

Durrington Town Council

Internal Audit Report 2021-22 (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 2021-22, undertaken at our offices and during a visit to the Village Hall on 9 May 2022, building on our interim report in October 2021. Again, we would like to thank the Clerk for her hospitality and helpfulness during this review.

Internal Audit Approach

The objective of this final review is to provide an appropriate level of assurance to the Council on their governance, procedures and financial control for the whole of the financial year 2021-22, in order to provide full and supportable assurances in the Annual Governance and Accountability Return (AGAR) for 2021-22.

In concluding 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 reasonable 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 during this final review are set out in the following detailed report. While we believe that the Council meets the reasonable level required for governance and financial control, we have repeated a recommendation from our interim review, and also made some observations for further improvement in controls and record keeping. We would invite the Council to consider this report, and respond to the recommendation and observations made in due course.

Detailed Report

Review of Accounting Arrangements & Bank Reconciliations

The Council's accounting records are, since 1 April 2021, maintained using the Scribe accounting software, which allows for a good level of reporting and interrogation. Banking is undertaken via a Current Account with Lloyds Bank, together with a 12-month Term Deposit with Nationwide BS.

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 2020-21, have been rolled forward correctly as opening balances for 2021-22 from the former Rialtas Omega system to the new Scribe system;
- Checked and agreed sample transactions in the accounting system to the relevant Lloyds Bank account statement;
- Checked detail on the bank account reconciliations up to 31 March 2022 to ensure that no anomalous entries exist;
- Reviewed and confirmed a number of year-end debtors and creditors.

We again note that bank reconciliations are reviewed at Council meetings, although they are not fully published. As with our previous reports though, we note that reconciliations are still not being checked by an independent Councillor in accordance with Financial Regulation 2.2, which is an important internal control. We note that the HR & Finance Committee (1 June 2021 meeting, Minute 8/21) referred this issue back to Full Council, but we have not seen a resolution to this issue.

Conclusion and Recommendation

R1. Council should ensure that a regular (at least quarterly and at the year end) check of bank reconciliations is made by an independent Councillor as defined by Financial Regulation 2.2, and reported to the next meeting of Council.

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 last reviewed in January 2022, and Financial Regulations (FRs) were last reviewed in April 2021, both being in accordance with NALC Model Forms;
- Noted that, while the Clerk has successfully obtained the CiLCA qualification, the Council cannot take up the General Power of Competence (GPOC) due to the number of co-opted Councillors, and that therefore the Council will continue to rely on Section 137 of the Local Government Act 1972 with regard to unforeseen expenditure;
- Noted that elements of information available on the Council's website show reasonable compliance with the Transparency Code 2015.

We have discussed with the Clerk the desirability of compiling a Financial Procedures Manual, with regard to disaster planning / business continuity.

Conclusion

There are no issues arising in this area of our review warranting formal comment at this time, other than our observation about the desirability of a Financial Procedures Manual.

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.

During our final visit we test-checked a further representative sample of paid invoices over £500, with no issues arising. However, we again note the lack of independent check by Councillors of individual payment documents. This important internal control should be added to the role of the independent Councillor recommended above. We also feel that the list of approved payments should be attached to the Minutes for the relevant meeting, and published on the website.

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

Conclusions

Although there are no specific issues we wish to raise at this time, we would again remind Councillors of the importance of specifically approving, as well as undertaking and properly recording periodic independent checks of, financial transactions to meet the requirements of both Financial Regulations and the governance assurances required in the AGAR.

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 likelihood and/or impact should they occur.

We note that the Council reviewed its financial and governance risks at the meeting on 18 May 2021, which meets the requirement in Financial Regulations for an annual review as a minimum. We note that a more generic review, including Health and Safety risks, is intended for 2022-23.

The Council maintains its insurance needs via Came & Company with Axa. The Council maintains a range of covers, including Public and Employers Liability at £10M each, Officers Liability at £500k, and suitable covers for assets and property, all of which we consider appropriate for a Council of this size.

We note that weekly inspections of play facilities are now being undertaken. We have discussed with the Clerk the desirability of formally recording these inspections, and any findings arising from them, in the Minutes, which she has agreed to do in her Clerk's Report.

Conclusion

There are no issues arising in this area of our review warranting formal comment at this time, other than our observation about formally recording playground inspections.

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.

We note that, at its January 2022 meeting, the Council formally established a Precept of £267,900 for 2022-23.

We note that the Council has, at 31 March 2022, allocated a total of £126,523 to various projects as Earmarked Reserves. Allowing for the year-end cash balance of £230,188, this leaves a General Reserve of £103,665, which represents around 39% of the agreed Precept against a Best Practice level of 50%. This is an acceptable level of reserves, although it needs to be kept under regular review.

Conclusion

There are no issues arising in this area of our review warranting formal comment at this time.

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 note that the Council has reviewed its fees and charges for the cemetery and allotments during the year, which meets the requirement of Financial Regulations for an annual review.

We have undertaken a review of high-value receipts, particularly relating to cemetery income, with no issues arising.

With regard to smaller cash receipts, we are pleased to note that these have now been separated from the petty cash records (see below). We have test-checked some of these transactions with no issues arising. In discussion with the Clerk, however, we note her intention to use small cash receipts to maintain the petty cash balance, given the lack of a local bank. We regard this as a pragmatic solution – however, it will require an appropriate amendment to Financial Regulation 9.5.

Conclusion

There are no issues arising in this area of our review warranting formal comment at this time, other than the need to revise Financial Regulation 9.5 to allow for the transfer of small cash receipts to the petty cash account.

Petty Cash Account

The Clerk maintains a petty cash account for small office purchases and the occasional payment for tradesmen's services. This account is not maintained on an imprest basis.

We have agreed the records as at 31 March 2022, noting the intention (detailed above) to maintain the petty cash account from small cash receipts, transfers between the two cashbooks to be clearly documented.

Conclusion

There are no issues arising in this area of our review warranting formal comment at this time.

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, as well as other deductions such as pension 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 by test-checking the September 2021 and March 2022 payroll figures, with no issues arising.

Conclusion

There are no issues arising in this area of our review warranting formal comment at this time.

Investments and Loans

We are pleased to note that the Council maintains an appropriate Investment Strategy, which was last reviewed in May 2021.

We have agreed the balance of the Public Works Loans Board (PWLB) account as at 31 March 2022 to the accounting records and PWLB records.

The Council has no loans repayable to it.

Conclusion

There are no issues arising in this area of our review warranting formal comment at this time.

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 2022, as approved by Council in January 2022, and believe that it meets this standard.

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 appropriate assurances in all relevant categories.

Rec. No.	Recommendation	Response
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Accounting Arrangements and Bank Reconciliations

R1	Council should ensure that a regular (at least quarterly and at the year end) check of bank reconciliations is made by an independent Councillor as defined by Financial Regulation 2.2, and reported to the next meeting of Council.	
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