

31.08.21.

TO:

MEMBERS
FILEY TOWN COUNCIL

INTERNAL AUDIT OF FILEY TOWN COUNCIL ACCOUNTS
FINANCIAL YEAR 2021/22 FIRST QUARTER

In accordance with my agreement with the Council I have carried out the first quarter internal audit in respect of the Financial Year 2021/22.

The following are the areas that have received attention by me in this quarter:-

- (a) Bank reconciliations and bank transfers
- (b) Cash book/ Financial Ledger maintenance
- (c) V.A.T. account
- (d) Approval and validity of payments
- (e) Income and debtors
- (f) Corporate governance
- (g) Investments
- (h) Minute scrutiny
- (i) Payroll
- (j) Financial controls
- (k) Insurance

I have considered my comments in relation to the above on the basis of the annual report I am required to submit to the external auditors. This is an interim report and a full final annual report will be issued at the completion of the fourth quarter audit.

The matters I wish to draw to your attention are as follows:-

(A) BANKING CONTROLS AND RECONCILIATIONS

(i) The Council made a decision some time ago to use on line banking facilities. The system controls on payments in practice did not meet expectations and this has been discussed for some considerable time by the R.F.O. with you and your bankers.

In essence it was believed that any on line payments would contain a separation in terms of the setting up of the transaction and the authorisation of payment. Meaning that the system would be set up so that the two functions would not overlap in terms of roles.

The problem with the bank's system is that one person could set up a payment, make it to themselves, and obtain funds for themselves before it came to the attention of the Council. To prevent fraud or theft wherever possible, systems are devised on the basis of segregation of duties where possible.

Currently the possibility of one person being able being able to divert a substantial sum of money exists on the current account. The bank would contact the Council to confirm that the transaction was bona fide but the officer dealing with the

bank may be the person perpetrating the fraud and be the one who is informed by the bank.

The chance of a fraud which escapes attention eventually are nil. Even the defrauding of a small payment by this method escaping attention eventually is virtually nil.

In systems terms a risk exists that an officer could divert a large sum of money for their own purposes and the Council not being able to recover that sum. The fraud would be discovered at some stage but the damage done.

Your R.F.O. has discussed the bank's system with them and no alterations are possible. Other banks work on a similar basis. I am aware of one bank where the separation of duties is built into the system. The Council has decided at some stage it wishes to stay with its existing bankers.

Your R.F.O. has discussed this previously with the Council but I understand a decision was made to accept the situation. The purpose of my raising this now is that members are aware of risks.

(ii) You currently have £200K invested with Public Sector Deposit Fund. Your R.F.O. has sought further clarification on the operation of the Funds which he informs me may lead to some change in your investment strategy, yet to be discussed with you.

B FINANCIAL REGULATIONS

(i) Strictly speaking the issue I am raising is more about legal requirements than Financial Regulations. As mentioned previously there is a requirement for Councils to keep a printed and signed copy of its Council and Committee minutes on file. A small amount of work needs to be carried out to meet a full set completely.

L TRANSPARENCY CODE

(i) In terms of corporate governance this Council exceeds statutory requirements by publishing on its website such matters as all payments made and bank reconciliations.

D M LATHAM
INTERNAL AUDITOR

