



Romsey Town Council

Internal Audit Report 2020-21 (Final)

Chris Hall

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 AGAR.

This report sets out the work undertaken in relation to the 2020-21 financial year. Due to the continuing impact of the Covid-19 pandemic, we have again undertaken our review for the year remotely: we wish to thank the Clerk and Building Manager for assisting the process, providing all requested documentation in electronic format to facilitate completion of our review for the year and sign off of the Internal Audit Certificate in the year's AGAR. We have, obviously in the circumstances, reduced the volume of transactions examined, whilst still ensuring governance and financial controls remain effective.

Internal Audit Approach

In conducting 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 / AGAR.

Overall Conclusion

Details of the work undertaken on the Council's accounting and other records are set out in the following detailed report, which contains some observations and recommendations, all of which we regard as serious issues for the Council to respond to. We have assigned appropriate assurances in the required AGAR Internal Audit Report for 2020-21.

We ask that Councillors consider the content of this report and acknowledge that the report has been formally reviewed and adopted by Council by responding to the attached Action Plan.

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 Omega accounting package and is supported by the services of DCK Beavers to maintain the financial records. We have:

- Agreed the 2020-21 Opening Trial Balance in Omega to the closing 2019-20 figures in the Annual Governance and Accountability Return (AGAR);
- Ensured that the ledger remains “in balance” as at 31 March 2021;
- Ensured that the cost and expenditure coding structure remain appropriate for purpose;
- Checked the Omega bank reconciliations as at 31 March 2021 for all accounts to the supporting bank statements.

The Council maintains a number of different bank accounts with Lloyds and TSB Banks. While there is evidence in the Finance and Resources Committee Minutes of regular review by Councillors, this needs to be supported by signed copies, which has lapsed during the pandemic restrictions and needs to be re-established in due course.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

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 are concerned to note that the Council’s Standing Orders and Financial Regulations have not been updated since 2017 and 2019 respectively. These are important control policy documents that should be kept up to date with the Model Forms produced by NALC.

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 2020.

We have completed our review of the minutes of the Full Council and Standing Committee meetings for the year 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. No such issues have been identified.

The Transparency Code became mandatory for all Parish and Town Councils from 2015. We are pleased to note some improvement in the level of data provided, although this needs to be brought up to date for the year as a whole (for example, lists of payments over £500 have not been updated since September 2020).

Conclusions and recommendation

R1. The Council should update and adopt its Standing Orders and Financial Regulations as a priority, and continue to add to the information made available under the Transparency Code.

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 are pleased to note the continuation of sound internal control in this area, with Councillors examining and initialling invoices to a level that meets the requirement of Financial Regulation 2.2. Detailed scrutiny in this area is maintained by the Finance and Resources Committee.

We have test-checked a range of significant transactions over the year (remotely, due to the constraints of the pandemic) to support the above finding, with no anomalies found.

We have also examined detail of VAT payments / reclaims processed during the year to that same date by reference to the accounting software control account with no issues arising.

Conclusions

No issues arise in this area 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: -

- Noted that the Council's risk assessments are now reviewed and approved at the Council meeting in May each year, which satisfies the requirement in Financial Regulations for a minimum annual review;
- Examined the Council's current insurance policy, renewed from 1 April 2020 on a 3-year Long Term Agreement basis with Royal Sun Alliance. Appropriate levels of cover remain in place: Employers Liability at £10M, Public & Products Liability at £15M, and other covers all of which we consider appropriate for the Council's current requirements.

Conclusions

No issues arise in this area 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.

A 2021-22 Budget and Precept totalling £316,381 was approved by the Council at its November 2020 meeting.

We note that the Council has established a range of Earmarked Reserves for specific projects, totalling £43,229 as at 31 March 2021. After allowing for year-end balances, this leaves a General Reserve of £119,818, which represents around 4.5 months of normal expenditure. This accords with the policy set by the Finance and Resources Committee in June 2020 to maintain the General Reserve at 4 months of normal expenditure.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Review of Income

We note that the Council has a number of income streams in addition to the Precept, largely relating to Town Hall functions and market receipts. These have obviously been significantly curtailed throughout the year. We have tested-checked a range of transactions within the Omega accounting software, and have found no anomalies.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Petty Cash Account

A small Petty Cash float is maintained with regard to Allotments, which totalled £84.64 as at 31 March 2021. A float of £300 is also maintained for the Bar. These amounts have been agreed to the accounting system and underlying records with no issues arising, although we have obviously been unable to confirm the physical cash holdings.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Review of Staff Salaries

In examining the Council's payroll function, we aim to confirm that salary payments are in line with the Council approved pay rates and that extant legislation is being appropriately observed as regards adherence to the requirements of HMRC legislation in relation to the deduction and payment over of income tax and NI contributions, together with pension contributions.

The payroll function is outsourced to SGW. We have remotely test-checked the payroll for August 2020 and March 2021, agreeing detail of the basic salary payments to each employee. We have also checked the accuracy of the tax, NI and pension deductions by reference to the relevant tax and NI tables and percentage bandings applying to staff contributing to the Local Government Pension scheme with no issues arising.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Fixed Asset Registers

Further to our comments made in our interim report, we remain concerned at the basis of the asset valuation of £2,227,738 shown in the 2020-21 AGAR. We can find no reliable supporting data for this figure, which is based on work undertaken by DCK in 2015, using software which cannot be interrogated or updated, and may have used a different basis of asset valuation from that required by Government Accounting. Therefore we are unable to offer any assurance on the figure quoted in the Accounts. We have discussed this with the Chief Officer and the Building Manager, who will be undertaking further work on this important issue during 2021-22.

Conclusions and recommendation

R2. *We have assigned a negative assurance to Objective H in our Internal Audit AGAR Report for 2020-21. The Council should ensure that a proper basis for the valuation of assets, in accordance with Government requirements, is established and maintained as soon as possible.*

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.

As its balances exceed £100,000 the Council is required, under Section 15(1)(a) of the Local Government Act 2003, to establish and review on an annual basis an Investment Strategy. This requirement came into force on 1 April 2018. We have discussed the formation of an appropriate Strategy with the Clerk.

We have verified the balance of the outstanding PWLB loan at 31 March 2021 to the underlying records.

Conclusions and recommendation

R3. The Council should establish and annually review an Investment Strategy as a priority.

Statement of Account and AGAR

The AGAR incorporates the Council's Annual Accounts, which are subject to external audit scrutiny and verification.

Conclusions

Subject to the comments and recommendations made above, we have duly signed off the Internal Audit Certificate at Page 3 of the AGAR, assigning supportable assurances in all categories.

Rec. No.	Recommendation	Response
R1	<i>(Corporate Governance)</i> The Council should update and adopt its Standing Orders and Financial Regulations as a priority, and continue to add to the information made available under the Transparency Code.	
R2	<i>(Fixed Asset Registers)</i> We have assigned a negative assurance to Objective H in our Internal Audit AGAR Report for 2020-21. The Council should ensure that a proper basis for the valuation of assets, in accordance with Government requirements, is established and maintained as soon as possible.	
R3	<i>(Investments and Loans)</i> The Council should establish and annually review an Investment Strategy as a priority.	