
Costessey Town Council

Internal Audit Report: 2020-21 (Final Audit)

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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 final audit work in relation to 2020-21, which was undertaken in May 2021. It updates the report we issued in December 2020, following the completion of our interim audit. Once again, due to the impact of the Covid-19 pandemic, we have undertaken our audit work remotely. We wish to thank the Town Clerk and her colleagues for providing the documentation required for our audit review.

Internal Audit Approach

In carrying out our internal audit work for the year, 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.

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 'Annual 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, 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 2020-21 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, summarising the work undertaken during the year and our findings. Once again, 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 software is used to maintain the financial records, with accounting support provided by DCK Accounting Solutions Ltd.

During 2020-21, banking services continued to be provided by Barclays Bank Plc. Two main accounts were used - a Business Current Account and a Business Premium (instant access savings) Account. These were supplemented by a separate Salaries Current Account and two small imprest accounts for administrative and grounds maintenance "operational" expenditure. We note that, just after the year-end, the Council agreed in principle to opening a current account with Unity Trust bank, to facilitate the potential introduction of on-line banking for hall hire deposits.

At the end of the previous financial year, the Council held £140k of funds that were surplus to its immediate requirements in a longer-term investment (Barclays one-year fixed interest Treasury Deposit). This investment matured in September 2020 and, at the time of our final audit, consideration was still being given to future investment options.

In the course of our audit work, we confirmed that:

- the opening Omega trial balance agreed to the closing balances in the 2019-20 AGAR;
- the financial ledgers remained in balance throughout the year;
- the cost centre and nominal ledger coding structure remained appropriate for the Council's needs;
- for a sample review of four months (April & October 2020, plus January & March 2021), the detailed transactions and inter-account "sweep" transfers in the Omega combined cash book for the Business Current Account and Business Premium Account agreed to the supporting bank statements;
- similarly, for those months, the detailed transactions in the Salaries Current Account cashbook agreed to the supporting bank statements;
- bank reconciliations were prepared routinely at the close of each month and independently reviewed. We also reviewed the bank reconciliations at the end of the four sample months for all accounts, confirming that these were accurate and that there were no long-standing uncleared cheques or deposits, or other anomalous entries;
- the overall cash balance has been reported correctly in the draft AGAR (Section 2, Line 8), and
- 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

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

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 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 might 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 measures 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.
- 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.
- Just after the year-end, at its meeting on 6th April 2021, the Council considered and approved changes to the structure of its committees, their delegated powers and frequency, and also agreed amendments to the Standing Orders to reflect these changes.

Conclusion

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 completed our testing of expenditure for 2020-21. In total, we examined a sample of 43 transactions across the year, plus the National Non-Domestic Rates payments. Our sample included all individual payments in excess of £2,000, together with a more random sample of every 20th cash book transaction, as recorded in the Omega accounts. The total value of items in our sample was £216,517, including VAT, which equates to 59%, by value, of non-pay related expenditure in the financial year.

At our interim audit, we 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 checked the reclaims for the year, confirming that the submissions agreed to the Omega VAT control account.

Conclusion

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 2nd February 2021, including Covid-19 related issues, following detailed scrutiny by the Finance, Budgeting and Staffing (FB&S) Committee. This is 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, all of which appear appropriate for 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 confirmed that the inspections for 2021-22 were undertaken in April and November 2020 and that, in addition to being reported to the Property & Environment Committee, the inspection reports are now being 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

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 the District Council, and that an effective reporting and monitoring process is in place. We also consider whether 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 confirmed that Members were provided with budget monitoring reports and formal bank reconciliations throughout the year, with the detail being considered by the FB&S Committee each month, from August 2020, and a summary report to the full Council. The reports have included forecasts of the impact of Covid-19 on budgetary performance and updates on the use of earmarked reserves and income arising from the Community Infrastructure Levy (CIL).

The budget and Precept for 2021-22 were approved at the Council meeting on 12th January 2021, following detailed consideration by the FB&S Committee. The Precept demand was set at £659,026, compared to £659,751 for 2020-21, with the Band D rate remaining unchanged at £120.90. We are satisfied that Members were provided with an appropriate level of information to inform the decision-making process.

At 31st March 2021, the overall reserves were £899,106 (£703,637 as at 31st March 2020). The main reasons for the increase included lower than anticipated expenditure relating to hall hire (with the loss of income covered by Business Interruption grants) and the receipt of a significant commuted sum in relation to the Queen's Hill drainage project, of which some £50k remained unspent at the year end.

Of the total reserves, earmarked reserves (EMRs) amounted to £634,956 (£522,459). In addition to the commuted sum for Queen's Hill, the most significant EMRs are the Major Projects Reserve, set aside for the Council's capital projects, which stood at £320,956 (£311,449) and the New Cemetery Fund at £120,000 (£97,894). During the year there have been further CIL receipts of £7,020, with the unutilised balance at the year-end amounting to £36,217.

The remaining reserves are held as a General Reserve, which is available for contingency purposes. At 31st March 2021, the General Reserve balance stood at £264,178, an increase of £83,000 from the previous year-end. We note that the Council has budgeted to utilise £55,000 of the General Reserve to support the 2021-22 revenue budget.

As noted in previous years, there is no 'hard and fast' rule as to the amount of General Reserve that should be retained, 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 remains within those parameters and does not appear unreasonable.

Conclusion

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 the course of our audit, we undertook the following work:

- We confirmed that the fees and charges for 2020-21 were formally reviewed by the Council in October 2019, following detailed consideration by the "Fees and Charges Working Group" We also noted that a similar process has been completed for the 2021-22 financial year;
- As noted earlier in this report, we checked and agreed four 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 and as at 31st March 2021. We were pleased to note that the overall value of long-standing debts has remained very low. There are effective control arrangements are in place, with appropriate action taken in relation to outstanding payments.

Conclusion

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.

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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”. At our interim audit, 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.

At our final audit, we confirmed that the year-end balance of £300 is included correctly in the ‘total value of cash and short-term investments’ reported in Section 2, Line 8 of the AGAR.

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:

- 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

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

Asset Register

In the AGAR, councils are required to report the value of each asset at purchase cost, or at a suitable proxy where that value is not known, and for community assets to be valued at a nominal £1. The value of individual assets should not change from one year to another, with the only changes being the inclusion of new assets purchased or removal of assets disposed of.

A basic asset register is maintained by the Council's accountants, DCK Accounting Solutions, as a note to the detailed accounting statements they produce. This register records the original cost of all assets held, as required for the AGAR. We have confirmed that the asset register has been updated for assets acquired and disposed of in the year and that the total updated value of £4,559,469 shown in the asset register has been reported in the AGAR (Section 2, Line 9).

Conclusion

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

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 23rd February 2021.

The Council does 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 half-yearly repayments of principal and interest on the Council's three Public Works Loans Board (PWLB) loans to the third party "demand" notices. At the final audit, we also confirmed that these repayments and the overall balance outstanding at the year-end have been reported correctly in the AGAR (Section 2, lines 5 and 10, respectively).

Conclusion

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

Statement of Accounts and AGAR

We have examined the detailed accounting statements prepared by the Accountants using the RBS Omega system and also the draft of the statutory "Accounting Statements 2020-21" that the Council is required to complete and approve (Section 2 of the AGAR). We have 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.

