
Aylsham Town Council

Internal Audit Report: 2021-22 (Final Update)

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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 Aylsham Town Council for the 2021-22 financial year.

This report sets out the results of our final audit visit in relation to 2021-22, which was undertaken on 18th May 2022. We wish to thank the Town Clerk and Assistant Town Clerk for assisting us with the completion of our audit work.

Internal Audit Approach

In carrying out our internal audit 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 selective sampling techniques, where 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.

In the sections below, we have explained the objectives of each area of our audit, summarising the work undertaken and our findings. We have identified certain areas where we consider the existing control arrangements could be further improved and these are set out in the report, together with our recommendations for action. The recommendations are drawn together in the appended Action Plan. We ask that Members consider the content of this report and respond, in due course, to the recommendations set out in the Action Plan.

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 package is used to maintain the financial records. The Council continues to use Barclays Bank Plc for its main day-to-day banking services. Two bank accounts are in operation, the main General (current) Account, supplemented by an Active Saver (instant access deposit) Account.

In line with good practice, the Council has also deposited funds that are surplus to its immediate requirements across a number of financial institutions, in order both to minimise risk and to ensure a reasonable rate of interest return is achieved. During the the financial year, the Council's short-term investments (i.e., those with a maturity date of up to one year) included investments with the CCLA Public Sector Deposit Fund and the Shawbrook Bank.

For much of the year, the Council also held a 2-year Fixed Rate Bond with Hodge Bank, which was accounted for as a long-term investment. However, this bond matured in February 2022 and the balance is currently held in the General Account, pending a decision on how it should be re-invested.

In the course of our audit work, we have:

- Confirmed that the opening trial balance for 2021-22 recorded on Omega reconciled to the 2020-21 AGAR;
- Verified that the accounting records remained "in balance" as at 31st October 2021 (the latest completed month on Omega at the time we commenced our interim audit work) and at 31st March 2022;
- Confirmed the accounting code structure in place provides adequate information to meet budget reporting and control requirements;
- Checked and agreed the transactions recorded on Omega to the relevant bank statements for three sample months (May and October 2021, plus March 2022);
- Confirmed that regular monthly bank reconciliations were carried out by the Finance Officer and independently reviewed by the Town Clerk throughout the year;
- Checked and verified the detail of the bank reconciliations as at 31st October 2021 and 31st March 2022, and
- Confirmed that appropriate procedures remain in place for backing up financial and other IT systems in use at the Council.

Conclusion

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

Corporate Governance arrangements

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 accordance with the adopted Standing Orders and that no actions of a potentially unlawful nature have been or are being considered for implementation.

During the course of our audit, we have confirmed the following:

- Our review of the minutes of the Council meetings for the year did not identify any matters that we consider might have an adverse effect, through litigation or other causes, on the Council's future financial stability;
- The Standing Orders and Financial Regulations continue to be the subject of periodic review and to reflect the latest national guidance provided by NALC. The most recent review was at the Council meeting on 2nd March 2022, when it was confirmed that no changes were required;
- The Council formally re-adopted the General Power of Competence at its meeting in May 2019 and this continued to be applicable throughout 2021-22;
- The Council has continued to give active consideration to internal control matters, in particular, through the work of the Effectiveness of Internal Control Working Party and the "Independent Scrutineer" role, and
- Following a recommendation by the Efficiency of Internal Control Working Party, the Council agreed to set up official email accounts for all councillors. We have confirmed that this was in progress at the year-end.

Conclusion

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

Expenditure

Our objective is to ensure that:

- Council resources are released in accordance with approved procedures and budgets;
- An official order has been raised for the supply of goods and services on any 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;
- Any 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 correctly identified and coded to the control account for recovery.

We have completed our review of the procedures in place, selecting a sample of non-pay related payments across the financial year, to confirm compliance with the above criteria. Our test sample included all payments in excess of £2,000, together with a more random selection of every 30th payment as recorded in the Omega accounts. The net value of our sample was £270,000, which equated to 78% of non-pay expenditure in the year.

The Council holds a corporate Barclaycard for occasional urgent/internet purchases, with a maximum credit limit of £10,000. The Clerk is the only authorised user and the account is settled in full each month by direct debit. We checked the expenditure for one sample moth (statement dated 7th August 2021), with no issues arising.

VAT re-claims have been submitted on a regular quarterly basis during the 2021-22 financial year. We reviewed the detail of the re-claims for all four quarters, confirming that they agreed to the Omega control account.

Conclusion

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

Assessment and management of Risk

Our objective 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.

During the course of our audit work, we have confirmed the following:

- In October 2021, the Council entered into a new three-year agreement with Hiscox for the provision of its insurance services. The cover includes Employer's Liability and Public Liability of £10 million, Hirer's Liability of £5 million and Fidelity Guarantee cover of £0.75 million, which is in line with similar-sized authorities;
- The Council's risk management arrangements, comprising the Financial Risk Assessments, Risk Management Policy and Internal Control Policy were re-adopted at the Council meeting on 2nd February 2022, following consideration by the Effectiveness of Internal Audit Group;
- Council staff have continued to undertake regular reviews of playground equipment throughout the year, with annual inspections carried out by RoSPA Playsafety Ltd. The latest annual inspections were undertaken in June and September 2021 and we confirmed that no potentially high-risk issues were identified.

Conclusion

In general, the controls relating to risk management were found to be adequate and to be operating effectively. The one area where we consider that further action is required is in relation to ensuring appropriate and timely action is taken to address any issues identified by the annual external play inspections and the more regular internal reviews.

At the time of our interim report, we were informed that remedial work to address matters identified by the annual external play inspections in June and September 2021 was

scheduled to be completed early in 2022. In following this up at our final audit, we confirmed that no action had yet been taken. From our review of the ‘facilities task folder’ currently maintained and from discussions with staff, we identified scope to improve the existing monitoring arrangements, to ensure that appropriate action is taken on a timely basis.

R1 The Council should review the arrangements in place for ensuring that issues identified by the annual play inspections or internal reviews are addressed on a timely basis. We recommend that all issues raised are recorded on a monitoring schedule/log, which should identify the nature of each issue, the source (which could also include matters raised by a member of the public), the associated level of risk, the action required and the timescale for completion. It should also identify the member of staff responsible for ensuring appropriate action is taken and include evidence of manager review.

R2 In future years, the key issues arising from the annual play inspections should be reported to the Council, given Members’ responsibilities in relation to health & safety matters and potential budget implications of any significant remedial actions required. (NB: We acknowledge that no high-risk issues were identified in the 2021 annual inspections)

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: also, 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.

During our interim audit, we have confirmed that effective budget monitoring arrangements remain in place, with the Council receiving monthly reports on progress against the budget and the overall financial position, including the level of reserves.

The budget and Precept requirement for 2022-23 were formally agreed at the Council meeting on 5th January 2022. The Precept was set at £451,120, compared to £409,500 for 2021-22. This represents an estimated cost of £156.14 for an average Band D property, an increase of approximately 2.7%. As in previous years, a detailed budget report was provided by the Town Clerk to inform the decision-making process. As part of the budget process, consideration was given to the hall hire, burial fees and allotment charges to apply for 2022-23 and it was decided that they would remain unchanged.

At the year-end, the Council’s overall reserves amounted to £408,197 (compared to £417,782 at the previous year-end). Of the total reserves, £317,260 (£282,921) has been earmarked for specific purposes, with the remaining £90,937 (£134,861) held as a General Fund (contingency reserve).

In previous years, we have reported that, whilst there is no formal guidance on the level of General Fund that should be retained, as this will vary depending on the circumstances of each council and the risks faced, a yard-stick of between 25% and 50% of the Precept is often cited, Whilst the Council’s General Fund at 31st March 2022 is lower than this, at

around 20% of the 2022-23 Precept, this does not appear unreasonable given the significant level of funds retained in earmarked funds.

Conclusion

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

Review of 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, 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. In addition to the Precept and any grants received, the main sources of income for the Council are allotment rents, cemetery and related fees, market rents (general market, farmers' market and collectors' fair) and hall hire.

To meet our objective, we have undertaken the following audit work:

- Fees and charges: We have confirmed that Members continue to review the Council's scales of fees and charges annually, in line with the requirements of the Financial Regulations. Those for 2021-22 were considered as part of the annual budget-setting process;
- Banking of income: As noted earlier in this report, we have checked and agreed two sample months' receipts transactions from cashbooks to relevant bank statements;
- Cemetery-related income: We have checked the details of interments, as recorded in the Burial Register, for the period 1st April to 5th October 2021, confirming that all entries are supported by appropriately completed undertakers' applications and that the correct fee has been invoiced, with payment received and banked in a timely manner;
- We also reviewed the income arising from the sale of Exclusive Rights of Burial and installation of memorials/addition of further inscriptions for the same period, again confirming that the appropriate fees have been charged, recovered and banked promptly;
- Hall fees: We have reviewed the fees charged for the hire of the Town Hall and Drill Hall for a sample period of two weeks in September 2021, confirming that all hirers were invoiced for the correct amounts and income was received on a timely basis;
- Allotment rents: We confirmed that all allotment holders have been invoiced for the current year and that, in all cases, the rent due has been received. We also undertook a sample review of tenancy agreements, to confirm these were in place, with no issues arising, and
- Outstanding Debtors: We have examined the Sales Ledger "Aged Debtors Report" as at the end of October 2021 and at 31st March 2022 and confirmed that the amount of outstanding debt remains very low and the debtor position is well managed.

Conclusion

In general, the controls over income were found to be adequate and to be operating effectively. However, there is one area, market rents, where we consider the controls need to be further improved.

From a review of income relating to three separate markets held during November 2021, we were able to confirm that receipts were issued for payments received. However, no record is maintained of the stall holders present on each day, so we were not able to confirm that all those present had been charged.

R3 A register of stall holders should be maintained and should be completed on each market day to record attendance. The register should be reconciled to the receipts book (which is also used to record payments made by card) to confirm that all attendees have paid for their pitch.

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. To meet that objective, we confirm that:

- Any petty cash account(s) in operation are managed effectively and that all expenses incurred are appropriately supported by a trade invoice or relevant till receipt;
- Only low value expenditure is incurred from any petty cash account(s) in use;
- Where appropriate, VAT is identified and coded accordingly for periodic recovery from HMRC; and
- The physical cash held is periodically reconciled to the supporting records.

The Council operates a limited petty cash account, topped up “as and when required” to a maximum holding of £250. At our interim audit, we reviewed the most recent reconciliation undertaken by the Finance Officer (19th October 2021), confirming that the cash held and accompanying petty cash receipts agreed to the overall float, and that the reconciliation had been independently reviewed by another member of staff. We also reviewed the year-end reconciliation and confirmed that this was in order and that the petty cash balance as at 31st March 2022 has been included correctly as part of the ‘total cash and short-term investments’ figure 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.

All Council staff continue to be paid on a monthly basis, with the “Brightpay” software used

to prepare the payroll. This is completed by the Finance Officer and reviewed by the Town Clerk.

To meet our objectives, we have:

- Confirmed that the Council continues to approve the staff pay rates annually. (NB At the time of our interim audit, the National Joint Council for Local Government Services (NJC) pay award for 2021-22 had still to be agreed);
- Confirmed, for a sample month (October 2021), that;
 - Tax and National Insurance deductions for all employees have been made applying the appropriate PAYE code and NIC Table;
 - The correct local authority pension scheme percentage deductions are being applied, where applicable;
 - The net payments to staff as shown on the payslips agree to the summary BACS settlement reports; and
 - The correct payments have been to HMRC and the Norfolk Pension Fund.

We noted that an incremental increase due to one member of staff had not been made, but confirmed that this had been corrected in the November 2021 salary payment, which was made just prior to our audit.

The national Local Government Services pay agreement for 2021-22, applicable from 1st April 2021, was finally agreed by all parties at the end of February 2022. At our final audit visit, we confirmed that the payment of arrears due to all staff was made in March 2022 and that the appropriate revised pay scale rates were applied.

Conclusion

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

Asset and Investment Register

The reporting arrangements for assets in the AGAR require councils 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.

The Council maintains a detailed asset and investment register, with asset values recorded in accordance with the above requirements, which is updated at the end of each financial year. In the course of our final audit work, we reviewed the register as at 31st March 2022 and agreed the total asset value of £3,832,793 - reconciling the movements from the previous year end value of £3,889,664. The most significant change relates to the removal of the value of the long-term investment with Hodge Bank, which matured in February 2022.

We have confirmed that the total value of assets has been correctly reported in the 'total fixed assets and long-term investments' value in the Accounting Statements (Section 2, Line 9 of the AGAR).

Conclusion

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

Investments and Loans

Our objective here is to confirm that an appropriate investment strategy/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.

During the course of our audit work, we have:

- Confirmed that the Council’s investment strategy was re-adopted, without amendment, at the Council meeting in March 2021;
- Confirmed that the Council no longer any long-term investment in place – as noted above, a 2-year Fixed Rate Bond with Julian Hodge Bank matured in February 2022 and the funds are currently held in the General Account, pending a decision on re-investment;
- Reviewed the transactions for the short-term investments held in the CCLA Public Sector Deposit Fund and with Shawbrook Bank;
- Checked and agreed the capital and interest repayments in the year for the Council’s Public Works Loan Board (PWLB) loan to the third party “demand” notice’
- Confirmed that the first annual principal repayment of £10,000 has been made on the interest-free loan of £50,000 which the Council obtained from the Salix Energy Efficiency Loan Scheme towards the LED upgrade of existing street lights.
- Confirmed that the loan repayments made in the year, for both the PWLB loan and Salix loan, and the overall loan balances 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 Income and Expenditure accounts produced from the Omega software and the draft of the statutory Accounting Statements that the Council is required to complete as Section 2 of the AGAR. We have agreed the detail to the supporting accounting records and other related documentation.

Conclusions

No matters have arisen from this area of our review that require a 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.

Recommendation		Response
Assessment and management of Risk		
R1	The Council should review the arrangements in place for ensuring that issues identified by the annual play inspections or internal reviews are addressed on a timely basis. We recommend that all issues raised are recorded on a monitoring schedule/log, which should identify the nature of each issue, the source (which could also include matters raised by a member of the public), the associated level of risk, the action required and the timescale for completion. It should also identify the member of staff responsible for ensuring appropriate action is taken and include evidence of manager review.	
R2	In future years, the key issues arising from the annual play inspections should be reported to the Council, given Members' responsibilities in relation to health & safety matters and potential budget implications of any significant remedial actions required. (NB: We acknowledge that no high-risk issues were identified in the 2021 annual inspections)	
Review of Income		
R3	A register of stall holders should be maintained and should be completed on each market day to record attendance. The register should be reconciled to the receipts book (which is also used to record payments made by card) to confirm that all attendees have paid for their pitch.	