clerk or Mayor. It was recommended that this approval is evidenced by a signature on the schedule.</p>	<p>Credit cards continue to be a challenge. There is a significant delay in obtaining the supporting documentation which makes getting the schedules approved on a timely basis extremely difficult. We will incorporate credit card purchasing into the normal purchasing systems which we are currently improving.</p>	<p>There were no problems identified with the credit card approval system during the 2020/21 internal audit. The new system using Adobe seems to be working well.</p>

Recommendations from the previous review	Management's response and proposed actions	Results of follow up testing
<p><u>Progress on observation made during internal audit for year ended 31 March 2020:</u></p> <p><b>Ensure market cash collection sheets contain two signatures to ensure there is a level of oversight in the process</b></p>		
<p>During our audit fieldwork we were made aware of issues relating to the theft of cash by the old market cash collector.</p> <p>The council's previous cash collection process only required one signature on the cash collection sheets, being that of the cash collector. The cash collector is then responsible for banking that cash into the Unity bank account. This process lacked a level of supervision and review, which led to issues relating to theft of cash. These issues were identified by the finance team, as no cash was written on the sheets as being collected.</p> <p>The old market cash collector was dismissed in December 2019. The council also further improved its process around cash collection by requiring two signatures on the cash collection sheets from November 2019 to ensure a level of oversight and supervision in this process.</p> <p>Last year we were able to see that the councils new process was being followed as towards the latter part of the year each cash sheet contained two signatures of approval. We recommended that the process is continuously monitored to ensure it is being followed as designed.</p>	<p>We will continue to monitor the cash collection processes.</p>	<p>This issue has now been resolved and there were no further problems identified.</p>

Recommendations from the previous review	Management's response and proposed actions	Results of follow up testing
<p><u>Progress on observation made during internal audit for year ended 31 March 2020:</u></p> <p><b>Ensures that VAT is only charged on the properties opted to tax.</b></p>		
<p>During our internal audit visit we were made aware of issues the council was facing regarding to the opting to tax of properties. There were properties which had been opted to tax which the council was not aware of, until the receipt of a letter from HMRC this year.</p> <p>Lovewell Blake were investigating the issue and it is likely that the council will have a payment to make due to the historic errors.</p> <p>We recommended that the council ensures that VAT is only charged on the properties opted to tax. A payment should also be made to HMRC for any VAT owed on these properties following the completion of work by Lovewell Blake. We note that £40k has been accrued as an estimate.</p>	<p>We are confident that these issues will be addressed during the current year and are taking steps to address VAT issues. We have already partly addressed some of the VAT issues we faced. We are working with our service provider to improve our VAT recording processes.</p>	<p>The council is now aware of which properties were opted to tax, from our testing, no issues were identified with VAT being charged on the incorrect properties.</p>

Recommendations from the previous review	Management's response and proposed actions	Results of follow up testing
Progress on observation made during internal audit for year ended 31 March 2020:		
<b>Ensure wages reports from Lovewell Blake are reviewed and the checklist is signed off appropriately</b>		
<p>During the audit testing two months were identified where the monthly wages checklist had not been signed off by the Town Clerk and Deputy Town Clerk.</p> <p>There were also no copies of the September payslips in the file and these had to be requested from Lovewell Blake, indicating that the appropriate checks would not have been carried out in this month.</p> <p>It was recommended that payroll reports from Lovewell Blake are reviewed and the checklist is signed off appropriately, in line with the council's systems and controls.</p>	<p>The September 2019 payslips were reviewed as this is done before our payroll providers finalise the payroll.</p> <p>The monthly wage checklists are signed off. There may have been occasions where there was a delay because of annual leave. However, we will ensure that these processes are done timely.</p>	<p>No further issues were identified during the 2020/21 audit, payslips were reviewed before payment was made.</p>
Recommendations from the previous review	Management's response and proposed actions	Results of follow up testing
Progress on observation made during internal audit for year ended 31 March 2020:		
<b>Ensure payments are reviewed in line with the financial regulation and that this is evidenced.</b>		
<p>It was noted that the payment authorisation process was changed in the year, where evidence of approval of payments are signed by the appropriate individual in line with the bank mandate to evidence approval of the payment.</p> <p>It was noted in our testing that not all payment runs were signed by the appropriate individual, being the Town Clerk for payments up to £15,000, one councillor for payments between £15,000 and £25,000 and two councillors for payments greater than £25,000. As a result, there was no evidence of approval of the payments.</p> <p>It was recommended that payment details are signed by the Town Clerk, Deputy Town Clerk, and/or councillor(s) as evidence of review and approval of payments in line with the bank mandate.</p>	<p>We will ensure payments are signed as evidence of review and approval.</p>	<p>No further issues identified in 2020/21 audit.</p>

<b>Control Objective</b>	<b>Description</b>	<b>Compliance</b>
<b>Appropriate book-keeping</b>	Appropriate accounting records have been kept properly throughout the year.	Satisfactory
<b>Financial Regulations met</b>	The council financial regulations have been met, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.	Recommendation 1
<b>Risk assessment adequate</b>	The council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.	Satisfactory
<b>Budgetary process</b>	The annual precept requirement resulted from adequate budgetary process, progress against the budget was regularly monitored and reserves were appropriate .	Satisfactory
<b>Income complete</b>	Expected income was fully received, based on correct prices, properly recorded and promptly banked and VAT was appropriately accounted for.	Recommendation 2
<b>Petty cash protected</b>	Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT was appropriately accounted for.	Satisfactory
<b>Payroll authorised</b>	Salaries to employees and allowances to members were paid in accordance with council approvals and PAYE / NI requirements were properly applied.	Satisfactory
<b>Assets safeguarded</b>	Assets and investment registers were complete and accurate and properly maintained.	Satisfactory
<b>Bank reconciliations</b>	Periodic and year-end bank account reconciliations were properly carried out.	Recommendation 3
<b>Accounting basis consistent and correct</b>	Accounting statements prepared during the year were prepared on the correct accounting basis (income and expenditure basis) and agreed to cash book. Were supported by an adequate audit trail from underlying records, and were appropriate debtors and creditors were properly recorded.	Satisfactory
<b>The council has met its responsibilities as a trustee</b>	Trust funds (including charitable). The council met its responsibilities as a trustee.	Satisfactory
<b>Provision for the exercise of public rights</b>	The authority has demonstrated that during summer 2019 it correctly provided for the exercise of public rights as required by the Accounts and Audit Regulations.	Satisfactory
<b>Exemption from limited assurance review</b>	The authority did not meet the exemption criteria of a limited assurance review and correctly did not declare itself exempt.	Satisfactory
<b>Publishing of information</b>	Information has been published on the councils website at the time of the internal audit in accordance with the Transparency Code for smaller authorities.	Satisfactory
<b>Publication of AGAR</b>	The council has complied with the publication requirements for 2019/20 AGAR.	Satisfactory

## 5. OBSERVATIONS AND RECOMMENDATIONS

**Recommendation 1: The council financial regulations have been met, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.**

<b>Observation</b>	<p>During the internal audit we were unable to obtain copies of quotes for a sample of the purchase orders we tested in the £2,000 - £10,000 bracket. Per the financial regulations, a minimum of two quotes should have been obtained for these.</p> <p>The problem only seemed to occur in orders dated before November 2020. The council were able to provide satisfactory documentation for all orders dated past this date.</p>
<b>Recommendation</b>	<p>It is recommended that the council ensure the appropriate number of quotes are obtained for all expenses and that they are filed in a way which makes them easy to locate.</p>
<b>Significance Level</b>	<p>Level 2</p>
<b>Responsibility</b>	<p>Town Clerk / Deputy Town Clerk / Mayor</p>
<b>Management response</b>	

**Recommendation 2: Expected income was fully received, based on correct prices, properly recorded and promptly banked and VAT was appropriately accounted for.**

<b>Observation</b>	<p>During our audit fieldwork it was noted no formal documentation was held in relation to the Playpark Grant monies received from Breckland Council. We note this is due to the fact that the council took over the management of the playpark in the year.</p> <p>While we were able to agree the proceeds received to the bank statements, there is no formal documentation to support the reason for the grant receipt.</p>
<b>Recommendation</b>	<p>It is recommended that the council retains sufficient documentation in support of grant monies received.</p>
<b>Significance Level</b>	<p>Level 2</p>
<b>Responsibility</b>	<p>Town Clerk / Deputy Town Clerk</p>
<b>Management response</b>	







**Recommendation 3: Periodic and year-end bank account reconciliations were properly carried out.**

<b>Observation</b>	<p>During our audit fieldwork we identified that no bank reconciliations were signed off between the beginning of the year and the end of October.</p> <p>Although the reports were printed in the file, there was no indication that they had been reviewed or reconciled on a timely basis.</p>
<b>Recommendation</b>	<p>It is recommended that the council ensures bank reconciliations are signed off to indicate that they have been reviewed.</p>
<b>Significance Level</b>	Level 2
<b>Responsibility</b>	Town Clerk / Deputy Town Clerk
<b>Management response</b>	

## APPENDIX A – Assessment and Grading Definitions

In order to provide the Board of Governors with an assessment of the adequacy and effectiveness of the systems of internal control, the following definitions are used:

Assurance Level	Symbol	Evaluation Assessment	Testing Assessment
Full		There is a sound system of internal control designed around the system objectives	Controls are being applied consistently
Substantial		There is generally a sound system of internal control, but there are some weaknesses which may place some of the system objectives at risk	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk
Limited		Weaknesses in the internal control system are such as to put the system objectives at risk	The level of non-compliance puts the system objectives at risk
Minimal		Control is generally weak leaving the system open to significant error or abuse	Significant non-compliance with basic controls leaves the system open to error or abuse

In order to assist the Board of Councillors in using the report, we categorise our recommendations according to their level of significance as follows:

Significance Level	Definition
Level 1	Recommendations that are fundamental to the objectives of the system and action to address these items should be taken immediately
Level 2	Recommendations that provide scope for improvement to be made, but are not of a fundamental nature
Level 3	Recommendations relating to issues that are of a minor nature, but which nevertheless should be addressed

The assessment grading's shown in the tables above are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objective.