

## **Aylsham Town Council**

*Internal Audit Report: 2020-21 (Interim)*

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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 2020-21 financial year.

This report sets out the results of our interim audit in relation to 2020-21, which was completed on 19<sup>th</sup> January 2021. Due to the impact of the Covid-19 pandemic, we undertook our audit work remotely on this occasion. We wish to thank the Town Clerk and Finance Officer for providing the documentation required for review in an electronic format.

## **Internal Audit Approach**

In carrying out our internal audit work for the year to date, 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 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 '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 for the year to date, 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 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 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. At the start of the financial year, the Council's short-term investments (i.e., those with a maturity date of up to one year) included two Treasury Bonds with Barclays Bank, together with investments with the CCLA Public Sector Deposit Fund and Shawbrook Bank. Both of the Treasury Bonds have now matured, but have not yet been reinvested.

An investment with Hodge Bank which matured in February 2020, was re-invested as a 2-year Fixed Rate Bond with that bank and is now accounted for as a long-term investment.

In the course of our interim audit work, we have:

- Confirmed that the opening trial balance for 2020-21 recorded on Omega agrees to the 2019-20 AGAR and the detailed end of year accounts;
- Verified that the accounting records remained "in balance" as at 31<sup>st</sup> October 2020 (the latest completed month on Omega at the time we commenced our interim audit work);
- 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 two sample months (April and September 2020);
- Confirmed that regular monthly bank reconciliations continue to be carried out by the Finance Officer and independently reviewed by the Town Clerk;
- Checked and verified the detail of the bank reconciliations as at 30<sup>th</sup> September 2020, and
- Confirmed that appropriate procedures remain in place for backing up financial and other IT systems in use at the Council.

### **Conclusion**

***On the basis of our audit work to date, we are satisfied that the controls in place in this area are adequate and are operating effectively. There are no matters arising that require a formal comment or recommendation.***

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## 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 to the end of December 2020 have not identified any issues that we consider might have an adverse effect, through litigation or other causes, on the Council's future financial stability;
- Both the Standing Orders and Financial Regulations were last reviewed in May 2019, when the Council re-approved them without revision. We understand that they will be subject to further review in March 2021;
- The scheme of delegation was revised in March 2020, in response to the Covid-19 pandemic, to ensure that the Council could continue to function effectively;
- 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.

### *Conclusion*

*There are no matters arising from our audit work to date 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 appropriately identified and coded to the control account for periodic recovery.

We have commenced our review of the procedures in place in this area. Overall, we selected a sample of 40 non-pay related payments for the period to 30<sup>th</sup> October 2020, 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 30<sup>th</sup> payment as recorded in the Omega accounts, totalling £331,435 and equating to 83% of non-pay expenditure in the year to date.

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 and agreed the expenditure arising for one sample month (May 2020), with no issues arising.

VAT re-claims have been submitted on a regular quarterly basis during the 2020-21 financial year. We have checked and agreed the detail of the re-claims for the first two quarters, confirming that they agree to the Omega control account.

### **Conclusion**

***There are no matters arising from our audit work to date 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 interim audit, we have confirmed the following:

- The Council entered into a 3-year contract with Hiscox for the provision of its insurance services in October 2018. The cover in place during 2020-21 included Employer's Liability and Public Liability of £10 million, Hirer's Liability of £5 million and Fidelity Guarantee cover of £0.5 million, which is in line with other similar authorities;
- The Council re-adopted its overall Risk Management Policy at its meeting in May 2019. The detailed Financial Risk Assessment was reviewed by the Effectiveness of Internal Control Working Group at its meeting on 5<sup>th</sup> March 2020, the minutes of which were subsequently approved by the Council on 15<sup>th</sup> July 2020.
- 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 completed in June and September 2020 and did not identify any areas of potentially high risk. We understand that the results of the inspections will be reported to Members in due course.

### **Conclusion**

***There are no matters arising from our audit work to date 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 District Council: also, that an effective reporting and monitoring process is in place. We also aim to confirm that 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 confirmed that effective budget monitoring arrangements are in place, with the Council receiving monthly reports on progress against the budget and the overall financial position.

The budget and Precept requirement for 2021-22 are due to be formally agreed at the Council meeting on 20<sup>th</sup> January 2020. We will review the process followed, together with the 2020-21 budget outturn and the overall reserves position, at our final audit.

### *Conclusion*

*There are no matters arising from our audit work to date 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

- 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 2020-21 were considered as part of the annual budget-setting process;
- As noted earlier in this report, we have checked and agreed two sample months' receipts transactions from cashbooks to relevant bank statements;
- We have checked the details of interments, as recorded in the Burial Register, for the period 1<sup>st</sup> April to 30<sup>th</sup> November 2020, 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 ensuring that the appropriate fees have been charged, recovered and banked promptly, and

- We have examined the Sales Ledger “Aged Debtors Report” as at the end of November 2020 and confirmed that the amount of outstanding debt remains very low and the debtor position is well managed.

Due to our work being undertaken remotely, we were not able to review all areas of income during our interim audit. We will give consideration to the other income streams (hall bookings, allotment rents and market income) at our final audit.

### **Conclusion**

***There are no matters arising from our audit work to date 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. 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 confirmed, for a sample month (September 2020) that the petty cash float had been checked and approved by the Town Clerk.

At our final audit visit, we will confirm that the petty cash balance as at 31<sup>st</sup> March 2021 has been included correctly as part of the ‘total cash and short-term investments’ figure in Section 2, Box 8 of the AGAR.

### **Conclusion**

***There are no matters arising from our audit work to date 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 and has implemented the National Joint Council for Local Government Services (NJC) award for 2020-21;
- Confirmed that an appropriate signed contract of employment is held for the new member of staff who joined the Council in October 2020;
- Confirmed, for a sample month (September 2020), 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.

### **Conclusion**

***On the basis of our audit work, we are satisfied that the controls over salaries and wages are adequate and are operating effectively.***

***However, we did note that the calculation of the revised salary scale rates that have been applied from 1<sup>st</sup> April 2020 were taken from information provided by the NJC which differs slightly from guidance subsequently issued by NALC – the latter giving slightly higher hourly rates. We understand that, in line with the approach followed by other Councils, an adjustment will be made to the next month’s salary payments to bring them in line with the NALC guidance and to amend the salary payments made in the year to date.***

### **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 interim audit, we have:

- Confirmed that the Council’s investment strategy, which was approved in January 2017, is due to be reviewed before the end of the financial year;
- Confirmed that, at present, the Council has one long-term investment in place - a two-year Fixed Rate Bond with Julian Hodge Bank which matures in February 2022;
- Reviewed the transactions on the short-term investments held with various financial institutions, by reference to third party bank statements and confirmations of



deposits, confirming that any interest earned is being paid gross. As noted earlier in the report, at the time of our interim audit, other than the Barclays current and deposit accounts, the only short-term investments held are with the CCLA Public Sector Deposit Fund and Shawbrook Bank, and

- Checked and agreed the capital and interest repayments in the year to date for the Council's Public Works Loan Board (PWLB) loans to the third party "demand" notices.

During the course of the year, the Council applied for an interest-free loan of £50,000 from the Salix Energy Efficiency Loan Scheme, towards the LED upgrade of existing street lights. The loan was approved by the Ministry of Housing, Communities and Local Government in June 2020 and the funds were received in December 2020. The loan is repayable at £10,000 per annum, over a 5-year period.

### ***Conclusion***

***There are no matters arising from our audit work to date that require a formal recommendation.***