



# **Axminster Town Council**

## **Internal Financial Controls Review**

**Considered at the SFComm. meeting held 18-12-2023 and recommended for approval and adoption. Subsequent approval and adoption resolved at FULL Council meeting held 8<sup>th</sup> January 2024**

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# Adequate and Effective Systems

## Review of Effectiveness:

This Smaller Local Authority has a responsibility under regulation 5(1) *the Accounts and Audit Regulations 2015*, for conducting, at least annually, a review of the effectiveness of the system of internal control. The review is informed by the work of:

- The Council and its Committees
- The Clerk/Responsible Finance Officer
- The Internal Auditor
- The External Auditor

Annual review of the control systems enables the council to accurately complete the Section 2 of the Annual Governance and Accountability return (AGAR3).

*" we maintained an adequate system of internal control, including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness'*

## **The Effectiveness of the System of Internal Control:**

The system of internal controls at Axminster Town Council currently consists of:

1. Employment/Appointment of Clerk and Responsible Financial Officer
2. Adoption of Code of Conduct for Members and employees
3. Standing Orders and Financial Regulations (adoption and review)
4. Adoption of Financial and Management Risk Assessment
5. Asset Register and annual review of accuracy
6. Annual (&interim) review of effectiveness of internal controls
7. Annual review of the effectiveness of the internal auditor
8. Review of internal audit arrangements and implementation of any recommendations (at least once every three years)
9. Review of the audit plan calendar (*appendix 1*)
10. Terms of Reference for the Internal Auditor (*appendix 4*)
11. Safe and efficient arrangements to safeguard public money
12. Regular scrutiny of financial records and proper arrangements for the approval of expenditure
13. Procedures in place to ensure that direct debits and standing orders are prior approved by Council
14. Adherence to the internal financial control systems detailed in the financial regulations and the attached appendix (*appendix 2*)
15. Scrutiny of calculations provided by RFO in relation to monthly payroll
16. Regular employer returns to HM Revenue and Customs (incl. FPS submission)
17. Completion of quarterly VAT(126) return and the RFO ensuring they are up to date in matters of VAT and other taxation issues as necessary
18. Regular budget monitoring statements provided to council
19. Preparation and dissemination of regular financial reports comparing actual expenditure against forecasts
20. Regular review of such reports by officers, and by members in Committee and Council
21. Procedures for dealing with and monitoring the Council's Grants scheme
22. Minutes properly numbered with a master copy kept in safekeeping
23. Procedures for document receipt, circulation, response, handling and filing
24. Procedures in place for recording and monitoring Members' Registers of Interests and recording any Gifts and Hospitalities received

## **Scope and Responsibility:**

Axminster Town Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

In discharging this overall responsibility, Axminster Town Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

## **Purpose of the Systems of Internal Control:**

The system of internal control is designed to manage risk at a reasonable level rather than to eliminate all risks of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them effectively and economically.

## **Supporting Documents**

*Appendix 1 Audit Plan Calendar*

*Appendix 2 Payment & Financial Controls Summary*

*Appendix 3 Review of the Effectiveness of the Internal Auditor*

*Standing Orders*

*Financial Regulations*

*Annual Town Council Financial and Management Risk Assessment Review*

## Appendix 1

### Audit Plan Calendar

Item	Month
Council to approve terms of reference for Internal Auditor	December-January *
Council to appoint internal auditor	December-January *
Council to review financial and management risk assessment.	December-March
Council to complete Annual Return (AGAR3)	April-May
Internal Auditor to receive all accounts for the year end	May
Council to review and action any issues raised by internal auditor	May-July
Council to review that audit has been carried out in line with recommended practise (ethically, and with integrity and objectivity)	May-July
Council to send annual return to external auditor for review	May-June
Electors able to exercise their rights	July-August
Council to review effectiveness of internal control	December-February
Councillors to receive report from external auditors ie PKF	September
Council to review financial systems and control	December-January
Council to review audit plan calendar	December-January
Council to review effectiveness of Internal auditor and audit	September-November
Council to review Financial Regulations	March-June

**\* Not required to be undertaken annually. Review period to be agreed by Council but, in accordance with good practice, it should be at least once every 3 years.**

## Appendix 2

### Payment & Financial Controls Summary

1. Council payments to be signed off by FULL Council the month after payment made.
2. Annual review & approval of DD payments by resolution at Annual Meeting.
3. Payments to be made by online means in the first instance. However, our financial regulations allow for alternative methods of payment should the need arise.
4. Verification of new supplier's bank details to be obtained by the RFO with a call-back to a verified number and then a test payment (if deemed necessary).
5. RFO to request pre-verification of all payable invoices with a non-signatory member of the Councillor to explain reasons for expenditure; member to sign invoices once happy to proceed to payment.
6. The RFO holds authority to set up payments on primary Lloyds Bank account and secondary Unity Trust bank account ready for authorisation by two nominated Cllrs. RFO has no powers to authorise bank payments other than via Debit Card.
7. Any cheques or bank letters to be created by RFO and then signed by two Cllrs.
8. Any signatory given online access agrees not to share password information.
9. RFO to provide a schedule of payments (to be made) to support the online banking authorisation, together with copies of corresponding invoices.
10. RFO to email all bank signatories once payments are created online and ready to be authorised.
11. First authorising Cllr. completes their stage of the process and should respond to email from RFO to confirm as such. Second Cllr. completes the process.
12. RFO to be advised once authorisation process is complete.
13. RFO to complete bank reconciliation to ensure that payments tally with monthly schedule of agreed payments.
14. RFO to send a remittance advice to the supplier where necessary/appropriate or requested by supplier.
15. Monthly payment reports and budget reports to be provided to all Cllrs. together with an RFO report.
16. Authorisations to be completed by alternative Cllrs. to prevent fraud.
17. RFO to mark all invoices with folio numbers once payment has been made.
18. RFO to update financial spreadsheets once bank reconciliation has been finalised.
19. RFO to maintain a record of all invoices pending payment and annotate as to the reason why payment has not been made within the standard payment cycle terms.
20. RFO to regularly monitor cash transactions (and Zettle/Card payments) and to record these accurately as such in the Council's aggregated accounts. RFO to also undertake spot checks on cash till balances (aka cash floats) to ensure that all surplus cash is deposited with Council's bankers to minimise risk of loss and fraud.
21. RFO and GH Manager to monitor stock levels and undertake random product checks against Zettle / Card e-till system

Appendix 3

Review of Effectiveness of Internal Audit and Auditor

Meeting the standards		
Expected Standard	Evidence of Achievement	Is this standard achieved/needs
1. Scope of internal audit	<p>Scope of audit work takes into account risk management processes and wider internal control.</p> <p>Terms of reference and financial regulations define responsibilities in relation to preventing fraud.</p>	<p>Internal Auditor re-appointed for a further term OCT2023 as per resolution of the Council (SFC recomm).</p>
2. Independence	<p>Internal Auditor has direct access to RFO.</p> <p>Reports are made in own name to management.</p> <p>Auditor does not have any other role within the council.</p>	
3. Competence	<p>No evidence that internal work has not been carried out ethically, with integrity and objectivity.</p> <p>Internal auditor familiar with governance processes and accounting regulations for town &amp; parish councils</p> <p>Qualification: See over.</p>	<p>Will TenBroeke (of STA Accounting) is qualified as an ACA; Associate Chartered Accountant.</p>
4. Relationships	<p>Clerk/RFO and councillors are consulted on the internal audit plan and on the scope of each audit.</p> <p>Responsibilities for officers and internal audit are defined in relation to internal control, risk management and fraud and corruption matters.</p> <p>The responsibilities of council members are understood, and training carried out as necessary.</p>	

5. Audit Planning and reporting	The audit is a feature of a wider plan with regards to internal control. Policy and procedural reviews and monthly reports and strong internal control procedures embed this approach within Axminster Town Council.	An annual audit plan should now be agreed upon (to be reviewed with internal control policy at December S&F meeting) The review of Internal control is now in place with a rolling programme of policy, procedural and risk assessment reviews is being undertaken to ensure that the policies and procedures adopted are compliant and current.
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<b>Characteristics of Effectiveness</b>		
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<b>Expected Standard</b>	<b>Evidence of Achievement</b>	<b>Is this standard achieved/needs</b>
Internal audit work is planned	Planned internal audit work is based on risk assessment and designed to meet the body's governance assurance needs.	
Understanding the whole organisation its needs and objectives	The annual review demonstrates how audit work will provide assurance in relation to the body's annual governance statement.	
Be seen as a catalyst for change	Supportive role of audit for corporate developments such as corporate governance review, risk management and ethics.	
Add value and assist the organisation in achieving its objectives	Demonstrated through positive management responses to recommendations and follow up action where called for.	
Be forward looking	When identifying risks and in formulating the annual internal control plan, changes on national agenda are considered. Internal audit maintains awareness of new developments in the services, risk management and corporate governance.	

Be challenging	Internal audit focuses on risks and encourages members to develop their own responses to risks, rather than relying solely on audit recommendations. The aim of this is to encourage greater ownership of control environment.	
Ensure the right resources are available	Adequate resource is made available for internal audit to complete its work. Internal auditor understands the body and the legal and corporate framework in which it operates.	No such work had been undertaken due to staffing resources and lack of debate amongst members. Rigorous systems have now been implemented in line with internal auditors recommendations and observations. These systems will be reviewed in light of any finding from this year's internal and external audit.

### **Terms of Reference for Internal Auditor**

The purpose of internal audit is to review and report to Axminster Town Council on whether its systems of financial and other internal controls over its activities and operating procedures are effective. Internal audit is an independent, objective, assurance activity designed to improve the council's operations.

Axminster Town Council currently engages with ST Accountancy Limited for the purposes of an internal audit service which is reviewed on a cycle to be determined by S&F Committee.

### **Roles and Responsibilities**

ST Accountancy Limited will conduct the internal audit work for Axminster Town Council in relation to the Council's Annual Return (AGAR3) until such time as that Internal Audit appointment contract is terminated by either party.

The work undertaken will specifically relate to the Annual Internal Audit Report and aiding the Council to fulfil its obligations under Section 1 of the Annual Return. In conducting this work, they will comply with the requirements of

- 'Governance and Accountability for Local Councils - A Practitioners' Guide (England)'
- The Accounts and Audit (England) Regulations 2015 (as amended)
- Such other guidance and best practise that may be prevailing from time to time.

Additional internal audit work in relation to the Council's obligations under the regulations may also be undertaken by separate agreement.

### **Audit Planning**

ST Accountancy Limited will plan their internal audit with due care to ensure that the appropriate level of resources is made available to conduct their work, and that the Council can meet its statutory reporting obligations.

### **Reporting**

ST Accountancy Limited will prepare a summary report on areas of non-compliance where such non-compliances are limited in nature and result in an unqualified internal audit report.

Where it may be necessary to qualify an internal audit report, they shall prepare a detailed report on these areas on non-compliance that have led to a qualification.

Where necessary, ST Accountancy Limited will be invited to attend Council meetings to discuss the audit report and findings and reserve the right to charge an additional fee should this service be required. This fee will be agreed in advance of any such meeting.

**Independence and Correspondence**

ST Accountancy Limited will ensure that any staff conducting, and supervising, internal auditing functions are appropriately trained and qualified for the level of work undertaken. They will ensure that they maintain independence from the day-to-day activities of the Council and they will not provide any additional consultancy or advisory services to the Council which may compromise their audit independence.

**Access to information and Officers.**

In order to facilitate completion of the audit work, Axminster Town Council will ensure that all documents are provide in a timely manner subject to reasonable notice being given.

Axminster Town Council will ensure that appropriate and reasonable access to documents and staff members is granted to the internal auditor and their staff.

**Remuneration.**

The fee for audit work will be in accordance with the prior agreed fee. The fee includes all travel and out of pocket expenses. If additional audit time is required or additional services are requested, the fee for these will be agreed in advance and invoiced accordingly.

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