
Costessey Town Council

Internal Audit Report: 2019-20 (Final Update)

Background and Scope

There is a statutory requirement for all town and parish councils to make arrangements for an independent internal audit examination of their accounting records and system of internal control each year and for the conclusions to be reported in the Annual Governance and Accountability Return (AGAR). Auditing Solutions Ltd was appointed to provide this service to Costessey Town Council for the 2019-20 financial year.

This report sets out the results of our final audit work in relation to 2019-20, which was undertaken in June 2020. It updates the reports that we issued following our interim audit visits on 6th November 2019 and 13th February 2020.

Internal Audit Approach

In undertaking our audit work, we have had regard to the materiality of transactions and their susceptibility to potential mis-recording or mis-representation in the year-end Statement of Accounts, operating a mix of 100% substantive or selected sampling techniques where considered applicable.

Due to the impact of the Covid-19 pandemic, our final review for the year was undertaken remotely. We wish to thank the Town Clerk for providing the additional documentation required for the final audit review, in electronic format. This has enabled us to complete our audit work for the year and sign off of the Annual Internal Audit Report in the year's AGAR.

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 2019-20 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 are pleased to report that there are no matters arising from our audit work that require a formal comment or recommendation for further action. We ask that Members consider the content of this report.

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 Rialtas 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. Two main accounts are operated, a Business Current Account and a Business Premium (instant access savings) Account. These are supplemented by a separate Salaries Current Account and two small imprest accounts for administrative and grounds maintenance “operational” expenditure. In the previous financial year, the Council invested £116k of funds that were surplus to its immediate requirements into a Barclays one-year fixed interest Treasury Deposit. When this matured in 2019-20, a further one-year Treasury Deposit of £140k was made. We noted last year that consideration was being given to investing with other financial institutions, but this was still under consideration at the 2019-20 year-end.

In the course of our audit visits, we have:

- Checked that the opening Omega trial balance agrees with the closing balances in the 2018-19 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 the detail on the Omega combined cash book for the Business Current Account and Business Premium Account, examining the transactions for three sample months (May and September 2019, and March 2020), agreeing these to the supporting bank statements and also verifying the detail of all inter-account “sweep” transfers in those months;
- Similarly, checked and agreed the detail of transactions on the Salaries cashbook, again agreeing these to the supporting bank statements for the sample months;
- Checked and agreed the bank reconciliations as at 31st May 2019, 30th September 2019 and 31st March 2020 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

During the course of our audit, we have confirmed the following:

- Our review of the minutes of the Council and Committee meetings for the year did not identify any issues that we consider may have an adverse effect, through litigation or other causes, on the Council's future financial stability;
- The Council's Standing Orders and Financial Regulations have continued to be the subject of periodic review. Following completion of a detailed review of the Standing Orders (in conjunction with the NALC model updates), Members resolved to formally adopt these with minor amendments at the Council meeting on 17th December 2019. Updated Financial Regulations were approved at the Council meeting on 10th March 2020; and
- Following the 2019 local government elections, the Council formally re-adopted the General Power of Competence at its meeting on 14th May 2019, with all relevant criteria continuing to be met.

We understand that, following the UK's exit from the EU, NALC has been preparing a further revision to its model standing orders and financial regulations. These were due to be published in the Summer of 2020, but with the arrival of Covid-19 the work has been delayed. We will keep the Council informed of any developments we are made aware of.

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 in this area is to ensure that:

- Council resources are released in accordance with approved procedures and budgets;
- An official order has been raised for supply of goods and services on each occasion where one would be anticipated;
- 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;

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- 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 our testing of expenditure for 2019-20. In total, we examined a sample of 76 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 £525k, 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 first and fourth quarters, confirming that the submissions agreed to the Omega VAT control account.

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. There are no matters arising that require a formal comment or recommendation.

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 confirmed that.

- The Financial Risk Assessment (FRA) was reviewed and approved by the Council at its meeting on 10th March 2020, following detailed scrutiny by the Finance, Budgeting and Staffing (FB&S) 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).
- During 2019-20, the Council was in a 3-year agreement with Zurich for insurance cover, which ran until May 2020. The insurance cover in place for the year included Public Liability of £15 million; Employer’s Liability of £10 million, Fidelity Guarantee at £1 million and Loss of Revenue at £175,000 loss of income, all of which we consider to be appropriate to meet the needs of the Council. We note that on 10th March 2020, following the recommendation of the FB&S Committee, the Council agreed to a further 4-year agreement with Zurich.
- 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 has also been contracted to undertake inspections of the Council’s play equipment each year. In line with our recommendation from last year, the results are now being reported to Members (Property & Environment Committee);
- Council staff continue to 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. There are no matters arising that require a formal comment or recommendation.

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.

From our review of the minutes, we noted that Members were provided with detailed budget monitoring reports and formal bank reconciliations throughout the year. 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).

We have reviewed the process followed in setting the budget and Precept for 2020-21. We noted that the draft budget was discussed at meetings of both the FB&S Committee and Full Council prior to the final budget decision being made at the Full Council meeting on 7th January 2020. The Precept was formally adopted and properly recorded at £659,751, compared to £636,576 for 2019-20, a notional increase of 2.5% for Band D properties. We are satisfied that Members were provided with an appropriate level of information to inform the decision-making process.

At 31st March 2020, the overall reserves were £703,637 (£627,398 at 31st March 2019), of which the earmarked reserves amounted to £522,459 (£484,615). The main earmarked reserves are the Major Projects Reserve, set aside for capital projects, which stood at £316,582 (£311,449) and the New Cemetery Fund which has remained at £97,894. There were further CIL receipts of £10,030 in the year, with the unutilised balance at the year-end amounting to (£21,195).

In addition to the earmarked reserves, the Council retains a General Reserve for contingency purposes. At 31st March 2020, the General Reserve balance stood at £181,178 an increase of just over £38,395 from the previous year-end. As noted in previous years, 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. However, a ‘yard-stick’ of between 25% and 50% of 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 in line with the lower guideline percentage of revenue spend, and does not appear unreasonable.

Conclusion

We are satisfied that the Council has sound arrangements in place for determining its annual budget and Precept requirements, and for monitoring financial performance and reserves. There are no matters arising that require a formal comment or recommendation.

Review of Income

In considering the Council's income streams, our objective is to confirm that robust systems are in place to ensure the identification of all income due to the Council from its various sources, that invoices are raised in a timely manner and that effective procedures are in place to pursue recovery of any outstanding monies due to the Council.

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

- We confirmed that the Council formally reviewed its fees and charges for 2019-20 in October 2018, following detailed consideration by the "Fees and Charges Working Group";
- As noted earlier in this report, we have checked and agreed three sample months' receipts transactions from cashbooks to relevant bank statements;
- We examined a sample of Cemetery activities (April to December 2019) by reference to the detailed Burial Registers and associated records maintained by the appropriate officer, confirming that all income due has been received on a timely basis;
- We examined a sample of the property facilities' lettings for week commencing 4th November 2019 (approximately 40 in all across the three Centres) two weeks' Town Hall lettings (w/c 4th and 11th November 2019) was tested by reference to the diary entries and sales ledger invoicing to ensure rates charged were in accord with the published scales and were settled without undue delay; and
- We examined the Sales Ledger "Aged Debtors Report" at the time of our first interim visit and as at 31st March 2020 confirming that the amount of outstanding debt has remained very low and, where appropriate, debtors are being chased on a regular basis.

We have not reviewed the controls over allotment income this year. We consider this to be a low risk area, as the amounts involved are relatively small and there is no history of error from previous years' audits.

Conclusion

There are no matters arising that require a formal comment or recommendation.

Petty Cash and Credit Card Usage

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.

The Council operates a limited petty cash scheme, with a maximum Imprest holding of £300 which is “topped up” monthly. A small Excel control sheet is maintained and acts as both the Omega nominal ledger posting document and the approval for re-imburement “invoice”. We examined the control sheet and Omega records for September 2019 and March 2020, confirming that the petty cash is subject to independent review and that this review is evidenced.

As noted earlier in the report, we also checked and agreed a sample of three months transactions and the month end bank reconciliations 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.

Conclusion

There are no matters arising that require a 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, as revised from 1st April 2019.

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:

- Agreed the amounts paid to employees by reference to the approved pay scales on the council’s establishment list, examining a sample of all those salary payments made for Period 6 ending in September 2019;
- Ensured that Tax and National Insurance deductions for all employees have been made applying the appropriate PAYE code and NIC Table following the annual budgetary increases in personal allowances with effect from April 2019;
- Checked that the correct superannuation percentage deductions are being applied where applicable;
- Ensured that any variations to standard payments, such as overtime and sickness and mileage, have been subject to formal timesheet records and approval by senior officers;

- Verified the net payments to staff from payslips to the summary BACS settlement reports; and
- Checked and agreed the payment over of deductions to HMRC and Norfolk County Council from copy payroll reports to cashbooks and have, as part of the supplier payments testing noted earlier, summarised the month by month total payments with explanations obtained for any variances arising therein.

Conclusion

There are no matters arising that require a 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 a ‘Treasury Strategy and Treasury Management Policy’ in place. Following consideration by the FB&S Committee, a revised Policy was adopted at the Council meeting on 10th March 2020.

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. However, we note that in early 2020 the FB&S Committee received presentations from CCLA about investment options and that the investment approach will be reviewed during 2020-21.

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 of principal and interest made to PWLB in the year 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 2019-20” 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 in the AGAR, assigning positive assurances in all areas of internal control.