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**Durrington Town Council**

*Internal Audit Report 2018-19 (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 system of internal control and for the conclusions to be reported each year in the Annual Return.

This report sets out the work undertaken during the Internal Audits for the 2018-19 financial year: The Interim audit which took place on the 14<sup>th</sup> September 2018 and the Final update audit which took place on the 24<sup>th</sup> May 2019.

## **Internal Audit Approach**

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 / Annual Return. 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 Annual Governance and Accountability Return (AGAR) process, which requires independent assurance over a number of internal control objectives.

## **Overall Conclusion**

We have followed up the recommendations made in our 2017-18 reports and acknowledge that the members have noted and considered these in their deliberations and enacted the recommendations and that the council continues to make great progress in its processes and performance. Accordingly, we have made only five recommendations, as a result of our work during the Internal Audit, for consideration by the Clerk/Responsible Finance Officer and Members.

We have concluded that, based on the programme of work undertaken to the 31<sup>st</sup> March 2019, the Council continues to maintain adequate and effective internal control arrangements that should ensure that transactions have been recorded accurately in the financial ledger and, subsequently, the detailed Statement of Accounts and Annual Governance and Accountability Return that forms the statutory accounts of the Council subject to external audit certification.

We have completed and signed the 'Internal Audit Report', having concluded that the control objectives set out in that Report have been achieved within the financial year to a standard adequate to meet the needs of the Council. We wish to commend the Clerk/RFO both for the attainment of the CiLCA qualification and for the continued professional management of the Council's administration.

We ask that members consider the content of this report and acknowledge that the report has been reviewed and accepted by the Council.

# Detailed Report

## Review of Accounting Arrangements & Bank Reconciliations

The Council's accounting records are maintained using Rialtas Omega software with one account at Lloyds Bank plc in use, together with a 12-month term deposit with the Nationwide. We note that the clerk continues to investigate potential alternative "investment" opportunities to ensure some "return" on the Council's available funds, whilst ensuring that these funds, totalling in excess of £100,000 are effectively protected in the event of a bank's failure.

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 software, noting the creation of a number of new codes in the current year;
- Checked that the closing balances, as reported in the Statement of Accounts for 2017-18, have been rolled forward correctly as opening balances for 2018-19 in the Rialtas Omega software: £149,171.13;
- Checked and agreed transactions on the Current and Business account cashbook to the relevant Lloyds Bank account statements for three sample months: April & July 2018, and March 2019; and,
- Checked detail on the software-based bank account reconciliations as at the 30<sup>th</sup> April and 30<sup>th</sup> June 2018, and the 31<sup>st</sup> March 2019 to ensure that no long-standing, uncleared cheques or other anomalous entries exist.

### Conclusions

*There are no issues arising in this area of our review 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 financial year to 31<sup>st</sup> March 2019 to ensure that no significant issues affecting the Council's financial stability either in the short, medium or long term exist;
- Noted that the Clerk/RFO has undertaken all reasonable steps to ensure the Council's compliance with the General Data Protection Regulation (GDPR) including secure off-site backup facilities hosted by Vision ICT, the development and subsequent adoption by members of new Data Retention & Disposal and Privacy policies and the amendment of forms and e-mails to ensure users of the council's services are aware of what data will be retained and the Council's Privacy Policy;

- Noted that the Standing Orders (SOs) were revised and readopted in January 2018 and Financial Regulations (FRs) were last revised and readopted in October 2018;
- Noted that the Clerk/RFO has now successfully attained the CiLCA qualification and the Council subsequently adopted the General Power of Competence at the meeting of the Full Town Council in November 2018; and,
- Noted that the Clerk/RFO is in the process of developing revised Financial Procedures, in concert with the Clerk/RFO of Amesbury Town Council, as there is a reciprocal support agreement in place to provide support in the event of the long-term absence of the Clerk/RFO at either location.

### ***Conclusions and recommendations made at the Interim Audit***

***It is this auditor's conclusion that the Council continues to operate robust, proportionate and effective Corporate Governance procedures. Accordingly, we have made only two minor recommendations for consideration by members in this area of our review which, if implemented, could further strengthen the Council's controls:***

***It is noted that the Amenities & Policies Committee no longer holds independent meetings, nor does it publish independent minutes, conducting its activities as it currently does, during meetings of the Full Council. As such, this auditor recommends that the committee be dissolved, and its activities be formally subsumed into the meeting of the Full Council.***

***It is further noted that the Council continues to use cheque payments for suppliers. Lloyds bank are now able to provide a multi-level authorisation facility for electronic payments, resultantly, this auditor recommends that the Council investigate the use of this facility as it would give members greater control over the Council's cashbook and financial matters.***

***We shall continue to monitor the Council's performance in this area during future visits and continue our examination of minutes for the remainder of the year at our final visit.***

### ***Recommendations:***

- R1. *Consideration should be given to dissolving the Amenities & Policies Committee and subsuming its activities, formally, into the Full Council. Response: Implemented*
- R2. *Consideration should be given to reinvestigating the use of electronic banking with Lloyds in respect of supplier payments. Response: Implemented.*

### ***Conclusions and recommendation Final Audit***

***We are pleased to note that the Clerk has successfully completed and attained the CiLCA qualification for Council Clerks, which has enable the Council to meet the criteria to adopt the General Power of Competency. Resultantly, we suggest that, in line with SLCC guidance the Clerk's title is changed to that of Chief Officer. It is deemed that this title better reflects the profession nature of the modern role, of which being the Clerk to the Council is just one function.***

- R3. *Members should consider changing the title of 'Clerk' to 'Chief Officer' as this better reflects the nature of the modern role, of which being Clerk to the Council is just one function.*

## Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Cheques are signed by two elected members of the Council;
- 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.

We have completed testing in this area, examining all those payments individually in excess of £1,000, together with a more random selection of every 20<sup>th</sup> cashbook transaction, irrespective of value, for the financial year to the 31<sup>st</sup> March 2019 for compliance with the above criteria. Our test sample comprises 33 individual non-pay related payments, equating to 56% of all non-pay related payments to date and a total expenditure of £58,351.

We note the continued use of the certification stamp fixed to each payment processed. This provides for the payment document to be matched with its corresponding purchase order, assigned a payment reference number, which can be traced via to the corresponding 'Schedule of Payment', which is present to the Members at the monthly meeting of the Full Town Council, duly authorised and minuted, with the cheques being prepared by the Clerk/RFO at the Council's offices for signature by approved Members. Individual BACS payments, can be traced via their unique payment reference to the detail of the corresponding bank statement.

We also note that there is clear evidence that Members scrutinise the Invoices and other Payment documents included on an Order of Payment List and initial these.

We are also pleased to note that all the four Quarter's VAT returns have been prepared, submitted to and repaid by HMRC and have verified the accuracy of that reclaim to the underlying Rialtas control account.

### **Conclusions**

*There are no issues arising in this area of our review warranting formal comment or recommendation.*

## 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.

It is noted that the Financial Risk Assessment was reviewed by members and adopted in January 2018 and that the General Risk and Health & Safety Assessment was reviewed and readopted on the 26<sup>th</sup> June 2018. The Clerk/RFO and members are reminded that all the Council's Risk registers must be reviewed and readopted by the Full Council in each Financial Year, and that the adoption must be formally minuted, as required by the Governance and Accountability Manual.

The Council's insurance schedule for the current year (to March 2019) has been examined, with cover again provided by Zurich plc. It is noted that Public, Products & Pollution, and Employer's Liability are both in place at £10 million, together with Fidelity Guarantee cover at £250,000, Business Interruption - Loss of Revenue at £40,000. This level of cover is considered appropriate for the Council's present needs.

The Council has reviewed the risks associated with the play areas and open spaces that it manages with its insurers and has implemented a robust inspection regime: Litter collections and informal inspections are undertaken from Monday to Friday. The caretaker for the Pavilion checks the grounds for litter noting any faults to the recreation ground on a daily basis. The Clerk/RFO undertakes a detailed inspection of the Play Park on a fortnightly basis which is recorded in an inspection report which is kept in perpetuity. Further, Zurich Insurance appoint an independent inspector for all areas furnished with play equipment. The Play Park on the recreation area is inspected twice a year, the other recreation areas annually. A formal report is submitted to the council.

Finally, in this area, it is noted that in line with best practice and to safeguard the Council, the Clerk/RFO is in the process of developing financial procedures guide in concert with the Clerk/RFO at Amesbury. The two Councils both run Rialtas Omega Accounts Software and have a reciprocal agreement in place whereby should one or other of the Clerk/RFO's be absent for a protracted period, then the other Clerk/RFO would provide Finance Operations cover.

### ***Conclusions***

***There are no issues arising in this area of our review warranting formal comment or recommendation.***

## **Budgetary Control and Reserves**

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and level of precept to be drawn down from the parent Council: also, that an effective reporting and monitoring process is in place. We also aim to ensure that the Council retains appropriate funds in general and earmarked reserves to finance its revenue spending plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

- We note that the Council has undertaken a robust Budget setting and Precept determination process to establish the 2019-20 financial year requirements. This resulted in the Budget and Precept being approved by Members at the 9<sup>th</sup> January 2019 meeting of the Full Council, under minute reference 92/18 in the amount of £139,000.

- We are pleased to note that the RFO continues to provide Members with sound, periodic budget monitoring reports throughout the year; and,
- We also note that reserves at the year-end taking account of the year's budget outturn with Total Reserves at 31<sup>st</sup> March 2019 standing at £138,496 comprising of 5 specific Earmarked reserves of £37,365 and the residual General Fund balance of £101,131. The latter represents approximately six-and-a-half months' revenue expenditure at FY 2018-19 levels, sitting only slightly above the current CiPFA guidance in this area of between 3 and 6 months of reserve at current levels of expenditure.

It is further noted that the Council continues to maintain funds set-aside for specific purposes as Earmarked Reserves, EMRs, and that these are subject to proper management and reporting.

### ***Conclusions and Recommendation***

***There are no issues arising in this area of our review warranting formal comment. However, we strongly recommend that Members consider establishing a new EMR specifically for Playground Equipment replacement. The total value of the playground equipment, that will have been installed in the Recreation Ground, upon completion of the project is approximately £85,000. The average life expectancy of such equipment is between 10 and 15 years, therefore it is appropriate that the Council now budgets for this eventuality on an annual basis, growing the EMR so that it is available when replacement is required.***

*R4. Members should consider establishing an EMR specifically for the replacement of Playground Equipment.*

## **Review of Income**

The Council has relatively limited sources of income in addition to the annual precept, income arising primarily from hall hire, cemetery and associated revenue, allotment, sports pitches (based on a session use), plus various grants, donations and interest on bank deposits.

We note that Members have reviewed fees and charges for the 2018-19 financial year during the prior year Budget setting and Precept determination process and agreed to a 'rounded' 3% increase in the standard rates of hire and cemetery fees, with fees in relation to the Allotments remaining unchanged.

We have assessed the controls in place over the booking system for the hall, noting that the council continues to use the Avalon electronic diary booking system and noting that a transition will be made to Rialtas Bookings during FY 2019-20.

We have examined a sample three month's hires, as recorded in the Rialtas Cashbook Bookings system covering April & June 2018, and March 2019, ensuring that appropriate booking forms are held with invoices raised and the correct fees charged in accordance with the Council's approved scale of fees and charges, also ensuring that payment has been received within an acceptable time.

We have also examined the interments; associated burial charges from the 1<sup>st</sup> April to the 30<sup>th</sup> July 2018, noting that in the sample of 10 interments tested all statutory paperwork had been properly administered, the correct fees charged, and the Burial Registers maintained accordingly.

Finally, in this area of our review we have examined the Rialtas detailed transaction reports for each nominal income code to ensure that no apparent mis-postings have occurred and that, as far

as we may reasonably be expected to verify, all income due has been brought to account or is being pursued appropriately.

### **Conclusion**

*There are no issues arising in this area of our review warranting formal comment or recommendation.*

## **Petty Cash Account**

*The Council does not operate a petty cash account, any “out-of-pocket” expenses being reimbursed to individuals incurring any such expenditure accordingly in line with payments to traders. Accordingly, there are no issues arising in this area of our review 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.

To meet these objectives, we have examined the payroll procedures in place and the physical payments made to staff in 2018-19 by reference to the June 2018 payroll documentation, which is produced “in house” utilising the bespoke Money Manager software. Our review has included: -

- Ensuring that the Council has approved employee pay rates for the financial year and that these have been duly and accurately applied;
- Checking to ensure that appropriate PAYE tax codes are being applied for the year;
- Checking to ensure that national insurance deductions have been computed accurately;
- Ensuring that appropriately approved timesheets are submitted by all employees in support of any flexible hours worked and / or claimed;
- Verifying detail of the net salary and third-party payments of PAYE / NI and Pension contributions by reference to payslips and payroll summary reports and the subsequent cheque payments issued; and
- Ensuring that monthly payroll submissions are being properly submitted to HMRC in accordance with current legislation.

### **Conclusions**

*There are no issues arising in this area of our review warranting formal comment or recommendation. We have noted the successful conclusion of the Human Resources review conducted by the Clerk and the HR & Finance Committee; as of the 1<sup>st</sup> April 2019 all Council employees have been moved onto the new NJC SCP framework, new Written Statements of Particulars have been issued and a formal Appraisal system has been implemented.*

## **Fixed Assets**



The Governance and Accountability Manual 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 31<sup>st</sup> March, annually, with a revision to the reporting detail issued in 2010 that requires asset values to be reported at cost price or, where that value is unknown, the prior year Annual Return value updated to reflect the cost of any new acquisitions or deletions / disposal.

We note that the Regulations continue to be met, with robust management process in place and appropriate registers being maintained in the Edge accounting software. We are confident that the overall asset values have been correctly reported in Box 9, Section 2 for 2018-19 in the amount of £1,012,955 (£1,006,598 prior year), in accord with in-year purchases and disposals.

### **Conclusions**

*There are no issues arising in this area of our report warranting formal Comment or recommendation.*

## **Investments and Loans**

It is noted that council continues to maintain a deposit account with the Nationwide and has invested funds for a further twelve-month term, in order to ensure that the Town Council is covered under the Financial Services Compensation Scheme. We note, once again and as recorded previously, the Clerk's intention to examine other "investment" opportunities in order to spread the Council's funds and reduce the risk of lost funds through a bank's failing ensuring that each deposit is covered by the government's protection scheme.

The Council has no loans either repayable by, or to it, as at the 31<sup>st</sup> March 2019.

### **Conclusions**

*No issues arise in this area of our review warranting formal comment or recommendation. We take this opportunity to remind the Clerk/RFO and members of the new statutory Guidance on Local Government Investments from the 1<sup>st</sup> April 2018-19 requires all Town & Parish councils to develop an investment strategy, providing their total investments exceed or are expected to exceed £100,000 at any time during the financial year.*

R5. *The Council is required to develop a formal Investment Strategy, and adopt this, as a result of the new statutory Guidance on Local Government Investments.*

## **Statements of Account and Annual Governance & Accountability Return**

The Council's annual Statements of Accounts have, as in previous years, been prepared from the Rialtas accounting software, together with detailed supplementary supporting notes. We have checked and agreed, by reference to the accounting system's closing Trial Balance and other relevant documents, the content of the Statement of Accounts and the supporting notes, detail of which is transferred to Section 2 of the Annual Return.

We have also reviewed the process for identifying and verified the accuracy of year-end debtors and creditors, as disclosed in the Balance Sheet to appropriate supporting documents.

## ***Conclusions***

***On the basis of our detailed programme of work undertaken during the course of the year on the Council's systems of financial control and satisfactory conclusions drawn from our examination of the content of the detailed Statement of Accounts and the summarized detail set out in Section 2 of the Annual Governance & Accountability Return, we have duly "signed off" the Internal Audit Certificate assigning positive assurances in each relevant category.***

Rec. No.	Recommendation	Response
<b>Review of Corporate Governance</b>		
R1	Consideration should be given to dissolving the Amenities & Policies Committee and subsuming its activities, formally, into the Full Council.	<i>Response: Implemented</i>
R2	Consideration should be given to reinvestigating the use of electronic banking with Lloyds in respect of supplier payments.	<i>Response: Implemented</i>
R3	Members should consider changing the title of 'Clerk' to 'Chief Officer' as this better reflects the nature of the modern role, of which being Clerk to the Council is just one function.	
<b>Review of Budgetary Control and Reserves</b>		
R4	Members should consider establishing an EMR specifically for the replacement of Playground Equipment.	
<b>Review of Investments and Loans</b>		
R5	The Council is required to develop a formal Investment Strategy, and adopt this, as a result of the new statutory Guidance on Local Government Investments.	