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**Costessey Town Council**

*Internal Audit Report: 2019-20 (Interim Update)*

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*For and on behalf of  
Auditing Solutions Ltd*

## **Background and Scope**

The Accounts and Audit Arrangements introduced from 1<sup>st</sup> April 2001 require all Town and Parish Councils to implement an independent internal audit examination of their Accounts and accounting processes annually. The Council complied with the requirements in terms of independence from the Council decision making process from the outset, appointing Auditing Solutions Ltd to provide the function to the Council annually for several previous years and re-affirming this decision for 2019-20. This report sets out those areas examined during the course of our recent interim update visit to the Council, which was undertaken on 13<sup>th</sup> February 2020, supplements the initial work on 6<sup>th</sup> November 2019, and will be subject to further update following the final visit at a date yet to be arranged after the year-end close down of the Accounts in May or June 2020.

## **Internal Audit Approach**

In continuing our review of the Council's processes and records for 2019-20 we have again examined a selection of the Council's fundamental central financial control functions in order to provide assurance to members and the electorate that the systems continue to operate in accordance with best practice and approved Council procedures: we have also had regard to the materiality of those transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts.

As in previous years, we have assessed the risks associated with each financial system, based on previous experience of the extent of potential for those risks coming to fruition and tailored our review programme accordingly.

## **Overall Conclusion**

We are pleased to conclude that, in the areas examined to date, the Council continues to have effective systems in place to ensure that transactions are free from material misstatement. The Clerk and her colleagues are again to be commended on the quality of work produced and the high standards of documentation provided for the purposes of our audit visits

We are also pleased to report that no issues have been identified from the work completed to date to warrant formal comment or recommendation: consequently, it has not been considered necessary to append an Action Plan currently.

# Detailed Report

## Review of Accounting Arrangements & Bank Reconciliations

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. The Council remains a full Rialtas (Omega) software user, with one combined cashbook for the Current and Business Premium accounts operated at Barclays Bank with supplementary accounts for Administrative and Grounds Maintenance “operational” expenditure and for Salaries.

- We have again verified that an appropriate cost centre and nominal ledger structure remains in place for 2019-20;
- We have checked the opening Trial Balance in the accounting software for 2019-20 to the closing Financial Statements for 2018-19 to ensure that all the detailed balances have been properly rolled forward with no matters arising;
- We have checked and agreed two sample months’ receipts and payments transactions (May and September 2019) on all cashbooks to the appropriate bank account statements; and
- We have checked and agreed the software based bank reconciliations as at 31<sup>st</sup> May and 30<sup>th</sup> September 2019 on all four cashbooks with no outstanding or anomalous entries therein.

### *Conclusions*

*There are no matters arising in this area to warrant formal recommendation currently and we shall verify a further sample month’s transactions and bank reconciliations as part of the year-end work in due course.*

## Review of Corporate Governance

Our objective in this area is to ensure that the Council has a robust regulatory framework in place; that Council and Committee meetings are conducted in accordance with the adopted Standing Orders and Financial Regulations and that, as far as we are able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation.

- We have previously noted during 2018-19 that the Council’s Standing Orders and Financial Regulations had been the subject of periodic review and it was noted that the former had been “suspended until further notice”. Subsequently, at this update visit, we note the completion of the Council’s work in relation to revised Standing Orders (in conjunction with the NALC model updates) and that members resolved to formally adopt these with no further suspension at the Extra meeting in December 2019;
- We have extended our examination of the minutes of Full Council and Committee meetings held to date (mid January 2020) to ensure that, as far as we can practically be expected to be aware no issues exist affecting the Council’s financial stability in the short, medium or long-term exist; and

- We are pleased to note that Full Council has appropriately re-considered the criteria for the General Power of Competence at its first relevant meeting (in May 2019) subsequent to the local elections and formally recorded that all areas were met.

### **Conclusions**

*There are no matters arising in this area to warrant formal recommendation currently.*

## **Review of Expenditure**

Our objective here is to ensure that: -

- Council resources are released in accordance with the Council's 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;
- 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 extended testing in this area and examined a sample of payments in the year to 31<sup>st</sup> January 2020, including all those individually in excess of £2,000 together with a further selection of every 20<sup>th</sup> cashbook transaction (irrespective of value) during the period. Our test sample comprised approximately 80 invoices in all, totalled just over £500,000 and represented 80% of all non-pay expenditure incurred during the year to that date.

With regard to VAT, we note that the Council continues to make timely, electronic return submissions: we have previously examined the detail of the March 2019 debtor and return and verified the disclosure in the Statement of Accounts, and subsequently at the first interim visit we have noted the appropriate conclusion of the September 2019 submission in accord with the underlying Omega control account balances as required.

### **Conclusions**

*There are no matters arising in this area to warrant formal recommendation currently.*

## **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 / safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage any risks identified in order to minimise the opportunity for their coming to fruition.

- We note that the Council's insurance cover continues to be provided by Zurich (under a reasonably standard long term agreement) and have examined a copy of the current policy schedule for the year to 9th May 2020. We note that Public Liability stands at £15 million, that Employer's Liability stands at £10 million, that Fidelity Guarantee stands at £1 million and that adequate Loss of Revenue is in place at £175,000; and
- We have previously noted in our final report for 2018-19 that the Council's Financial Risk Assessments were most recently re-adopted in January 2019 so no further work was considered necessary in this area at present.

### **Conclusions**

*There are no matters arising in this area to warrant formal recommendation currently.*

## **Precept Determination and Budgetary Control**

We aim, in this area of our work, to ensure that the Council has appropriate procedures in place to determine its future financial requirements leading to the adoption of an approved budget and formal determination of the amount to be precepted on the District Council, that effective arrangements are in place to monitor budgetary performance throughout the financial year and that the Council has identified and retains appropriate reserve funds to meet future spending plans. Consequently:

- We note from examination of current Council and Committee minutes that periodic budget monitoring reports and accompanying variance commentaries continue to be considered by members of the full Council (most recently to 31<sup>st</sup> January 2020) and there are no significant, un-explained variances arising to warrant further enquiry or explanation therein; and
- We also noted from examination of minutes for meetings and other supporting documents provided that members had been provided with the proposed budgets and Precept for 2020-21 and, subsequently, that their deliberations were concluded at Full Council on 7<sup>th</sup> January 2020 with the Precept being formally adopted and properly recorded at £659,751.

### **Conclusions**

*There are no matters arising in this area to warrant formal recommendation currently.*

## **Review of Income**

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

- We are pleased to note that members continue to review the Council's scales of fees and charges annually, those for 2019-20 having been re-affirmed in the previous municipal year;
- As noted earlier in this report, we have checked and agreed two sample months' receipts transactions from cashbooks to relevant bank statements;

- We have examined a sample of Cemetery activities (April to December 2019) by reference to the detailed Burial Registers maintained by the appropriate officer to ensure that the fees charged for each interment were in accord with the published scales depending on Ashes or Full Burial, with or without Exclusive Rights and so on and that there was no undue delay in settlements of funds and relevant entries in the Omega nominal ledgers;
- A sample of the property facilities' lettings for week commencing 4<sup>th</sup> November 2019 (approximately 40 in all across the three Centres) two weeks' Town Hall lettings (w/c 4<sup>th</sup> and 11<sup>th</sup> 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 have examined the current Aged Debtors report as at 12<sup>th</sup> February 2020 and are pleased to note that there are no long-standing or unmatched anomalous balances therein

### **Conclusions**

*There are no matters arising in this area to warrant formal recommendation currently.*

## **Petty Cash and Credit Card Usage**

We are required, as part of the Internal Audit Certification process in the AGAR to assess and give a view on the effectiveness of control over any petty cash account in use by the Council.

- The Council operates a limited petty cash scheme, with a maximum Imprest holding of £300 which is "topped up" as and when required. 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 have currently not tested any sample month's transactions in 2019-20, although we did obtain copies of the document for September 2019 for review in due course; and
- Additionally, there are two separate cashbooks and bank accounts for electronic card transactions and, as noted earlier in this report, we have checked and agreed two sample months transactions and bank reconciliations with no issues of note.

### **Conclusions**

*There are no matters arising in this area to warrant formal recommendation currently.*

## **Salaries and Wages**

In examining the Council's payroll function, we aim to confirm that extant legislation was being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenues and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme as further revised from 1<sup>st</sup> April 2019 in relation to the employee contribution percentage bandings. To meet those objectives, we have:

- Noted previously that the payroll service continues to be produced “in house” using bespoke software known as Moneysoft and this remains the case in 2019-20;
- 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 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.

### ***Conclusions***

***There are no matters arising in this area to warrant formal recommendation currently.***

## **Investments and Loans**

Our objectives here are to ensure 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 and that interest earned is brought to account correctly and appropriately in the accounting records. We also aim to ensure that any loan repayments due to or payable by the Council are processed in accordance with the respective and relevant loan agreements.

- We have noted previously that the Council has re-adopted a formal Treasury Management Policy in February 2019 and have not considered it necessary to consider this area again at present;
- We have noted previously from minutes that it was proposed for £140,000 to be held in a periodic Treasury term deposit and this was duly implemented in September 2019 with a twelve month term holding opened at Barclays Bank. Additionally, members have, more recently, received presentations from CCLA officers and further investments may be made in the next financial year; and
- We have verified the two instalment repayments of existing PWLB liabilities (in June and December 2019) from cashbooks to their third party “demand notices” as part of the higher value supplier payments testing noted earlier in this resume.

### ***Conclusions***

***No matters warranting formal comment or recommendation arise in this area currently.***