

Costessey Town Council

Internal Audit Report: 2020-21 (Interim)

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for Auditing Solutions Ltd

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 2020-21 financial year.

This report sets out the results of our interim audit in relation to 2020-21, which was undertaken in November and December 2020. Due to the impact of the Covid-19 pandemic, we undertook our audit work remotely on this occasion. We wish to thank the Town Clerk and her colleagues for providing the documentation required for review in an electronic format.

Internal Audit Approach

In carrying out our internal audit work for the year to date, 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, operating a mix of 100% substantive or selected sampling techniques where considered applicable.

Our audit programme is designed to afford appropriate assurance that the Council's financial systems remain robust and operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying 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' in 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 to date, 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.

In the sections below, we have explained the objectives of each area of our audit, summarising the work undertaken and our findings. We are pleased to report that there are no matters arising that require a 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. At the end of the previous financial year, the Council held £140k of funds that were surplus to its immediate requirements in a Barclays one-year fixed interest Treasury Deposit. This investment matured in September 2020 and, at the time of our interim audit, consideration was still being given to future investment options.

In the course of our interim audit, we have:

- Checked that the opening Omega trial balance agrees with the closing balances in the 2019-20 AGAR;
- Confirmed that the ledger remained in balance at the time of our interim audit;
- 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 two sample months (April and October 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 30th April and 31st October 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, and
- Confirmed, through discussion with the Town Clerk, that the Rialtas accounts and booking system are regularly backed up to the Council’s server, which is itself backed-up to the ‘Cloud’ each evening.

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.

Costessey TC: 2020-21 (Interim)	10 th December 2020	Auditing Solutions Ltd
---------------------------------	--------------------------------	------------------------

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 interim audit, we have confirmed the following:

- Our review of the minutes of the Council and Committee meetings for the year to date 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 review of minutes also confirmed that the Council has taken appropriate measure to ensure that it is able to maintain effective governance arrangements during the Covid-19 pandemic;
- The Council's Financial Regulations and Standing Orders continue to be the subject of periodic review. The most recent update of the Financial Regulations was in August 2020, when a new Regulation (11.2) was added stating that all one-off contracts over £5,000 plus VAT are to be issued with a comprehensive brief including a list of requirements. The Standing Orders were last updated at the Council meeting on 17th December 2019, but we understand will be subject to further review later in the financial year.
- Following the 2019 local government elections, the Council formally re-adopted the General Power of Competence at its meeting on 14th May 2019 and this continued to be applicable in 2020-21.

Conclusion

On the basis of our audit work to date, 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.

Expenditure

Our objective in this area is to ensure that:

- Council resources are released in accordance with 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;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct expense codes have been applied to invoices when processed; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have commenced our testing of expenditure for 2020-21. In total, we examined a sample of 32 payments for the period to November 2020. Our sample included all

Costessey TC: 2020-21 (Interim)	10 th December 2020	Auditing Solutions Ltd
---------------------------------	--------------------------------	------------------------

individual payments in excess of £2,000, together with a more random sample of every 20th cash book transaction, as recorded in the accounts. The total value of items in our sample was £98,420, including VAT, which equated to 52%, by value, of non-pay related expenditure in the financial year to date.

We have also checked and agreed a sample of transactions for one month (October 2020) on the charge cards which are used by the Clerk and the Head Groundsman to assist with urgent and/or immediate purchases via the internet. Separate Omega “cashbooks” are used to record the transactions on each card. We did not identify any issues with either the level or type of expenditure incurred.

We have 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 two 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 last 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. We understand that the FRA will be subject to further review and approval by the Council prior to the end of the 2020-21 financial year, in line with the regulatory requirement to consider risk management arrangements in each financial year;
- In May 2020, the Council entered in a new 4-year agreement with Zurich Municipal for the provision of insurance cover. We examined the insurance schedule for the current year and confirmed that this includes Public Liability of £15 million; Employer’s Liability of £10 million, Fidelity Guarantee at £1 million and Loss of Revenue at £200,000 loss of income, all of which appear appropriate to meet the needs of the Council.
- Zurich Municipal has also been contracted to undertake 6-monthly inspections of the Council’s play equipment each year to confirm compliance with health and safety requirements. We note that, in addition to being reported to the Property & Environment Committee, the inspection reports are now published on the Council’s website;

- In addition, Council staff continue to carry out a visual check of the playgrounds as they undertake litter picking 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, and
- The Council has continued to engage the services of an external consultant (SJB Solutions) to provide a risk assessment and health & safety management service.

Conclusion

On the basis of our audit work to date, 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 continue to be provided with budget monitoring reports and formal bank reconciliations during the year, with the detail now being considered by the FB&S Committee rather than by the full Council. We also noted that these have included initial forecasts of the impact of Covid-19 on budgetary performance.

We will review the approach followed by the Council in determining its budget and Precept requirements for 2021-22, and reviewing its reserves position, at our final audit.

Conclusion

On the basis of our audit work in this area to date, we consider that the budgetary control arrangements are adequate and are operating effectively. There are no matters arising that require a formal comment or recommendation.

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 interim audit, we undertook the following work:

- We confirmed that the Council formally reviewed its fees and charges for 2020-21 in October 2019, following detailed consideration by the "Fees and Charges Working Group" We also note that a similar process has been completed for the 2021-22 financial year;

Costessey TC: 2020-21 (Interim)	10 th December 2020	Auditing Solutions Ltd
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- As noted earlier in this report, we checked and agreed two sample months' receipts transactions from cashbooks to relevant bank statements;
- We examined a sample of Cemetery related activities for the period 1st July to 31st October 2020, by reference to the detailed Burial Registers and associated records, confirming that the invoices subsequently raised were in order and that the income due was received and banked on a timely basis;
- We examined a sample of hall hires for the week commencing 5th October 2020, by reference to the diary entries and sales ledger invoicing to ensure the rates charged were in accordance with the published scales and that, as required, fees had been paid in advance; and
- We examined the Sales Ledger "Aged Debtors Report" as at the time of our interim audit. We were pleased to note that the overall value of long-standing debts is very low and we confirmed that effective control arrangements remain in place, with appropriate action being taken in relation to outstanding payments.

Conclusion

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

Petty Cash

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 October 2020, confirming that the petty cash is subject to independent review and that this review is evidenced.

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 adhered to, that the requirements of HM Revenue and Customs (HMRC) legislation are satisfied regarding the deduction and payment over of income tax and NI contributions and that the requirements of the local government pension scheme are met.

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:

Costessey TC: 2020-21 (Interim)	10 th December 2020	Auditing Solutions Ltd
---------------------------------	--------------------------------	------------------------

- Agreed the amounts paid to employees by reference to the approved pay scales on the council’s establishment list, examining a sample of salary payments made for Pay Period 7 (2nd October 2020);
- 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 2020;
- Checked that the correct local authority pension scheme percentage deductions are being applied, where applicable;
- Ensured that any variations to standard payments, such as overtime 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 payments to HMRC and the Norfolk Pension Fund.

Conclusion

In the course of our sample testing, we noted one instance where an employee’s pension contribution rate was not in accordance with the scheme requirements. We drew this to the attention of the Town Clerk and the error has been rectified. There are no other matters arising that require a formal comment or recommendation for further action.

Investments and Loans

Our objective is to confirm that an appropriate investment/treasury management policy is in place, that any funds not required for immediate use, whether temporarily or on a longer-term basis are invested in line with that strategy and that interest earned is brought to account correctly and appropriately in the accounting records. We also confirm 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 the time of our interim audit, the Council did not hold any long-term investments, with all “surplus” funds currently held within the Barclays Business Premium account. As noted earlier in the report, the Barclays One-Year Treasury Deposit matured in September 2020 and has not yet been reinvested.

We have checked and agreed the first half-yearly repayments of principal and interest on the Council’s three Public Works Loans Board (PWLB) loans to their third party “demand” notices.

Conclusion

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

Costessey TC: 2020-21 (Interim)	10 th December 2020	Auditing Solutions Ltd
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