

Romsey Town Council

Internal Audit Report 2019-20 (final update)

Claire Lingard

Consultant Auditor

*For & on behalf of
Auditing Solutions Ltd*

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 Internal Audit for the 2019-20 financial year; the first interim audit took place on the 15th November 2019, supplemented by the second interim audit on the 20th January 2020 and the final update review of the year which took place on the 5th June 2020.

Internal Audit Approach

The final update review of the 2019-20 financial year, necessary to complete the Internal Audit process has been undertaken remotely due to the Covid-19 virus situation and in accordance with Government advice. All files and supporting document required to complete the audit have been supplied by the Chief & Responsible Finance Officer, as requested, electronically.

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

Based on the satisfactory completion of our programme of work for the year, we have concluded that the Council has, again maintained adequate and effective internal control arrangements. We have not made any recommendations for improvement during the final update review process in this financial year.

We understand that the last few months of the 2019-20 financial year have been particularly challenging for councils, both in terms of their day to day operational and administrative functions during this unprecedented crisis. We take this opportunity to acknowledge the swift transition into an irregular working regime, which has been successfully managed by the Clerk and the Members and which has proven suitable and effective for the Council's needs. We would like to thank the Chief Officer/RFO for her assistance during this somewhat challenging remote final update review of the financial year which has ensured the smooth and successful progress of the Internal Audit.

We have completed and signed the 'Internal Audit Report', having concluded that the control objectives set out in that Report have been achieved within the financial year to a standard adequate to meet the needs of the Council. We ask that members consider the content of this report and acknowledge that the report has been formally reviewed and adopted by Council.

Detailed Report

Review 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 Opening Trial Balance detail with that of the Closing Trial Balance in the 2018-19 Statement of Accounts;
- Ensured that the ledger remains “in balance” as at the 31st March 2020;
- Ensured that the cost and expenditure coding structure remain 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, October and December 2019, and March 2020 to the underlying bank statements;
- Checked the transactions on all other account cashbooks given their relatively low volume to the underlying bank statements for the year to the 31st December 2019, and for the month of March 2020; and,
- Reviewed bank reconciliations as at the 30th April, 31st October and December 2019, and the 31st March 2020 on all accounts to ensure that there are no long-standing reconciling items or other anomalous entries.

Conclusions

There were no issues arising in this area of our review, during the final update, warranting formal comment or recommendation.

Conclusions and recommendations made during the interim reviews

We have noted that further to our prior year recommendations that outdated cheques be cancelled and written off that there are still two cheque amounts being carried forward that are dated 2017 and two cheques amounts being carried forward from 2018. It is evident from examination of the Council’s bank reconciliations, that the length of time taken to cash cheques by some parties remains an issue.

It is unusual of a Council the size of Romsey to continue to rely on Cheque payments which is both costly and does not allow the Council to take full Control of its Cashbooks. The Council should now consider a move to processing all non-Standing Order and Direct Debit payments electronically by BACS.

We note that the Council utilises the services of a contract Accountancy firm to undertake the entry of all sales and purchase invoices and to produce its financial reports. Although the cashbooks remain in balance it must be noticed that there is an unacceptably high level of data entry errors, in some cases up to a third of the entries in a cashbook have been incorrect and have been reversed. These errors have been identified to the Chief Officer. It is imperative that proper attention to detail is maintained when entering financial data into the Accounting Software. This issue will be covered, in greater detail, in our Review of Expenditure.

- R1. *Any Cheque over 4 months old, appearing bank reconciliation statements, should be chased up, and if the creditor is not in possession of the cheque, that cheque must be cancelled and reissued. **Response: Implemented.***
- R2. *The Council should consider a move to processing all payments electronically. **Response: Implemented, effective 01st April 2020.***
- R3. *The contract accountant should be reminded to pay close attention to data entry and ensure that this is of an acceptable standard. **Response: Implemented.***

Review of Corporate Governance

Our objective here 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 (SOs) 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 noted that the Council received a qualified External Auditor's Certificate for the 2018-19 financial year as it had failed to formally adopt its Risk Registers. We note that the Council adopted the 2019-20 Risk Registers in the October meeting of the Full Town Council.

We note that the Financial Regulations (FRs) were updated and revised using the NALC model documents and adopted by the Full Town Council in its November 2019 meeting.

We note that the Council re-affirmed its eligibility to exercise the General Power of Competence in the Annual Meeting of the Full Town Council in May 2019.

We note that the Chief Officer continues to take all reasonable steps to ensure that the Council remains compliant with GDPR regulation.

We have concluded our review of the minutes of the Full Council and Standing Committee meetings for the year to date to establish, whether 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.

Conclusions

There were no issues arising 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 December 2019 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 has been expanded to comprise 46 individual payments, totalling £123,703 and representing 61% of all non-pay related expenditure to the above date. **The test sample has not yet been expanded to include the data from January – March 2020.**

We are again pleased to note that VAT returns continue to be prepared and submitted to HMRC quarterly and have verified detail of all four quarterly reclaims for 2019-20 to the underlying Omega accounting records with no issues arising.

Conclusions

There were no issues arising in this area of our review, during the final update, warranting formal comment or recommendation.

Conclusions and recommendations made during the interim reviews

2nd Interim - We have reviewed the position regarding the invoices identified as missing during the 1st Interim Review and are advised that only two of the missing invoices have been located whilst the location of the others remains unknown.

Again, in the new sample there were several cashbook transaction description types listed as 'purchase ledger' rather than a description of the service or goods which had been procured by the Council. These have been identified to the Chief Officer and the Cashbook entries have been highlighted.

1st Interim - Our examination of the test sample of only 35 non-payroll related payments in the year to the 31st October 2019, to the criteria stated above, identified the following serious non-conformities:

- 11 invoices missing*
- 4 instances of two or more invoices being entered as one entry in the purchase ledger*
- 4 instances of the payment description entered as 'purchase ledger'*
- 3 instances of the payment description entered as the payee details*
- 2 instances of grant aid payments being coded to an EMR, not an account code and cost centre.*
- 4 invoices passed to the Chief Officer for investigation purposes*
- 1 issue where the cashbook entry had been transposed with the entry directly above it so that the total amount was correct, however, the amount recorded for each payee was not. Both payees would have received an incorrect payment amount*

All the nonconformities, including the aforementioned corrections to multiple Cashbooks were identified to the Chief Officer during our Review.

We are aware that the council employs a contract Account to provide management reporting and data entry services to the council. We are, however, significantly concerned at the level of error/inattention to detail that has been clearly evidenced during our examination of the Cashbooks and supporting payment documentation from 1st April – 31st October 2019. We find this to be below an acceptable standard and suggest that the Chief Officer undertake a review with the contract Accountant to ensure that the Council receives a proper level of service in the future.

R4. The Chief Officer should undertake a Performance Review with the contract Accountant to ensure that the Council receives a proper level of service in the future. Response: Implemented. A meeting was held with DKS where Council received assurances from the accountants that all issues would be resolved.

Review of 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 2019-20, cover again being provided by Aviva, to ensure that appropriate levels of cover are in place: both Employer's and Public & Products Liability remain at £10 million with Fidelity Guarantee cover at £250,000 and Business Interruption cover at £80,000, all of which we consider appropriate for the Council's current requirements; and,
- Noted that the Council's risk assessments are pending review and update as the council is in the process of migrating to a dynamic Risk Management system called Risk Wizard. The previous Assessments were produced, using the LCRS software, the latest version being adopted formally at the October meeting of the Full Town Council.

Conclusions

There were no issues arising in this area of our review warranting formal comment or recommendation.

Review of 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 Council has already concluded its Budget setting and Precept determination process having Accepted the recommendations of the Finance and Resources Committee of the 3rd September and the 5th November 2019, subsequently approving the Budget and the Precept in its

October meeting of the Full Town Council, the latter being set at £309,420 and recorded under Minute reference 7 (iv).

We have reviewed the Council's reserves at the year-end taking account of the year's budget outturn: Total Reserves at 31st March 2020 stood at £164,763 (£141,241 prior year) comprising Earmarked reserves of £83,643 (£75,814 prior year) leaving a residual General Reserve balance of £81,120 (£65,427 prior year). The General Reserve balance represents only 2.8 months revenue expenditure at FY2019-20 levels (2.4 months prior year), sitting both lower than the accepted Chartered Institute of Public Finance and Accountancy (CIPFA) guidance in this area of between 3 and 6 months of reserve at current levels of revenue expenditure and almost two months below the Council's Resolved level of retained General Reserve of 4 months revenue spending.

We noted previously, in our review of the Council's minutes for the 2018-19 financial year, that members had adopted a motion to set and maintain the level of General Reserves at a minimum of four months and we commended that; "the Council's 2020-21 financial year budget showed clear evidence of the Council working towards achieving that objective". However, it is somewhat disappointing to note that a year later only .4 of one month improvement in the overall level of the General Reserve has been achieved.

Finally, in this area of our review, we note that members continue to receive regular budgetary monitoring reports, with the format having been developed to include appropriate variance analysis commentary and a year-end outturn forecast. We have examined the year budget performance detail, as set out in the Omega accounts with no unexplained or unanticipated variances existing warranting further enquiry.

Conclusions

As in previous years, we once again bring to the attention of the Chief Officer/RFO and Member's the lower than recommended level of General Reserve that continues to be maintained by the Council and refer to our prior recommendations in this matter.

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 the invoice is submitted in a timely manner and that effective procedures are in place to pursue recovery of any outstanding monies due to the Council. We note that, in addition to the Precept, the Council continues to receive income from a variety of sources including Town Hall & Room hire, Bar sales, Film show, Tenancy Agreement for Rooms at the Town Hall (managed by a separate property lease) market stall rents (Managed by Bradbeers and Broadlands in a tripartite agreement with the Council), Occasional grants & donations, investment interest, recovered VAT, sundry grants and donations, CIL monies:

- We have noted that the Council has again undertaken a formal review of its fees and charges during the 2018-19 budget setting and precept determination processes with increases approved accordingly for 2019-20;
- We have checked and agreed all general sales ledger invoices (Town Hall & Room hire) issued to 31st December 2019, ensuring that the fees charged were in accord with the published scales with no undue delays identified in settlement by customers;

- We have noted that the Town Hall, Room Hire and Bar Sales are all healthy and above projections;
- We have reviewed the lease of the Cranfield Trust noting that a new agreement has just been authorised by the Chief Office which is pending authorisation by the Trust. The new agreement commenced in December 2019 and expires in December 2022 with payments stipulated as quarterly in advance;
- We have also tested the income derived from Film shows to the 31st December 2019 noting the receipting of monies and the banking process;
- We have noted the income from the Council's markets which is managed in a tripartite agreement between Bradbeers, Broadlands and the Council in a 15 year contract which commenced in November 2018 and expiring in November 2034 with payments for pitch fees being received by the Council, by cheque along with a manual spreadsheet confirming pitch sales, quarterly in arrears; and,
- Finally, in this area, we have once again, reviewed the way in which cash and cheque receipts are recorded for banking for the financial year to 31st December 2019, to include Booking Management, Invoice issuance, funds receipt, credit control, banking and debt management with no issues arising.

Conclusions

There were no issues arising in this area of our review, during the final update, warranting formal comment or recommendation.

Conclusions and recommendations made during the interim reviews

Although the Sales Ledger, which is managed by the Contract Accountants is in generally good order, there are five anomalies which may be the result of misallocation or error. These are as follows.

- 12/09/16 Farrow
- 13/09/17 Registrar -Entered in this FY as 2017!
- 07/02/19 MYNT
- 30/08/18 Registrar
- 05/12/18 MYNT

The Chief Clerk should work with the Contract Accountant to ensure that these anomalies are resolved prior to the year-end close down.

R5 *The Chief Officer should work with the Contract Accountant to identify the cause of these anomalies and to ensure that these anomalies are resolved prior to the year-end close down for the 2019-20 financial year. Response: Implemented.*

Review of 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 Staff 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 2018. To meet that objective, we have:

- Noted that the Council's contract Accountants once again provided advice to the Chief Officer during the 2018-19 financial year Budget setting process;
- Noted that the contract Accountants continues to check the payroll information and enter it into the Council's Rialtas Omega Accounting system;
- Checked to ensure that the Council has reviewed and approved appropriate pay scales for staff with the 2018-19 national pay award agreement duly applied – noting that the correct NJC SCP scale has been utilised to set the salary budget for FY 2019-20 and to calculate the salaries;
- Checked all staff salaries paid in April 2019, noting that the gross amounts were paid to the approved 2019-20 pay scale by reference to each employee's contract of employment/establishment list/payslip;
- Ensured that PAYE, NIC and superannuation deductions have been made accurately by reference to the April 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 April 2019 payroll detail.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation.

Review of Fixed Assets

The Governance and Accountability Manual requires councils to develop and maintain a register of all assets. The Annual Return requires disclosure of the value of assets retained by the Council as at 31st March, annually, with a revision to the reporting detail issued in 2010 that requires asset values to be reported at cost price or, where that value is unknown, the prior year Annual Return value updated to reflect the cost of any new acquisitions or deletions / disposal.

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.

We note that the overall asset values recorded in the Pear Tree Asset Register have been correctly reported in Box 9, Section 2 for 2019-20 in the amount of £2,227,057 (£2,221,679 prior year), in accordance with in-year acquisitions and disposals.

Conclusions

There are no issues arising in this area of our report warranting formal Comment or recommendation.

Review of 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 2020 as recorded at Box 10 of Section 2 of the year's Annual Return as £60,316 by reference to the UK Debt Agency's website detail.

Conclusions

There are no issues arising 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.

Rec. No.	Recommendation	Response
Review of Maintenance of Accounting Records & Bank Reconciliations		
R1	Any Cheque over 4 months old, appearing bank reconciliation statements, should be chased up, and if the creditor is not in possession of the cheque, that cheque must be cancelled and reissued.	<i>Response: Implemented.</i>
R2	The Council should consider a move to processing all payments electronically.	<i>Response: Implemented, effective 01st April 2020.</i>
R3	The contract accountant should be reminded to pay close attention to data entry and ensure that this is of an acceptable standard.	<i>Response: Implemented.</i>
Review of Expenditure		
R4	The Chief Officer should undertake a Performance Review with the contract Accountant to ensure that the Council receives a proper level of service in the future.	<i>Response: Implemented. A meeting was held with DKS where Council received assurances from the accountants that all issues would be resolved.</i>
Review of income		
R5	The Chief Officer should work with the Contract Accountant to identify the cause of these anomalies and to ensure that these anomalies are resolved prior to the year-end close down for the 2019-20 financial year.	<i>Response: Implemented.</i>