

Durrington Town Council

Internal Audit Report 2020-21 (Final)

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Background

Statute requires all town and parish councils to arrange for an independent internal audit examination of their accounting records and systems of internal control and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR).

This report sets out the work undertaken in relation to our final review for 2020-21. Again, due to the continuing restrictions imposed by the Covid-19 pandemic, this work has been undertaken remotely. We wish to thank the Clerk for assisting the process, providing all necessary documentation in electronic format to facilitate completion of our review for the year and sign off of the Internal Audit Certificate in the year's AGAR. We have, obviously in the circumstances, reduced the volume of transactions examined, whilst still ensuring governance and financial controls remain effective.

Internal Audit Approach

The objective of this review is to provide an appropriate level of assurance to the Council on their governance, procedures and financial control for the entire financial year, generating full and supportable assurances in the Annual Governance and Accountability Return (AGAR) for 2020-21.

In undertaking our review for the year, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts / AGAR. Our programme of cover is designed to afford appropriate assurance that the Council has appropriate and robust financial systems in place that operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Internal Audit Report' as part of the Council's AGAR process, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

Details of the work undertaken on the Council's accounting and other records set out in the following detailed report, which contains some observations and a single recommendation for the Council to consider. We have, however, assigned positive assurances in all areas in the required AGAR Internal Audit Report for 2020-21.

Detailed Report

Review of Accounting Arrangements & Bank Reconciliations

The Council's accounting records for 2020-21 were maintained using Rialtas Omega software (we note that during 2021-22 the Council intends to move to the Scribe system, which we also have experience of). Banking is undertaken via a Current Account with Lloyds Bank, together with a 12-month Term Deposit with Nationwide BS (the balance on which, we understand, will be transferred to the Hampshire Trust Building Society during 2021-22 to improve interest earnings).

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in the financial records. To that end, we have:

- Ensured that an appropriate analysis of income and expenditure is available in the accounting system;
- Checked that the closing balances, as reported in the Statement of Accounts for 2019-20, have been rolled forward correctly as opening balances for 2020-21 in the Rialtas Omega system;
- Checked and agreed sample transactions in the accounting system to the relevant Lloyds Bank account statement; and
- Checked detail on the software-based bank account reconciliations as at 31 March 2021 to ensure that no long-standing uncleared cheques or other anomalous entries exist.

We note that bank reconciliations are reviewed at Council meetings, and are initialled by Councillors in accordance with Financial Regulation 2.2.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Review of Corporate Governance

Our objective is to ensure that the Council has robust corporate governance documentation and processes in place, and that, as far as we may reasonably be expected to ascertain (as we do not attend Council or Committee meetings) all meetings are conducted in accordance with the adopted Standing Orders and no actions of a potentially unlawful nature have been or are being considered for implementation. We have:

- Examined the minutes of the Full Council and its Standing Committees' meetings for the year to date to ascertain whether any significant issues affecting the Council's financial stability either in the short, medium or long term exist;
- Noted that the Council's Standing Orders (SOs) were reviewed in January 2021, but that Financial Regulations (FRs) have not been reviewed since October 2019. It is important that such Policy documents are kept up to date and in line with NALC Models;

- Further to this, we note that Council charged the Human Resources and Finance (HR&F) Committee with a number of tasks during the financial year, including the amalgamation of Policies and a review of Bank Signatories. We are concerned to note, however, that the Chair of HR&F resigned from the Council at the end of September 2020, and that this important work has fallen into abeyance;
- Noted that the Council's website now shows a good level of compliance with the requirements of the Transparency Code 2015.

Conclusion and Recommendations

RI. Council should ensure that a review and update is undertaken of Financial Regulations, which is a key governance policy, alongside the requested review of bank signatories.

Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Internal Control over payments by Councillors is evidenced and maintained;
- Payments are supported by appropriate documentation, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due and/or an acknowledgement of receipt, where no other form of invoice is available;
- An official order has been raised for all purchases and service delivery where one would be expected;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct expense codes have been applied to invoices when processed; and,
- VAT has been appropriately identified and coded to the control account for periodic recovery.

Due to the continuing restrictions imposed by the pandemic, we have again undertaken a limited sample test of high-value transactions with the assistance of the Clerk, who has scanned and submitted the requested documentation. Again, undoubtedly due to the pandemic, there is an absence in the test sample of independent internal checks being undertaken by Councillors, which is an important part of internal control and should be re-introduced as soon as possible. This can be evidenced by the full use, including accounting information, of the rubber stamp that is available, and which should be applied to all payments.

We have checked the VAT returns for the year to both the accounting records and bank statements, with no issues arising.

Conclusions

We would again remind Councillors of the importance of undertaking periodic independent checks of financial transactions, to meet the requirements of Financial Regulations.

Assessment and Management of Risk

Our aim here is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks identified in order to minimise the opportunity for their coming to fruition.

We are pleased to note that the Council reviewed its risks at the meeting on 30 June 2020, which meets the governance requirement.

The Council continues to maintain its insurance needs via Came & Company with Axa, under a 3-year Long-term Agreement which renews on 1 April. Public and Employers Liability is maintained at £10 Million each, with Officers Liability set at £500,000 and other covers including property, all of which we consider appropriate for a Council of this size.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Budgetary Control and Reserves

Our aim here is to ensure that: -

- The Council has undertaken a budget determination exercise, which forms the basis of the annual precept request from the parent Council.
- The Council has received regular reports identifying the budget position throughout the year.
- The Council has formally approved the establishment of specific reserves.
- The utilisation of reserves and the return of unused balances to the General Fund are reported to the Council at regular intervals.
- Year-end reserves and General Fund balances are reviewed to ensure that they are both appropriate and are likely to be utilised.

At its January 2021 meeting, the Council agreed its budget for 2021-22, setting the Precept at £210,000.

The Council has set Earmarked Reserves totalling £48,311. This leaves a General Reserve, after allowing for year-end debtors and creditors, of £153,175, which represents around 8.5 months of normal expenditure. This is felt to be an acceptable level for a Council of this size.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Review of Income

In considering the Council's income streams, we aim to establish that robust systems are in place to ensure the identification of all income due to the Council from its various sources, that income is invoiced in a timely manner and that effective procedures are in place and to pursue recovery of any outstanding monies due to the Council. We have:

- Checked and agreed a sample of high-value receipts between original documentation and accounting records;
- Noted that the Council's fees and charges were generally reviewed at the October 2020 meeting.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Petty Cash Account

We note that, following her appointment in April 2020, the Clerk established a Petty Cash account which is maintained on a non-impres basis. We have received records showing a balance of £826.46 as at 31 March 2021, with evidence of independent check by a Councillor. Due to the pandemic restrictions we have not been able to verify the cash holding, although we have agreed such evidence as exists to the Omega system.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Salaries and Wages

In examining the Council's payroll function, we aim to ensure that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenue and Customs (HMRC) in relation to the deduction and payment over of income tax and NI contributions.

We note that payroll is managed in-house, using the 'Money Manager' software package.

We have examined the payroll procedures in place and the physical payments made to staff in 2020-21 by test-checking the August 2020 and March 2021 payroll figures, with no issues arising.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Investments and Loans

We note that the Council has adopted an appropriate Investment Strategy, although this has not been reviewed since September 2019 and should be subject to annual review.

We have confirmed the outstanding balance on the PWLB loan as at 31 March 2021 to original records and the Omega system, with no issues arising.

The Council has no loans repayable to it.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Review of Fixed Asset Registers

The Governance and Accountability Manual (GAM) requires councils to develop and maintain a register of all assets. The Annual Return requires disclosure of the value of assets retained by the Council as at 31st March annually, that requires asset values to be reported at cost price or, where that value is unknown, an appropriate value which can be a nominal value of £1. Annual Return values are then updated to reflect the cost of any new acquisitions or deletions / disposal.

We have reviewed the Council's Asset Register as at 31 March 2021, and believe that it meets this standard, although we remain concerned at the comment of 'Proxy Value' against some items, which would appear to be contrary to GAM requirements and should be removed if inappropriate.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Statement of Account and AGAR

The AGAR incorporates the Council's Annual Accounts, which are subject to external audit scrutiny and verification.

Conclusions

There are no matters arising in this area of our review process and we have duly signed off the Internal Audit Certificate at Page 3 of the AGAR, assigning positive assurances in all relevant categories.

Re c. No.	Recommendation	Response
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Review of Corporate Governance

R1	Council should ensure that a review and update is undertaken of Financial Regulations, which is a key governance policy, alongside the requested review of bank signatories.
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