

# TOPLIS ASSOCIATES LTD.

STREETHAY LODGE  
STREETHAY  
LICHFIELD  
STAFFORDSHIRE WS13 8LR

TEL: 01543-419202

13 June, 2024

The Chairman  
Atherstone Town Council  
c/o Ms K Clover PSLCC  
Town Clerk  
P.O. Box 2000  
Atherstone  
Warwickshire CV9 1YN

Dear Councillor

## **Conclusion of the Internal Audit of your Town Council For the year ended 31<sup>st</sup> March 2024**

Following the completion of our work for the above year we are writing to inform the Council that having carried out the year-end review we have been able to sign the Annual Governance and Accountability Return Form 3 ("AGAR"). Unfortunately we have had to qualify a number of matters and these are detailed in the supplement attached to our Annual Internal Audit Report 2023/24 which is enclosed.

It is your council's responsibility to consider the matters we have raised before you complete and sign section 1 of the AGAR (Annual Governance Statement 2023/2024) and to answer that section accordingly.

You are also required to write a letter to the External Auditor explaining how your council intends to rectify the matters we have raised and to which you accordingly answer NO in section 1 (Annual Governance Statement). This letter should be signed by yourself and the Clerk and accompany the completed AGAR when you send it to the External Auditor.

The independent internal examination of the Councils governance, financial affairs and certification of the 2023-24 AGAR to the External Auditor was carried out in accordance with the standards laid out in the Accounts and Audit Regulations, 2015 and embodied in the Joint Panel on Accountability and Governance Practitioners Guide March 2023.

Registered Office as above  
Registered in England No 3219234

In summary, we covered the following areas in our examination:

- Proper Bookkeeping
- Financial Regulations, Standing Orders and Payment Controls
- Risk Management and Insurance arrangements
- Budgetary Controls
- Income Controls
- Payroll Controls
- Asset Control
- Bank Accounts and Reconciliation
- Year End Procedures.

As this is the first end of year audit since our engagement we wish to take this opportunity to assure you that apart from Internal Audit services we do not provide any other services to Atherstone Town Council. We also assure you that we have no relationship with any of your officers or members of the council.

This year we have carried out a review of your web site to evaluate its conformance to the Local Government Transparency Code 2015 which is to be viewed as a minimum standard. We confirm your web site meets this requirement.

We carried out one internal audit reviews during the fiscal year and two further visits at the commencement of the current year. We were accorded with full co-operation by your Clerk and Deputy Clerk. Any issues which we raised with the Clerk during the conduct of our work have either been satisfactorily rectified or are noted below.

A copy of our Annual Internal Audit certification (page 3 of the AGAR) for 2023-24 is attached.

We would wish to draw your attention to the "Publication Requirements" on page 1 of the AGAR

We would also wish to draw your council's attention to the following matters:

1. The Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015 require all councils with a turnover of over £200,000 to record their accounts on an income & expenditure basis. In brief this means that purchase transactions are recorded at the point of order and income transactions at the point of invoice (sometimes known as commitment accounting). Your council has historically operated a hybrid receipts and payments system which does not properly satisfy the requirements and would be unlikely to bear any detailed examination by the External Auditor;

2. The version of SAGE accounting software (Sage 50) in use by your council is not fit for the purpose that is required. The origins of the current system are embodied in the design of a receipts and payments system designed for use by small nonpublic sector companies. The system is designed as a single user application. Whilst there are "work arounds" to enable year end accruals to be manually entered there is no provision for commitment accounting and all accruals have to be reversed manually following a year end. It has led to errors such as you not providing for a commitment to a supplier who failed to bill you for several years suddenly expecting a considerable payment from your council. We recommend that your council seriously investigates the acquisition of more appropriate, sector specific, software and implements from 1 April 2025;
3. The opening balances of your bank accounts at 1 April 2023 were checked and considered correct apart from one error involving two bank accounts on deposit and normal high street banks were wrongly categorized as "fixed assets". These have now been correctly categorized and have had the effect of improving your general reserves. However the other balances presented to us as a result of the 2022/23 end of year and AGAR process were considerably inaccurate. These balances mainly concerned expected income not yet received and apparent phantom duplicate payments all of which simply sat on the ledgers as unreconciled amounts which had arisen prior to 31<sup>st</sup> March 2023. At considerable cost in terms of expenditure of personal time your Clerk has now thoroughly "cleaned" the ledgers and we would wish to acknowledge the effort which has been expended. In order to correctly state the opening balances within your financial system (and on the AGAR) it has been necessary for your Clerk to "restate" several of the opening balances carried forward from 2022/23 on the AGAR. A complete reconciliation statement of this process has been documented by your Clerk and this must be presented to the External Auditor along with this year's AGAR pack;
4. In order to shore up the short-comings of the current accounting system your Clerk and Deputy Clerk operate a number of manual spread sheets to record transaction progress of items such as allotment income and the entire management of the non-statutory as well as some parts of the statutory record (e.g. deeds) keeping portion of your cemetery records. This inevitably leads to duplication of effort with a potential for the inevitable introduction of error. We would normally expect the majority of these transactions and events to be integrated into a suitable sector specific package. Additionally because your current system is "single user" there is a passing of paper documents between the Deputy Clerk and the Clerk who then enters the data on to the accounting system. We are concerned that this process lacks some of the internal controls normally found in robust

systems and also that this gives further opportunity for errors and omissions to occur. At the very least we would also expect the Deputy Clerk to be entering those records which she is responsible;

5. We note that your general reserves cover (after the exclusion of properly voted earmarked funds of £90,000) is 0.7 years. We consider this to be a comfortable level of general reserves balance at the year end. You will appreciate I am not allowed to instruct you on this matter but we have taken the liberty of attaching page 38 of the Practitioners Guide 2021 which in para 5.32 gives guidance on General Reserves;
6. We further note that the £90,000 earmarked funds were raised from the sale of council property and that these funds may only be used for capital projects and not for day to day expenditure.

In respect of the new Council year we make the following additional observations and recommendations for your consideration:

1. We recommend that during the fiscal year your council should review the Risk Assessment to ensure that it still reflects the current environment. Your council should then minute its ratification;
2. During the fiscal year your council should review your Standing Orders, Publication Scheme & Financial Regulations to ensure that they still reflect the current environment. Your council should then minute that ratification. Please note that it is important that your Financial Regulations meet the standard set by those published by the National Association of Local Councils ("NALC"). New Model Financial Regulations templates were produced by NALC during April 2024. These new templates are a major rewrite of the previous (2019) version and contain a number of important legal changes. We strongly recommend that your Council considers the changes made but rather than try to embody them in to your existing regulations you should adopt (with suitable tailoring as recommended within the template) and embrace the new version as the Council's on-going Financial Regulations. We shall base our future internal audit plans on the version of the regulations ratified by your council. As the External Auditor will always base their audit on the version considered extant by NALC it is important that you are always closely in line with the NALC template;
3. Copies of both your current Standing Orders, Publication Scheme & Finance Regulations and Risk Assessment should be displayed on your councils web site and must show the latest date of revision and ratification;
4. You are reminded that when the council discusses, amends or ratifies significant documents copies should be made available on your web site for members of the public to view. These documents should be either

appendices to published minutes and agenda papers or as separate documents on the web site (preferably with a hypertext link to facilitate ease of searching);

5. You must discuss the appointment of your internal auditor and ratify and minute the appointment during the current financial year. We were pleased to have been your internal auditor during 2023-24 and offer ourselves for re-appointment. You may use either our company name or refer to Alan Toplis & Kim Squires by name in the minutes;
6. If your council wishes to carry forward earmarked funds at the yearend these must have been ratified by your council. This is best done at the time you draw up the next budget or at final meeting of the fiscal year.

It is your Council's responsibility to note these comments and to consider what action should be taken.

Can we take this opportunity to remind you that when the AGAR comes back from the External Auditor you do have a duty to display the accompanying notice of Completion of Audit on each of your usual notice boards and on your council's website.

The complete AGAR and any auditor's comments or qualifications should also be displayed on your web site to allow electors to see the complete AGAR and read the External Auditors comments if they wish to do so.

*In accordance with Regulation 13 (of the Audit and Accounts Regulations), after the conclusion of the period for the exercise of public rights, the authority must publish (including on its website) the annual governance statements, statement of accounts, and the external auditor's certificate and report – Sections 1, 2 and 3 of the Annual Governance and Accountability Return. Authorities must keep copies of these documents for purchase by a person at a reasonable sum and ensure that they remain available for public access for 5 years*

Please do remember to retain a copy of the notice on file as proof that you have followed the requirements of the Local Government Act. You should also minute the External Auditors approval of the AGAR and any qualification or comments made and resolve to take action where necessary.

We will make our next visit in November but please do not hesitate to contact me should you require advice in the meantime.

Yours sincerely,

Alan Koplis

# Annual Internal Audit Report 2023/24

Atherstone Town Council

www.atherstone-tc.gov.uk

During the financial year ended 31 March 2024, this authority's internal auditor acting independently and on the basis of an assessment of risk, carried out a selective assessment of compliance with the relevant procedures and controls in operation and obtained appropriate evidence from the authority.

The internal audit for 2023/24 has been carried out in accordance with this authority's needs and planned coverage. On the basis of the findings in the areas examined, the internal audit conclusions are summarised in this table. Set out below are the objectives of internal control and alongside are the internal audit conclusions on whether, in all significant respects, the control objectives were being achieved throughout the financial year to a standard adequate to meet the needs of this authority.

Internal control objective	Yes	No	Not covered**
A. Appropriate accounting records have been properly kept throughout the financial year.		✓	
B. This authority complied with its financial regulations, payments were supported by Invoices, all expenditure was approved and VAT was appropriately accounted for.	✓		
C. This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.		✓	
D. The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.	✓		
E. Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.	✓		
F. Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.	<del>✓</del>		✓
G. Salaries to employees and allowances to members were paid in accordance with this authority's approvals, and PAYE and NI requirements were properly applied.	✓		
H. Asset and investments registers were complete and accurate and properly maintained.		✓	
I. Periodic bank account reconciliations were properly carried out during the year.	✓		
J. Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate debtors and creditors were properly recorded.		✓	
K. If the authority certified itself as exempt from a limited assurance review in 2022/23, it met the exemption criteria and correctly declared itself exempt. (If the authority had a limited assurance review of its 2022/23 AGAR tick "not covered")			✓
L. The authority published the required information on a website/webpage up to date at the time of the internal audit in accordance with the relevant legislation.	✓		
M. In the year covered by this AGAR, the authority correctly provided for a period for the exercise of public rights as required by the Accounts and Audit Regulations (during the 2023-24 AGAR period, were public rights in relation to the 2022-23 AGAR evidenced by a notice on the website and/or authority approved minutes confirming the dates set).	✓		
N. The authority has complied with the publication requirements for 2022/23 AGAR (see AGAR Page 1 Guidance Notes).	✓		
<b>O. (For local councils only)</b> Trust funds (including charitable) – The council met its responsibilities as a trustee.			✓

For any other risk areas identified by this authority adequate controls existed (list any other risk areas on separate sheets if needed).

\* SEE ATTACHED SUPPLEMENT

Date(s) internal audit undertaken

28/03/2024

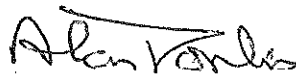
01/05/2024

12/06/2024

Name of person who carried out the internal audit

Alan Toplis and Kim Squires

Signature of person who carried out the internal audit



Date

12/06/2024

\*If the response is 'no' please state the implications and action being taken to address any weakness in control identified (add separate sheets if needed).

\*\*Note: If the response is 'not covered' please state when the most recent internal audit work was done in this area and when it is next planned; or, if coverage is not required, the annual internal audit report must explain why not (add separate sheets if needed).

# Atherstone Town Council

## Annual Internal Audit Report 2023/24

This document is a supplement to page 3 of 6 of the Annual Governance and Accountability Return (AGAR) 2023/24, Form 3 and is intended to be read and published with that document. Copies of this document must be displayed with the AGAR and forwarded to the External Auditor.

Internal Control Objective	Response	Reason for 'No'/Not covered response
A Appropriate accounting records have been properly kept throughout the financial year.	NO	The current Clerk inherited a hybrid system of income and expenditure and receipts and payments when the authority should have been operating a full income and expenditure accounting system. We have advised the Clerk to take steps to identify a sector-appropriate system and would wish to validate any acquisition decision prior to implementation
B This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.	YES	
C This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.	NO	There are significant areas of risk that have not been properly assessed (e.g. the Arcade) also the impact of potential under-funding on at least one major area of the council's expenditure does not appear to have been fully assessed and reserves apportioned or at least earmarked to cover the risk.
D The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate	YES	
E Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for	YES	
F Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for	<del>YES</del> NOT COVERED	<del>No petty cash kept</del>
G Salaries to employees and allowances to members were paid in accordance		



with this authority's approvals, and PAYE and NI requirements were properly applied.	YES	
H Asset and investments registers were complete and accurate and properly maintained	NO	Adjustments have been made for 2023/24 but there are still <u>historical</u> inaccuracies that will require the Clerk to carry out a large amount of work before a complete restatement is undertaken
I Periodic bank account reconciliations were properly carried out during the year.	YES	
J Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate debtors and creditors were properly recorded.	NO	See comments at box A and our covering letter.
K If the authority certified itself as exempt from a limited assurance review in 2022/23, it met the exemption criteria and correctly declared itself exempt. (If the authority had a limited assurance review of its 2022/23 AGAR tick "not covered")	NOT COVERED	The Council had a limited assurance review in 2022/23
L The authority published the required information on a website/webpage up to date at the time of the internal audit in accordance with the relevant legislation.	YES	
M In the year covered by this AGAR, the authority correctly provided for a period for the exercise of public rights as required by the Accounts and Audit Regulations (during the 2023-24 AGAR period, were public rights in relation to the 2022-23 AGAR evidenced by a notice on the website and/or authority approved minutes confirming the dates set).	YES	
N The authority has complied with the publication requirements for 2022/23 AGAR.	YES	
O (For local councils only) Trust funds (including charitable) – The council met its responsibilities as a trustee.	N/A	

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#### Reserves:

- 5.30. As with any financial entity, it is essential that authorities have sufficient reserves (general and earmarked) to finance both their day-to-day operations and future plans.
- 5.31. Smaller authorities have no specific right to accumulate funds via the precept. All reserves should be reviewed and justified regularly (i.e. at least annually). It is good practice to transparently publish both the level and rationale of all reserves.

#### General reserves:

- 5.32. The general reserve of an authority comprises its cash flow and contingency funds to cover unexpected inflation, unforeseen events and unusual circumstances.
- 5.33. The generally accepted recommendation with regard to the appropriate minimum level of a smaller authority's general reserve is that this should be maintained at between three and twelve months of net revenue expenditure.
- 5.34. The reason for the wide range is to cater for the large variation in activity level between individual authorities. The smaller the authority, the closer the figure may be to 12 months expenditure, the larger the authority, the nearer to 3 months. In practice, any authority with income and expenditure in excess of £200,000 should plan towards 3 months equivalent general reserve.
- 5.35. In all of this it is important that each authority adopt, as a general reserve policy, the level appropriate to their size, situation, risks and plan their budget so as to ensure that the adopted level is maintained. Consideration of the minimum level of reserves requires not only consideration of level of income and expenditure but also the risks to that income.
- 5.36. Authorities with significant self-generated income (other than the precept or levy) should take into account situations that may lead to a loss in revenue as well as increased costs and adapt their general reserve accordingly.

#### Earmarked and other reserves:

- 5.37. None of the above in any way affects the level of earmarked and/or capital receipts reserves that an authority may or should hold.
- 5.38. There is, in practice, no upper or lower limit to EMR/CRRs save only that they must be held for genuine and identifiable purposes and projects, and their level should be subject to regular review and justification (at least annually and at budget setting), and should be separately identified and enumerated. Significant levels of EMRs in particular may give rise to enquiries from internal and/or external auditors.