
Durrington Town Council

Internal Audit Report 2019-20 (Final Update)

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 Internal Audit for the 2019-20 financial year; the Interim review which took place on the 17th October 2019 and supplemented by the Final Update review of the year which took place on the 17th of June 2020.

Internal Audit Approach

The final update review of the 2019-20 financial year, necessary to complete the Internal Audit process has been undertaken remotely due to the Covid-19 virus situation and in accordance with Government advice. All files and supporting document required to complete the audit have been supplied by the Clerk/Responsible Finance Officer, as requested, electronically.

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

Based on the satisfactory completion of our programme of work for the year, we have concluded that the Council has, again maintained adequate and effective internal control arrangements. We made only one formal recommendation for improvement during the interim review which has been acted upon by the Council. We have made further recommendations for improvement during the final review process of this financial year. These are recorded in the main body of this report and in the attached action plan.

We understand that the last few months of the 2019-20 financial year have been particularly challenging for councils during this unprecedented crisis, both in terms of their day to day operational and administrative functions. We take this opportunity to acknowledge the swift transition into an irregular working regime, which has been successfully managed by the Clerk and the Members and which has proven both suitable and effective for the Council's needs and that of its constituency. We would like to thank the Clerk/RFO for her assistance during this somewhat challenging remote final update review which has ensured the smooth and successful progress of the Internal Audit.

We have completed and signed the 'Annual 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 ask that members consider the content of this report and acknowledge that the report has been formally reviewed and adopted by 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.

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 2019-20, have been rolled forward correctly as opening balances for 2019-20 in the Rialtas Omega software: £140,779.72;
- Checked and agreed transactions on the Current and Business account cashbook to the relevant Lloyds Bank account statements for three sample months (April and August 2019 and March 2020); and
- Checked detail on the software-based bank account reconciliations as at 30th April and 31st August 2019, and the 31st March 2020.

Conclusion

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 31st March 2020 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 reviewed and subsequently readopted in the Annual Meeting of the Town Council in May 2019. the Financial Regulations have been reviewed and were in draft pending scrutiny at a meeting of the Full Town Council as at the date of the Interim Internal Audit;

- Noted that the previous Clerk/RFO had resigned and that the Council had lost its eligibility to exercise the General Power of Competence as at the 8th November 2019. Projects which have been initiated during the tenure of the previous Clerk/RFO may be completed under the General Power of Competence but all new initiatives will be governed under Statutory Powers until a new CiLCA qualified Clerk is appointed at which time, the Council must again Resolve its eligibility to adopt the use of the General Power of Competence; and
- Noted that the previous Clerk/RFO has produced draft Financial and Payroll Procedures which have been submitted for scrutiny by the Full Council. We note that a reciprocal support agreement continues between the Clerk/RFO of Amesbury Town Council, to provide support in the event of the long-term absence of the Clerk/RFO at either location.

Conclusions and Recommendations

Upon completing our review of the Minutes of the Full Council and its committees we have identified a small number of minor errors:

Firstly, ‘Any Other Business’ (AOB) has been permitted to be discussed at meetings of the Full Council which, as has been noted in prior year reports, is unlawful. The inclusion of ‘AOB’ is contrary to the Democratic process which requires the Public to be given at least three working days’ notice of any and all items of business to be discussed during meetings of the Full Council or its Committees. There are three occurrences of the use of AOB during the Council year:

The Full Town Council meeting of the 15th January 2020, Minute reference 122/20

The Full Town Council meeting of the 28th January 2020, Minute reference 140/20

The Full Town Council meeting of the 25th February 2020, Minute reference 141/20*

****Minute reference 141/20 of the 25th February 2020 is also an incorrect Minute reference as it had already been utilised.***

Secondly, although the HR & Finance Committee and the Full Council Approve all Payments and Credits, made by and to the Council, at each meeting there is no record of the schedule of Payments and Receipts as statutorily required. A Schedule of Payments may be produced directly from Rialtas and attached to the Agenda as an Appendix when circulated, and properly authorised at the corresponding meeting.

Thirdly, the Minutes of the HR & Finance Committee are not correctly recorded as none of the Minutes recorded during the year have a unique number reference which corresponds to the Agenda. In some cases, the Minutes of the previous meeting have not been Approved, Apologies (if any) recorded, and Declarations of Interest sought and recorded, etc.

It is a requirement that all Minutes of the Council and its Committees are taken to standard specified in the Joint Panel on Accountability and Governance (JPAG) Manual, i.e., identical to the manner in which the Minutes of the Full Council are currently recorded.

Finally, in this area of our review we have noted that the Council made two donations to local schools in the year, whilst operating under the General Power of Competence. We recognise that the donations were both in respect of a book club which, as a non-budgeted school activity may be deemed permissible. The SLCC’s current guidance is that any donation to an Education establishment should be made to the Parent Teacher Association rather than the school to ensure that the Award of Grant Aid is not deemed Unlawful. We take this opportunity to remind

the new Clerk/RFO and Members that the Award of Grant aid to Schools is prohibited in other than in two exceptional cases, both in relation to buildings and assets in schools that also have civic use, that are defined in Charles Arnold Baker.

As the Clerk/RFO is new in post, I have included a list of entities, which other than in respect the exceptions for schools mentioned above, the Council has no Power under which it may make the Award of Grant Aid to whether operating under the General Power of Competence or statutory Powers:-

- *Individuals*
- *General Appeals, i.e. Cancer Research, Children in Need, etc.,*
- *Statutory organisations or the direct replacement of statutory funding, i.e. Government Funded NGOs*
- *Government organisations or the direct replacement of Government funding, i.e. Schools, Emergency Services, the NHS, etc.,*
- *Activities or organisations promoting political beliefs*
- *Activities or organisations promoting religious beliefs*
- *Overseas travel*
- *Arts projects with no community or charitable element*
- *Sports projects with no community or charitable element*
- *Medical research, equipment or treatment (except community defibrillators)*
- *Animal Welfare*

Now that the Council has to rely on statutory Powers, it must ensure that the correct Power is used to make any Award of Grant Aid with s.137 Local Government Act (1972 amended) being the Power of last resort in all instances. The Clerk/RFO should refer to the latest edition of Charles Arnold Baker (19th edition current) to ensure that the Council has the Power to act, and that the correct Power is being used.

- R2. *Any Other Business (AOB) may never appear on any Council Agenda and may not be discussed at any meeting of the Council or its Committees as this is contrary to the proper Democratic process where members of the Public must be given at least three working days' notice of any item of business to be discussed by the Council.*
- R3. *It is a statutory requirement for the Council's Schedule of Payments and Receipts to be recorded either in, or as an appendix to, the Full Council's Minutes. Detail must include: Payment/Receipt reference, Payee/Recipient, Net, VAT, Gross.*
- R4. *All meetings of the Council and its Committees must be Minuted to the same standard as that is demonstrated in the Minutes of the Full Town Council. The SLCC offer a short online course on the statutory requirements of Minute taking which may be beneficial for the new Clerk/RFO.*

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 20th cashbook transaction, irrespective of value, for the financial year to the 31st March for compliance with the above criteria. Our test sample comprises 51 individual non-pay related payments, equating to 78% of all non-pay related payments to date and a total expenditure of £155,585. It should be noted that this result is skewed by two payments totalling £89,066 representing the final payment installation payments made to Eide Play in respect of the new playgrounds.

If these payments are excluded from the sample, the 49 remaining payments represent 34% of all non-pay payments, totalling £66,519. 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. All four Quarter's reclaims for 2019-20 have been checked and verified to ensure the proper recovery of the VAT with no issues arising. We note that the final VAT reclaim of the year had been prepared in the amount of £1,625.41, correctly recorded against the VAT control account and disclosed as a debtor at the year-end in the Statement of Accounts.

Conclusions

There were no further matters arising during the Final Update review warranting formal comment or recommendation.

Conclusions and recommendation made during the Interim review

There was only one minor matter arising in this area of our review: A formal invoice had not been provided by Eide play to replace the Proforma invoice that it had submitted, and which had been settled in relation to the provision and installation of playground equipment. The Clerk has been requested to acquire an invoice and statement which demonstrates that the final invoicing matches the Proforma billing amount.

Testing in this area will be extended to cover the remainder of the year at our final visit, ensuring the accuracy of the two remaining quarters' VAT reclaims and disclosure of the final quarter's reclaim as a year-end debtor in the Accounts and Annual Return.

*R1. The Clerk must request a formal invoice and statement of account from Eide play to replace the Proforma invoice that had been issued in relation to the provision and installation of the playground equipment. **Response: Implemented.***

Review of 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 and General Risk and Health & Safety Assessment were reviewed and readopted at the February 2019 meeting of the Full Town Council. We note that the Council had undertaken an extensive review of its Risk Assessments during the year and had introduced a Health & Safety Risk Policy. The Registers and Policy were due to be presented to the Full Town Council at the March meeting. However, this meeting was cancelled in accordance with the Government's directives concerning Covid-19. Therefor the Registers were not readopted during the year.

The Council's insurance schedule for the current year (to March 2020) has been examined, with cover now provided via Came & Company with Axa. The placement of the Council's Insurance business with Axa provided a significant cost reduction. It is noted that Public, Products and Employer's Liability are both in place at £10 million, together with Liable & Slander and Officers Liability cover at £500K, Business Interruption - Loss of Revenue cover at £40,000 and Increased cost of working due to the Council Offices being unavailable at £10K. This level of cover is considered appropriate for the Council's present needs.

We note that the Play areas operated by the Council have been closed since February 2020 due to Government directives concerning Covid-19. Previously, the Council had 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 previous Clerk/RFO undertook detailed inspections of the Play areas on a fortnightly basis which the outcomes recorded in an inspection report which is kept in perpetuity.

The Play Inspection company has now been appointed to replace Zurich Insurance to conduct the Annual Playground Inspections. A formal Playground Inspection report is submitted to the Council for their scrutiny and action.

Finally, in this area of our review, it is noted that in line with best practice and to safeguard the Council, the previous Clerk/RFO had developed financial and payroll procedures for scrutiny by the Council. We further note that Amesbury Town Council, which also manages its accounts using Rialtas Omega Accounts Software has a reciprocal agreement in place with Durrington Town Council 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.

Conclusion

We note that the new Clerk/RFO has no experience of inspecting or managing play areas and play equipment and we therefore recommend that a Playground Inspectors course should be

undertaken. Further, we recommend that the Clerk/RFO prepares a Playground Risk Management Policy for Member's consideration. An electronic sample document has been forwarded under separate cover.

R5. Members should consider enrolling the new Clerk/RFO on a Playground Inspectors course to ensure that she is properly qualified to conduct playground inspections for and on behalf of the Council.

R6. We recommend the Clerk/RFO prepares a Playground Risk Management Policy for the Council's two play areas for Member's consideration and formal Adoption.

Review of 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; and,
- 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 the Council has again undertaken a robust Budget setting and Precept determination process at the HR & Finance Committee, the draft Budget was Approved, and the Precept set in the amount of £170,000 (£139,000 prior year) at the 15th January meeting of the Full Town Council under Minute reference 108/20.

We note that the Council continues to maintain and operate funds set-aside for specific purposes as Earmarked Reserves, EMRs, and that these are subject to proper management and reporting.

We also note that Councils total reserves as at the 31st March 2020, taking account of the year's budget outturn, stood at £129,729 (£138,496 prior year) comprising of three specific Earmarked reserves of £27,454 (£37,365 prior year) and the residual General Reserve balance of £102,275 (£101,131 prior year). The General Reserve represents approximately four-and-a-half months' revenue expenditure based on the monthly average of FY 2019-20 expenditure.

This sits comfortably with the range specified in the current Chartered Institute of Public Finance Accountants (CIPFA) guidance in this area, to retain between 3 and 6 months of reserve based on the average prior year expenditure.

Conclusions

There are no issues arising in this area of our review 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. At this interim stage, we have:

- Checked and agreed, as indicated above, two months' cashbook receipts to relevant bank statements;
- Reviewed the Council's 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. We have noted that there were four grants of Exclusive Rights of Burial and three interments recorded in the financial year to the 16th October 2019. Additionally, there were three additional interments which occurred during October 2019 which had not been recorded as at the date of the Interim Internal Audit Review as these were to be used as a training exercise for the Locum Clerk when they are appointed; and,
- Noted that the Council's Cemetery fees were reviewed and approved in February 2019 all other 2020-21 financial year fees were reviewed in October 2019, including the allotment fees which will become effective w.e.f. 1st April 2021 as required by statute. Copies of the Council's scales of fees and charges for the 2019-20 financial have been obtained.

Conclusion

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

Review of 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.

Review of 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 2019-20 by reference to the April 2019 payroll documentation, which is produced "in house" utilising the bespoke Money Manager software.

We have noted that all staff members are now in receipt of permanent contracts of employment with their salary defined by the NJC Scale. There is no variable pay.

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;
- 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.

We note the in year departure of the previous Clerk/RFO took place on the 08th of November 2019, subsequent to our review of Salaries and Wages for the financial year. We further note that the Council availed itself of the services of an Interim Clerk and subsequently appointed a new Clerk/RFO from the 1st April 2020.

Conclusion

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

Review of Fixed Asset Registers

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 31st 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.

The amended Fixed Asset Register records a declared value of £1,094,955 and we note that there have been capital acquisitions in the year of £82,040 including play equipment, benches and other minor assets. We are pleased to confirm the recorded FAR value in the amount of £1,094,955 (£1,012,955 prior year), in accordance with in-year acquisitions and disposals.

Conclusion

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

Review of Investments and Loans

It is noted that council continues to maintain a deposit account with the Nationwide with funds invested on a twelve-month term, in order to ensure that the Town Council is covered under the Financial Services Compensation Scheme. The Council maintains an appropriate Investment Strategy.

On the 26th April 2019 the council took out a five-year PWLB Loan, reference number: PW509201, in the amount of £56,500 over a term of five years at an Interest Rate of 1.74%: Confirmed by reference to the original documentation and Minutes.

The Loan will be repaid in bi-annual instalments, the first instalment was collected on the 30th October 2019: Confirmed by reference to the original documentation. The settlement date of this loan is the 30th April 2024.

The Council has no loans repayable to it.

Conclusion

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

Statements of Account and Annual Governance & Accountability Return

The Accounts and Audit Regulations, as amended periodically, require all councils to prepare annually a Statement of Accounts, which is now in the form of the Annual Governance and Accountability Return at Section 2, which is, together with the Annual Governance Statement at Section 1, subject to independent external audit examination and certification.

As part of our review process, we have examined the Council's procedures in relation to the identification of detail for inclusion in Section 2 of the Return, which is generated automatically by the Rialtas accounting software and we have agreed detail therein to Section 2 of the 2019-20 Annual Governance and Accountability Return.

Conclusions

We are pleased to record that no issues arise in this area and, on the basis of the work undertaken during the course of our review for the year, we have "signed off" the Internal Audit Report in the year's Annual Governance and Accountability Return assigning positive assurances in all areas.

Rec. No.	Recommendation	Response
Review of Corporate Governance		
R2	Any Other Business (AOB) may never appear on any Council Agenda and may not be discussed at any meeting of the Council or its Committees as this is contrary to the proper Democratic process where members of the Public must be given at least three working days' notice of any item of business to be discussed by the Council.	
R3	It is a statutory requirement for the Council's Schedule of Payments and Receipts to be recorded either in, or as an appendix to, the Full Council's Minutes. Detail must include: Payment/Receipt reference, Payee/Recipient, Net, VAT, Gross.	
R4	All meetings of the Council and its Committees must be Minuted to the same standard as that is demonstrated in the Minutes of the Full Town Council. The SLCC offer a short online course on the statutory requirements of Minute taking which may be beneficial for the new Clerk/RFO.	
Review of Expenditure		
R1	The Clerk must request a formal invoice and statement of account from Eide play to replace the Proforma invoice that had been issued in relation to the provision and installation of the playground equipment.	<i>Response: Implemented</i>
Review of Assessment and Management of Risk		
R5	Members should consider enrolling the new Clerk/RFO on a Playground Inspectors course to ensure that she is properly qualified to conduct playground inspections for and on behalf of the Council.	
R6	We recommend the Clerk/RFO prepares a Playground Risk Management Policy for the Council's two play areas for Member's consideration and formal Adoption.	

Rec. No.	Recommendations from the 2018-19 financial year Internal Audit	Response
Review of Corporate Governance		
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.	<i>Response: Not implemented</i>
Review of Budgetary Control and Reserves		
R4	Members should consider establishing an EMR specifically for the replacement of Playground Equipment.	<i>Response: Implemented</i>
Review of Investments and Loans		
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.	<i>Response: Implemented</i>