

## **Costessey Town Council**

*Internal Audit Report 2018-19 (Final Update)*

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*for Auditing Solutions Ltd*

# Background and Scope

## Background

All town and parish councils are required by statute to make arrangements 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 Governance and Accountability Return (AGAR). Auditing Solutions Ltd was appointed to provide the internal audit service to Costessey Town Council for 2018-19.

This report sets out those areas examined during the course of our final audit visit to the Council for 2018-19, which took place on 22<sup>nd</sup> May 2019. It updates the report we issued following our interim audit visit in November 2018.

## Internal Audit Approach

In undertaking our internal audit work for the year, we have had regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts/AGAR. We have employed a combination of selective sampling techniques (where appropriate) and 100% detailed checks in a number of key areas, in order to gain sufficient assurance that the Council's financial and regulatory systems and controls are appropriate and fit for the purposes intended.

Our internal audit programme is designed to provide assurance that the Council's financial systems are robust and are operating 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 'Annual Internal Audit Report' on Page 3 of the AGAR, which requires independent assurance over a number of internal control objectives.

## Overall Conclusion

On the basis of the programme of work we have undertaken for the year, we have concluded that the Council continues to maintain an adequate and effective system of internal control. The records held in support of the accounting transactions continue to be of a high standard and provide an effective audit trail, with clear cross-referencing of all relevant documentation. We have completed and signed the 'Annual Internal Audit Report' in the 2018-19 AGAR, having concluded that the internal control objectives as set out in that report were being achieved throughout the financial year to a standard adequate to meet the needs of the Council.

In the sections below, we have explained the objectives of each area of our audit, outlining the work undertaken and our findings. We identified two areas where we consider that action is required. These are explained in the body of the report, with our recommendations included in the appended Action Plan. We ask that Members consider the content of this report and respond in due course to our recommendations, indicating the action to be taken and the likely timescale for their implementation.

# Detailed Report

## Accounting and banking arrangements

Our objective in this area is to confirm that the accounting records are being maintained accurately and kept up to date, that no anomalous entries appear in cashbooks or financial ledgers, and that appropriate banking arrangements are in place.

As in previous years, the RBS Omega accountancy package is used to maintain the financial records, with accounting support provided by DCK Accounting Solutions Ltd.

Banking services continue to be provided by Barclays Bank Plc. The Council operates two main accounts, a Business Current Account and a Business Premium (instant access savings) Account, supplemented by a separate Business Current Account for salaries and two small imprest accounts. In June 2018, the Council invested £116k of funds that are surplus to its immediate requirements into a Barclays one-year fixed interest Treasury Deposit. We note that consideration has also been given to investing with other financial institutions, but that a decision was deferred until after the Council elections in 2019.

In the course of our audit visits, we have:

- Checked that the opening Omega trial balance agrees with the closing balances in the 2017-18 AGAR;
- Confirmed that the ledger remained in balance at the end of the financial year;
- Confirmed that the cost centre and nominal ledger coding structure remains appropriate for the Council's needs;
- Checked and agreed detail on the Omega combined cash book for the Business Current Account and Business Premium Account, examining the transactions for two sample months (October 2018 and March 2019), agreeing the detail to the supporting bank statements and also verifying detail of all inter-account "sweep" transfers for that month;
- Similarly, checked and agreed the detail of transactions on the Salaries cashbook, again agreeing these to the supporting bank statements for the month;
- Checked and agreed the bank reconciliations as at 31<sup>st</sup> October 2018 and 31<sup>st</sup> March 2019 on all accounts, confirming that reconciliations continue to be prepared routinely at the close of each month and that there is evidence of independent review;
- Confirmed that the overall cash balance has been reported correctly in the draft AGAR (Section 2, line 8), and
- Confirmed that the accounting software is backed up on a daily basis to an external hard drive, which is held off-site

### ***Conclusion***

***On the basis of our audit work, we consider that the controls in place in this area were adequate and were operating effectively. There are no matters arising that require a formal comment or recommendation.***

## **Review of Corporate Governance**

Our objective is to confirm that the Council has robust corporate governance arrangements in place and that, as far as we may reasonably be expected to ascertain (as we do not attend Council meetings), all meetings are conducted in an appropriate manner and no actions of a potentially unlawful nature have been, or are being, considered for implementation.

We have completed a review of the minutes of the Council and committee meetings for 2018-19. We are pleased to record that we have not identified any issues that we consider might have an adverse effect on the Council's financial stability, or that give cause for concern that the Council is considering, or has taken, decisions that might result in ultra vires expenditure.

The Standing Orders were formally considered by the Council in November 2018, taking account of the latest national guidance from NALC. The Financial Regulations were updated in February 2019. Again, these are based on national guidance issued by NALC, but are tailored to reflect the Council's practices.

At its meeting on 25<sup>th</sup> April 2017, the Council formally adopted the "General Power of Competence" (GPoC), provided for in the Localism Act 2011, having satisfied itself that it met the necessary criteria and this continued to apply throughout the 2018-19 financial year.

From our review of the minutes and discussions with the Town Clerk, we confirmed that due consideration has been given to the implications of the new General Data Protection Regulation (GDPR), which came into force from 25<sup>th</sup> May 2018 and the steps that needed to be taken to ensure compliance. The Code of Conduct was re-adopted in May 2018, with the addition of a clause acknowledging that Members are required to comply with GDPR and any subsequent amendments".

### ***Conclusion***

***On the basis of our review, we are satisfied that the Council continues to adopt a sound approach to its corporate governance responsibilities. There are no matters arising that require a formal comment or recommendation.***

## **Review of Expenditure**

Our objective is to ensure that:

- Council resources are released in accordance with the approved procedures and budgets;

- 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;
- Any 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 our testing in this area for 2018-19; examining a sample of 45 payments. Our sample included all individual payments in excess of £2,500, together with a more random sample of every 40th cash book transaction, as recorded in the accounts. The total value of items in the sample was £311k, including VAT, which equated to 75%, by value, of non-pay related expenditure in the financial year.

We have also confirmed that VAT returns continue to be completed in a timely and accurate manner, with electronic “on-line” submission in place, in line with current HMRC requirements. We have examined the reclaims for the year - confirming that the detail agrees to that in the Omega VAT control account.

During the year the Council undertook a major tendering exercise, for the replacement of street light columns and lanterns, and for annual street light maintenance. Both of these contracts are commenced on 1<sup>st</sup> April 2019 when the Council took over responsibility for the majority of the streetlighting in the town from South Norfolk Council. We reviewed the process followed and confirmed that this complied with the Council’s Financial Regulations.

### **Conclusion**

*On the basis of our review, we are satisfied that the arrangements in place for the coding and authorisation of payments are sound, with adequate supporting documentation present for all payments in our test sample, and that appropriate action has been taken with regard to the re-claim of VAT.*

## **Assessment and management of Risk**

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

From our review of this area, we have confirmed that:

- The Financial Risk Assessment (FRA) was reviewed and approved by the Council at its meeting on 29<sup>th</sup> January 2019, following detailed scrutiny by the Finance, Budgeting and Staffing (FBS) Committee. The Council has,

therefore, met the regulatory requirement for the risk assessment to be formally reviewed at least annually (i.e. within each financial year).

- The Council has a 3-year agreement with Zurich for insurance cover, which runs until May 2020. The insurance cover for 2018-19 includes Public Liability of £15 million; Employer's Liability of £10 million and Fidelity Guarantee at £1 million, all of which we consider to be appropriate to meet the needs of the Council.
- The Council has continued to engage the services of an external consultant (SJB Solutions) to provide a risk assessment and health & safety management service;
- Zurich, the council's insurers, undertake inspections of the Council's play equipment twice per annum:
- Council staff carry out a visual check of the playgrounds as they undertake litter picking (usually daily) and deal with issues as they arise. They also complete inspection reports on a weekly basis throughout the year, which are submitted to the Town Clerk with timesheets and signed off as reviewed, with action taken, as appropriate.

### **Conclusion**

*On the basis of our audit work, we consider that the Council has sound arrangements in place in relation to the management of risk. The one matter where we consider that further action should be taken is in relation to reporting the results of the bi-annual play area inspections to Members. We have confirmed with the Town Clerk that this is not done at present and have agreed that it would be appropriate for the reports to be considered by the Property and Environment Committee.*

*R1 The results of the bi-annual inspection reports on the Council's play areas undertaken by Zurich Plc should be reported to the Property and Environment Committee, going forward.*

### **Budget setting, budgetary control and reserves**

Our objective here is to confirm that the Council has robust procedures in place for identifying and approving its future budgetary requirements and the level of precept to be drawn down from District Council: also, that an effective reporting and monitoring process is in place. We also aim to confirm that the Council retains sufficient funds in earmarked and general reserves to finance its ongoing spending plans and to cover any unplanned expenditure that might arise.

At our interim audit, we noted that Members continue to be provided with detailed budget monitoring reports and formal bank reconciliations, as recorded in the Council minutes. The minutes also record that consideration has been given to the level of earmarked and general reserves that are required and to the potential use of funding which has become available through the Community Infrastructure Levy (CIL).

At our final audit, we reviewed the process followed by the Council in setting its budget and Precept requirement for 2019-20. We noted that a draft budget report was discussed by the FB&S Committee and the Council at their meetings in November 2018, with the final budget decision being made by the Council at its meeting on 8<sup>th</sup> January 2019. The Precept has been set at £636,576, compared with £591,448 for 2018/19, a notional increase of 3.8% for Band D properties. This increase equates to the additional costs that the Town Council faces in 2019-20 following the agreement for it to take over responsibility for maintaining the majority of the streetlighting in the town from SNC, as noted earlier in the report. SNC had previously charged a Special Levy for this service. We are satisfied that Members were provided with an appropriate level of information by the Town Clerk throughout the process, with support from the Accountant, to help inform the decision-making process.

At 31<sup>st</sup> March 2019, the overall reserves were £627,398 (£542,937 at 31<sup>st</sup> March 2018), of which the earmarked reserves amounted to £484,615 (£426,237). The main earmarked reserves are the Rolling Capital Fund, set aside for capital projects, which stood at £311,449 (£286,307) and the New Cemetery Fund which stood at £97,894 (£96,000). The Council also had unutilised CIL receipts amounting to £19,165.

In addition to the earmarked reserves, the Council retains a General Reserve for contingency purposes. At 31<sup>st</sup> March 2019, the balance of the General Reserve stood at £142,783, an increase of just over £26,000 from the previous year-end. In previous years, we have commented on the need to keep the level of the General Reserve under review, to ensure that it is maintained at a reasonable level, and it is evident this is being done. Whilst there is no ‘hard and fast’ rule as to the amount of General Reserve that should be held, as this will depend on the circumstances of individual authorities and the risks they face, a ‘yard-stick’ of between 25% and 50% of net revenue spend is often cited, with the former being possibly more realistic for larger authorities, where other funds are available to be called upon in an emergency. The Council’s General Reserve balance is broadly in line with the lower guideline percentage of revenue spend, which does not appear unreasonable.

### ***Conclusion and Recommendation***

***We are satisfied that the Council has sound arrangements in place for determining its budget and Precept requirements, and for monitoring financial performance and reserves.***

***However, from our review of the minutes, we did note that the minute of the budget and Precept decision for 2019-20 does not actually state the amount of the agreed Precept demand. It is a requirement that the actual amount of the Precept is included within the agreed resolution and this should be done retrospectively.***

***R2 At the next Council meeting, Members should retrospectively confirm the amount of the Precept that was requested for 2019-20.***

## Review of Income

In this area of review, our objective is to confirm that income due to the Council is identified, invoiced (where applicable), recovered at the appropriate rate and within a reasonable timescale, and also that it is banked promptly in accordance with the Council's Financial Regulations.

In our audit visits, we undertook the following audit work:

- Fees and charges: We confirmed that the Council formally reviewed its fees and charges for 2018-19 in October 2018, following detailed consideration by the "Fees and Charges Working Group". We also note that a similar process has been completed for the 2019-20 financial year.
- Hall hire: We reviewed the booking diaries for all three halls for a sample week in September 2018, confirming that signed agreement forms were in place for all regular and "one-off" bookings, that appropriate sales invoices had been raised and that fees had been paid in advance, as is now the requirement;
- Cemetery related fees: We reviewed documentation supporting the interments that have taken place between 1<sup>st</sup> April and 6<sup>th</sup> November 2018, and confirmed that all income due has been received;
- Allotments: We examined the controls in place in relation to the collection of allotment income on behalf of the Costessey Parochial Charity, confirming that all income due has been received and the correct payment made to the Charity; and
- Outstanding debtors: We examined the Sales Ledger "Aged Debtors Report" at the time of our interim visit and at the year-end, confirming that the amount of outstanding debt has remained very low and that, where appropriate, debtors are being chased on a regular basis.

### *Conclusion*

*On the basis of our review, the controls over income collection appear to be sound and there are no matters arising that require a formal comment or recommendation.*

## Petty Cash Account

When completing the 'Annual Internal Audit Report' in the AGAR, we are required to confirm that there are effective controls over the petty cash account operated by the Council. To meet that objective, we confirm that:

- Any petty cash accounts in operation are managed effectively and that all expenses incurred are appropriately supported by a trade invoice or relevant till receipt;
- Only low value expenditure is incurred from any petty cash account(s) in use;
- Where appropriate, VAT is identified and coded accordingly for periodic recovery from HMRC; and



- The physical cash held is periodically reconciled to the supporting records.

The Administration Office operates a limited petty cash account on an “imprest basis” with monthly re-imbursments to a maximum holding of £300. We checked and agreed transactions for two sample months (October 2018 and March 2019) from the relevant Omega cashbook posting entries to supporting documentation and found that sound controls continued to operate in this area, with all sequentially numbered vouchers in place and VAT identified accordingly for periodic recovery. We also checked the physical cash held at the time of our interim visit and confirmed that this agreed to the cash book and supporting records.

For the same sample months, we also checked and agreed the transactions on the charge cards that are used by the Clerk and the Head Groundsman to assist with urgent and/or immediate purchases via the internet. These are operated through separate Omega “cashbooks” to record transactions on each card. We did not identify any issues with the level or type of expenditure incurred.

At our final audit visit, we confirmed that the end of year balances of the petty cash and imprest accounts have been included correctly in Section 2, line 8 of the draft AGAR.

### ***Conclusion***

***There are no matters arising from our audit work in this area that require any formal comment or recommendation.***

## **Salaries and Wages**

In examining the Council’s payroll function, our objective is to confirm that extant employment legislation is being appropriately observed and that the requirements of HM Revenue and Customs (HMRC) as regards the deduction and payment over of income tax and NI contributions are complied with, together with meeting the requirements of the local government pension scheme in relation to employee percentage bandings.

The Moneysoft “Payroll Manager” package continues to be used to compute the four-weekly payroll (i.e. 13 Pay Periods in the year), which includes the production of the pay slips.

To confirm compliance with the above criteria, we have:

- Confirmed that the Council had approved the employees’ pay rates for the financial year and that these had been correctly applied;
- Checked the detail of payroll transactions for a sample period (Pay Period 8, November 2018), confirming that:
  - the correct PAYE tax codes and NIC table deduction rates had been applied;

- appropriate percentage pension deductions, based on the current Local Government Pension Scheme (LGPS) salary bandings, have been applied to those staff in the pension scheme;
- timesheets had been submitted by employees in support of any additional hours worked and claimed as either overtime or TOIL, and these had been appropriately certified for accuracy and payment; and
- the net salaries, paid by BACS, are in line with the relevant payslips.

At our interim audit visit, we identified an error in the way that the basic pay had been calculated during 2018-19, which had resulted in slight underpayments to the majority of staff in the year to date. This error was due to the salary calculation for each Pay Period being made by multiplying the hourly rate for the relevant NJC Scale Point by the number of hours worked, rather than by taking a proportion (1/13th) of the annual salary - adjusted for hours worked where the employee is part time. (NB the hourly rate is calculated on a slightly different basis than the annual rate). We confirmed that in previous years the correct approach had been followed. At our final audit visit, we were pleased to note that this error had been rectified and that subsequent salary payments for the year had been calculated on the correct basis.

We also recommended that, in the future, all adjustments made to the calculation fields in 'Payroll Manager' should be subject to independent review by another member of staff (these will occur when there are any changes to pay rates, or to staff hours or pay grades) and, ideally, there should be an independent review of each periodic pay run. At our final audit visit, we were pleased to note that this control has now been put in place.

### ***Conclusion***

***There are no further matters arising from our audit work in this area that require any formal comment or recommendation.***

## **Investments and Loans**

Our objective here is to confirm that the Council is investing "surplus funds", be they held temporarily or on a longer term basis, in appropriate banking and investment institutions, that an appropriate investment policy is in place, that the Council is obtaining the best rate of return on any such investments made, that interest earned is brought to account correctly and appropriately in the accounting records and that any loan repayments due to or payable by the Council are transacted in accordance with the relevant loan agreements.

The Council has an investment (treasury management) policy in place and this was reviewed and updated in February 2019 to reflect updated statutory guidance on local government investments which applies from the 2018-19 financial year.

At present, the Council does not hold any long-term investments, with all "surplus" funds being held within the Barclays Business Premium account and the Barclays One-Year Treasury Deposit.

We have checked and agreed the half-yearly repayments of principal and interest on the Council's three Public Works Loans Board (PWLB) loans to their third party "demand" notices. We have also confirmed that the repayments made to PWLB and the overall balance outstanding at the year-end, have been reported correctly in the AGAR (Section 2, lines 5 and 10)

### *Conclusion*

*There are no matters arising from our audit work in this area that require any formal comment or recommendation.*

## **Statement of Accounts and AGAR**

We have examined the detailed accounting statements prepared by the Accounts using the RBS Omega system and also the draft of the statutory "Accounting Statements 2018-19" that the Council is required to complete and approve (Section 2 of the AGAR). We agreed the detail to the supporting accounting records and other related documentation.

### *Conclusions*

*There are no matters arising from this area of our review that require any formal comment or recommendation. We look forward to receiving a copy of the finalised AGAR (Sections 1 and 2), once the document has been approved by the Council.*

*On the basis of the work undertaken during the course of our review for the year, we have completed and signed the Annual Internal Audit Report on Page 3 of the AGAR, assigning positive assurances in all areas of internal control.*

Recommendation	Response
<b>Assessment and management of Risk</b>	
R1 The results of the bi-annual inspection reports on the Council's play areas undertaken by Zurich Plc should be reported to the Property and Environment Committee, going forward.	
<b>Budget setting, budgetary control and reserves</b>	
R2 At the next Council meeting, Members should retrospectively confirm the amount of the Precept that was requested for 2019-20	