
Durrington Town Council

Internal Audit Report 2018-19 (Interim)

Claire Lingard

Consultant Auditor

Auditing Solutions Ltd

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 in relation to the interim Internal Audit for the 2018-19 financial year, which took place on the 14th September 2018.

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 report and acknowledge that the members have considered and noted these. We also report that, on the basis of the work undertaken to date in the current year, the Council continues to operate adequate and effective internal controls. Accordingly, only two minor recommendations have been made in this report.

We again commend the Clerk/RFO for her continued professional management and administration of the Council's finance and governance functions and thank her for the very clear and effective documentation being retained in support of the Council's operations. The logical manner in which this information is stored and presented for the purposes of the day to day running of the council and for the interim Internal Audit review made the process straightforward.

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 circa £150,000 (£130,000 as at 30th September 2018) 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 two sample months (April and July 2018); and
- Checked detail on the software-based bank account reconciliations as at 30th April and 30th June 2018 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. The Clerk/RFO is commended on the accuracy of the financial data.

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 31st August 2018 to ensure that no significant issues affecting the Council's financial stability either in the short, medium or long term exist; and,
- 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; and,

- Noted that the Standing Orders (SOs) were revised and readopted in January 2018 and Financial Regulations (FRs) were last revised and readopted in September 2017;
- Noted that the Clerk/RFO is in the final stages of the CiLCA course and is on-target to achieve the qualification by the end of 2018 at which time the Council will be eligible to adopt the General Power of Competence; 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

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 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 Committee and subsuming its activities, formally, into the Full Council.*
- R2. *Consideration should be given to reinvestigating the use of electronic banking with Lloyds in respect of supplier payments.*

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 commenced testing in this area, examining all those payments individually in excess of £1,000, together with a more random selection of every 20th cashbook transaction, irrespective of value, for the financial year to the 31st August 2018 for compliance with the above criteria. Our test sample comprises 16 individual non-pay related payments, equating to 64% of all non-pay related payments to date and a total expenditure of £42,318. It should be noted that this result is skewed by a single £27K payment to Eibe Play for the completion of phase 1 of the play area.

If this exceptional payment is excluded from the above sample then, 15 individual non-pay related payments, equating to 44% of all non-pay related payments to date would have been examined with a total expenditure of £33,538. This position is in line with the expenditure pattern anticipated of this Council.

We note that VAT recovery claims continue to be prepared automatically from Rialtas Omega, and that these are submitted on a quarterly basis to HMRC. The first Quarter's reclaim for 2018-19 has been checked and verified to ensure the proper recovery of the VAT with no issues arising.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation. Testing in this area will be extended to cover the remainder of the year at our final visit, ensuring the accuracy of the residual three quarters' VAT reclaims and disclosure of the final quarter's reclaim as a year-end debtor in the Accounts and Annual Return.

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 26th 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

It is this auditor's conclusion that the Council continues to operate robust, proportionate and effective Risk Management procedures. We shall continue to monitor the Council's performance in this area during future visits and anticipate examining the new Financial Procedures during our final visit.

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.

This interim visit took place in advance of any formal consideration of the 2019-20 budgetary and precept requirements for the Council: consequently, we shall examine the outcome of the Council's deliberations at our final visit.

It is noted that the current year's detailed budget has been entered to the Rialtas software with resultant performance reports presented to members for their scrutiny on a quarterly basis.

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

There are no issues arising in this area of our review warranting formal comment or recommendation. Further work will be undertaken in this area during our final visit for 2018-19, including ensuring that a robust and proportionate Budget Setting and Precept determination process has been undertaken and that the Budget and Precept for 2019-20 are formally approved and minuted. Additionally, the year-end budget outturn report will be reviewed, and explanations sought for any significant variances that may have arisen during the year.

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. At this interim stage, we have:

- Checked and agreed, as indicated above, two months' cashbook receipts to relevant bank statements;
- Noted that the Council's Cemetery fees were reviewed and approved in February 2018 and all other fees and charges were reviewed and approved in October 2017 becoming effective from the 1st April 2018. Copies of the Council's scales of fees and charges for 2018-19 have been obtained.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation. During our final visit further work will be undertaken, including the examination of the Register of Burials, to ensure that, for each entry, all appropriate documentation is held; including undertakers' applications and burial / cremation certificates and that the appropriate fees have been charged. The spreadsheet register of allotment rentals will also be examined to ensure that all rents have been received and banked in a timely manner.

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. It is noted that members are currently in the process of reviewing employment contracts, salary and performance reviews, and are considering moving all employees onto commensurate NJC SCP points in order to ensure that all staff appraisal system is open, fair and transparent and that remuneration is based on the nationally agreed pay scales. The outcome of this deliberation will be examined and noted during our final visit.

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 repayable by or to it currently.

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 1st 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.

Rec. No.	Recommendation	Response
Corporate Governance		
R1	Consideration should be given to dissolving the Amenities Committee and subsuming its activities, formally, into the Full Council.	
R2	Consideration should be given to reinvestigating the use of electronic banking with Lloyds in respect of supplier payments.	