
Romsey Town Council

Internal Audit Report 2017-18 (Final update)

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***For and on behalf of
Auditing Solutions Ltd***

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Background

Statute requires all town and parish councils to arrange 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 Return.

This report sets out the work undertaken in relation to the 2017-18 financial year, which took place on the 2nd November 2017 and the 10th May 2018.

Internal Audit Approach

In undertaking our review for the year, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts / Annual Return. Our programme of cover is designed to afford appropriate assurance that the Council has appropriate and robust financial systems in place that operate 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 'Internal Audit Report' as part of the Council's Annual Governance and Accountability Return (AGAR) process, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

We have concluded that, based on the satisfactory completion of our programme of work for the year, the Council has again maintained adequate and effective internal control arrangements in all but one area of our review. We advise that a significant issue arose during the Final Update Audit of the year which warranted formal comment and recommendation. The issue, pertaining to the Council's continued setting of its General Reserve lower than the CiPFA recommended levels, despite both professional and auditors advice received in prior years, has been described in the main body of this report with the resultant formal recommendation detailed in the appended Action Plan.

Resultantly, we have made a negative assertion in Box D of the Internal Control Objectives, which requires that: ***'The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate'*** it being the opinion of this auditor that the General Reserve continues to be set at an inappropriately low level to support the ongoing financial requirements of the Council.

We have completed and signed the 'Internal Audit Report' having concluded, in all other respects, that the control objectives set out therein, have been achieved within the financial year, to a standard adequate to meet the needs of the Council.

We take this opportunity to thank the Clerk and her team for their assistance during the review and for the exemplary manner in which the Council's Statement of Accounts and supporting documents have been presented for review.

This report has been prepared for the sole use of Romsey Town Council. To the fullest extent permitted by law, no responsibility or liability is accepted by Auditing Solutions Ltd to any third party who purports to use or rely, for any reason whatsoever, on this report, its contents or conclusions.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

Our objective here is to ensure that the accounting records are being maintained accurately and that no anomalous entries appear in cashbooks or financial ledgers, noting that the Council continues to use the services of DCK Beavers to maintain the financial records. We have:

- Agreed the updated opening trial balance detail with that in the 2017-18 Statement of Accounts;
- Ensured that the ledger remains “in balance” at the close of the financial year;
- Ensured that the cost and expenditure coding structure remains appropriate for purpose;
- Checked detail in the No 1 and no 2 A/c cashbook, the first of which combines transactions on the Current and Reserve bank accounts with Lloyds TSB, agreeing detail in both account cashbooks for April and September 2017, and March 2018 to the underlying bank statements;
- Checked transactions from 01st April 2017 - 31st March 2018 on all other account cashbooks given their relatively low volume to the underlying bank statements; and
- Reviewed bank reconciliations as at 30th April and 30th September 2017, and March 2018 on all accounts to ensure that there are no long-standing reconciling items or other anomalous entries; and,
- Verified the accurate disclosure of the combined cash and bank account balances in the detailed Accounts prepared by DCK Beavers and the year’s Annual Return.

Conclusion

No issues arise in this area of our review warranting formal comment or recommendation

Review of Corporate Governance

Our objective is to ensure that the Council has a robust series of corporate governance policies, procedures and documentation in place; that Council and Committee meetings are conducted in accordance with the adopted Standing Orders and that, as far as we are reasonably able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation.

- We note that the Financial Regulations (FRs) were last reviewed and updated at the November 2016 meeting of the Full Council and are advised that these are scheduled for review, using the latest NALC model document in October of 2018;
- We also note that the Standing Orders (SOs) which were last reviewed and re-adopted in the March 2017 meeting of the Full Council are scheduled for review using the latest NALC model document in June 2018; and
- We have concluded our review of the minutes of the Full Council and Standing Committee meetings for the year to establish, whether or not any issues exist that may have an adverse effect, through litigation or other causes, on the Council’s current or future financial stability with no issues arising.

Conclusion

No issues arise in this area of our review warranting formal comment or recommendation

Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Payments are supported by suitable 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 reviewed the procedures in place for processing payments and are pleased to note that, following last year's recommendation, members are now initialling invoices routinely as evidence of their review.

We have selected a sample of payments processed in the financial year to 31st March 2018 including all those individually in excess of £1,500, together with every 20th cashbook transaction (irrespective of value) for compliance with the above criteria: our test sample comprises 31 individual payments, totalling £75,371, representing 55% of all non-pay related expenditure in the financial year.

We are again pleased to note that VAT returns continue to be prepared and submitted to HMRC quarterly in electronic format as required by HMRC. We have reviewed and agreed the four reclaims prepared and submitted for 2017-18 to the underlying Omega accounting records, also verifying the accurate disclosure of the final quarter's reclaim as a debtor in the year-end Accounts.

Conclusion

No issues arise in this area of our review warranting formal comment or recommendation

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 and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks to minimise the opportunity for their coming to fruition. We have: -

- Examined the Council's current insurance policy covering 2017-18, cover again being provided by Aviva, to ensure that appropriate levels of cover are in place: both Employer's and Public Liability remain at £10 million with Fidelity Guarantee cover at £250,000 and Business Interruption cover at £20,000, all of which we consider appropriate for the Council's current requirements; and

- Noted that the Council's risk assessments had been extensively revised during FY 2017-18. Assessments continue to be produced, using the LCRS software, the latest version being formally adopted at the January 2018 meeting of the Full Council.

Conclusion

No issues arise in this area of our review warranting formal comment or recommendation

Budgetary Control & Reserves

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

We note that the draft budget and precept for 2017-18 were presented to the Council in 16th January 2018 meeting of the Full Council with the latter adopted formally at £250,597.

We are also note that regular budgetary monitoring reports continue to be submitted to members, with the format having been developed to include appropriate variance analysis commentary and a yearend outturn forecast. We have re-examined the budget outturn for the year with no unexplained or unanticipated variances existing warranting further enquiry. Additionally, Omega software continues to provide the necessary "outturn to date" reporting, expressed not only in financial terms, but also as a percentage of budget, which we consider affords an appropriate degree of information to facilitate simple monitoring of performance throughout the year.

Finally, in this area, we have again examined the appropriateness of the level of retained reserves. We have noted that the level of total reserves increased marginally to £139,001 (£131,134 at 31st March 2017). However, this value includes funds earmarked for specific projects, totalling £65,519 (increased from the 31st March 2017 value of £47,627), leaving a further reduced General Reserve balance of £73,482 (£82,714 as at 31st March 2017), equating to approximately two and a half months' spending at the FY 2017-18 level. This level of General Reserve balance is well below the generally recognised CiPFA guideline of between three and six months' revenue spending based on prior year levels and far short of the four and a half months reserve spending we recommend for this council based on its disclosed projects and projected income streams.

In our previous year's report, we brought to the Council's attention that its accountants, DCK Beavers had advised them, over several years, that the council was continuing to set the level of General Reserve too low, and that we concurred with that position. We also noted that in the minutes of the Full Council meeting of the 17th January 2017 under minute 14, that the Clerk advised the Council to approve the Option 1 Precept of £244,946 for 2017-18 to address the shortfall in reserves, but that the council had not taken this advice. Further, we noted that the income budget projections, particularly in relation to Town Hall bookings, appeared to be over-inflated.

We are now advised by the Clerk that members has, at the recommendation of its accountants, DCK Accounting Solutions, undertaken a risk assessment with relation to the Council's General Reserve,

and that members have determined to retain this low level of reserve, and that they intend to utilise the Council's formally established earmarked reserves as contingency funds should the need for emergency funding arise. This auditor does not find this strategy appropriate, as it falls short of good practice, does not conform to the guidelines set out in the Governance and Accountability manual and calls into question the veracity of the Council's Budget setting process.

Conclusions and recommendation

Members should be mindful of future funding constraints and the potential future costs facing the Council when deliberating the annual Budget setting and Precept determination requirements. The Governance and Accountability Manual and the Council's own General Reserve Strategy requires it to establish a Budget setting and Precept determination process that addresses the low level of General Reserves which the members have, once again, seen fit to establish. It is not acceptable to determine to utilise formally established earmarked reserves as contingency funds because the General Reserve is set too low. Resultantly a negative assertion has been entered into Box D of the Internal Control Objectives in the Annual Internal Audit Report 2017/18 forming Part 3 of the Annual Governance and Accountability Return 2017-18.

R1 Action should be taken to abide by the council's own General Reserve Strategy and to establish a Budget and Precept which will address the potential General Reserve Shortfall in 2019-20.

Review of Income

The Council receives income from a relatively limited range of sources in addition to the annual precept, primarily by way of hire fees for the various events held and private bookings at the Town Hall, together with allotment rents, investment interest and recoverable VAT.

Our aim here is to ensure that income due to the Council is identified and recovered within a reasonable timeframe and that the Council is ensuring best value through the "investment" of surplus funds.

We have examined a sample of one month's bookings at the Town Hall (August 2017) based on the data held on the RBS Booking software that continues to be used, checking to ensure that appropriate booking forms are held, that fees have been levied in accordance with the approved scales of fees and charges and that income due has been received within a reasonable time frame. We are pleased to acknowledge that no issues have been identified in relation to the sample of bookings examined with the criteria duly met.

We have visually examined the Omega nominal ledger income transaction reports for the year to date ensuring that, as far as we are reasonably able to ascertain, all income due to the Council has been received appropriately and that no significant miscodings have arisen.

We have again examined the Sales ledger "All Unpaid Invoices by Date" reports generated by both the Omega accounting and RBS Bookings software noting that the Omega accounting and Bookings Software Sales Ledger detail are now in synch. We note that no long-standing debts exist as at the 31st March 2018.

Conclusion

No issues arise in this area of our review warranting formal comment or recommendation

Petty Cash Account

The Council does not operate a petty cash account, all incidental expenses being identified on reclaims submitted monthly by staff, which is subject to the normal expenditure approval controls.

Review of Salaries

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenue and Customs (HMRC) legislation in accounting for the deduction and payment over of income tax and NI contributions, and meeting the requirements of the local government pension scheme as last revised in relation to employee contribution banding values from 1st April 2017. To meet that objective, we have:

- Checked to ensure that the Council has reviewed and approved appropriate pay scales for staff with the 2017-18 national pay award agreement duly applied;
- Checked all staff salaries paid in August 2017, agreeing the gross amounts paid to the approved 2017-18 pay scale by reference to each employee's contract of employment;
- Ensured that PAYE, NIC and superannuation deductions have been made accurately by reference to the August 2017 payroll detail following central government's budget changes;
- Checked that any overtime or variable hours payable to casual employees paid is appropriately supported by authorised timesheets; and
- Ensured that individual salaries and the total payments to HMRC and the Pension Fund Administrator are in accord with the August 2017 payroll detail.

Conclusions

We are pleased to report that no issues arise in this area of our review warranting formal comment or recommendation.

Fixed Asset Register

The Annual Return requires disclosure of the value of assets retained by the Council as at 31st March annually. The "Governance and Accountability Manual – Practitioner's Guide" also requires councils to develop and maintain a register of all assets, recording their value in the Annual Return at purchase cost or, where that value is unknown, at an appropriate "proxy" cost as included in the prior year's Return.

We noted last year that the Pear Technology Asset Management software had been purchased and developed in conjunction with the contract accountants to provide a sound and comprehensive inventory of all the Council's assets together with an appropriate photographic record. However, as indicated in last year's final report, the register affords no indication of the value of each asset, either

nominal or insured. We appreciate that it would be both improbable and impracticable to identify the individual purchase cost of each asset, but suggest that, as and when new assets are acquired and added to the register, their purchase value be identified.

As regards the value reported in the Annual Return for 2017-18, we note that it has again been based on the summarised detail in the Statement of Accounts prepared on the Council's behalf by the contract accountants, also taking account of and adding the value of new assets acquired during 2017-18 to that recorded in the 2016-17 Return.

Conclusions

No issues arise in this area warranting formal comment, although as indicated above, we suggest that when new assets are acquired, their value is also added to the Pear Technology register detail.

Investments and Loans

The Council holds no investments other than by way of deposit accounts, transaction detail of which has been examined as detailed in the first section of this report.

We have verified the half-yearly loan repayment instalments to PWLB as part of our above referenced expenditure review. We have, at this final visit ensured the accurate disclosure of the residual loan liability at 31st March 2018 as recorded at Box 10 of Section 2 of the year's Annual Return as £66,175 by reference to the UK Debt Agency's website detail.

Conclusions

We are pleased to record that no issues arise in this area of our review warranting formal comment or recommendation.

Statement of Accounts and Annual Governance & Accountability Return

The Council's annual Statements of Accounts have, as in previous years, been prepared from the Edge accounting software, together with detailed supplementary supporting notes. We have checked and agreed, by reference to the accounting system's closing Trial Balance and other relevant documents, the content of the Statement of Accounts and the supporting notes, detail of which is transferred to Section 2 of the Annual Return.

We have also reviewed the process for identifying and verified the accuracy of year-end debtors and creditors, as disclosed in the Balance Sheet to appropriate supporting documents.

Conclusions

On the basis of our detailed programme of work undertaken during the course of the year on the Council's systems of financial control and satisfactory conclusions drawn from our examination

of the content of the detailed Statement of Accounts and the summarized detail set out in Section 2 of the Annual Governance & Accountability Return, we have duly “signed off” the Internal Audit Certificate assigning positive assurances in each category with the exception of the Internal Control Objective ‘D’ in the Internal Audit Report 2017/18 where we have entered negative assertion in relation to the inappropriately low level of the Council’s General Reserve.

Rec. No.	Recommendation	Response
Review of Budgetary controls & reserves		
R1	Action should be taken to abide by the council's own General Reserve Strategy and to establish a Budget and Precept which will address the potential General Reserve Shortfall in 2019-20.	
Recommendations made during the Interim Audit		
R1	Sales Targets for passive income streams such as Hall Hire must be based on realistic assumptions, (i.e. generally, the previous year's actual achievement, plus or minus 3% dependent on prevalent market conditions. Supporting marketing budgets must also be set at a realistic level.	Response: Noted.
R2	All the Council's fees should be formally reviewed as required by the Financial Regulations, the outcome of members deliberations being minuted formally, even where no increases are agreed.	Response: Noted.
R3	Members should consider synchronising the allotment tenancy year with the financial year to simplify the budget process.	Response: Noted.
R4	EMRs should be reviewed and adopted annually as part of the budgetary process, with any agreed movements formally minuted.	Response: Noted.
R5	Members should ensure that appropriate action is taken when considering the 2018-19 and beyond budgets to abide by the Council's own General Reserve Strategy to address the General Reserve shortfall.	Response: Noted that members have undertaken a Risk Assessment in relation to the General Reserve, however, it is this auditor's opinion that the General Reserve remains set far too low for the council's financial requirements, requiring the council to access EMRs in the event of an Emergency.
Review of Income control systems		

R6 Action should be taken to clear all long-standing "unmatched" receipts in the Sales Ledger reports, any residual **Response: implemented.**
unmatched income being credited to miscellaneous income.

R7 The accounting and bookings software Sales Ledgers should be subjected to periodic scrutiny to ensure that they **Response: implemented.**
are in synch with any variances duly followed up and rectified.

Romsey TC: 2016-17 (Final update)

23-June-17

Auditing Solutions Ltd

