
Aylsham Town Council

Internal Audit Report: 2019-20 (Final Update)

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 2019-20 financial year.

This report sets out the results of our final audit work in relation to 2019-20, which was undertaken in June 2020. It updates the reports that we issued following our interim audit visits on 7th November 2019 and 12th February 2020.

Internal Audit Approach

In undertaking our audit work, 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 considered applicable.

Due to the impact of the Covid-19 pandemic, our final review for the year was undertaken remotely. We wish to thank the Town Clerk and the Finance Officer for providing the additional documentation required for the final audit review, in electronic format. This has enabled us to complete our audit work for the year and sign off of the Annual Internal Audit Report in the year's AGAR.

Overall Conclusion

On the basis of the programme of work we have undertaken for the year, 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. We have completed and signed the 'Annual Internal Audit Report' in the 2019-20 AGAR, having concluded that the internal control objectives as set out in that report were being achieved throughout the financial year to a standard adequate to meet the needs of the Council.

In the sections below, we have explained the objectives of each area of our audit, outlining the work undertaken and our findings. We identified some errors in the draft accounts, relating to the accounting treatment required for the purchase of a long-term investment, but these were immediately rectified and we are pleased to report that there are no matters arising from our audit work that require a formal 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 deposited the majority of 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. As at 31st March 2020, the Council's short-term investments (i.e. those with a maturity date of up to one year) comprised two Treasury Bonds with Barclays Bank, together with investments with the CCLA Public Sector Deposit Fund and Shawbrook Bank. A one-year investment that had previously been held 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 audit work, we have:

- Confirmed that the opening trial balance for 2019-20 recorded on Omega agreed to the 2018-19 AGAR and the detailed end of year accounts;
- Verified that the accounting records remained "in balance" at the time of our interim visit and as at 31st March 2020;
- 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 four sample months (April, August and December 2019, plus March 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 30th April, 31st August and 31st December 2019, plus 31st March 2020;
- Confirmed that there is accurate disclosure of the overall cash balances in the year-end statutory accounts (Section 2, Line 8 of the AGAR),
- 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, 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.

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 for the 2019-20 financial did not identify any issues that we consider might have an adverse effect, through litigation or other causes, on the Council's future financial stability;
- Following the 2019 local government elections, the Council resolved to re-adopt and use the General Power of Competence and formally recorded that all criteria were met;
- 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; with the adoption of an Internal Control Policy for 2019-20, and
- Both the Standing Orders and Financial Regulations were reviewed in May 2019 and the Council re-approved them without revision.

Conclusion

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

Review of Expenditure

Our objective here 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 completed our review of the procedures in place in this area. Overall, we selected a sample of 74 non-pay related payments from 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 20th payment as recorded in the Omega accounts, totalling £378,000 and equating to 74% of non-pay expenditure in the year.

VAT re-claims have been submitted on a regular basis during the 2019-20 financial year. We have checked and agreed the detail of the re-claims and confirmed that they agree to the Omega control account, with the year-end debtor correctly identified in the annual accounts.

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, we have confirmed the following:

- In October 2018, following a tendering exercise, the Council entered into a 3-year contract with Hiscox for the provision of its insurance services. The cover in place during 2019-20 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 the meeting in May 2019. The detailed Financial Risk Assessment was most recently approved by the Council in January 2019. It was subsequently reviewed in detail by the Effectiveness of Internal Control Working Group on 5th March 2020 and was due for consideration by the Council at its meeting on 18th March 2020. However, the item was deferred due to restrictions on the agenda as a result of the Covid-19 lockdown.
- Council staff have continued to undertake regular reviews of playground equipment throughout the year, with annual inspections carried out by RoSPA. We note that the results of the RoSPA inspections were reported to the Council on 18th September 2019, with confirmation that the actions identified had either been addressed or were in hand.

Conclusion

There are no matters arising that require a formal recommendation. However, as the full Council should formally consider its Financial Risk Assessment on an annual basis, this should be completed at the earliest opportunity.

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.

We have 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 Precept and budget for 2020-21 was formally agreed at the Council meeting on 20th November 2019. The Precept was set at £411,760, compared to £412,950 for 2019-20. With the expected increase in the tax base, this represented a reduction for Band D properties of 3.8% from the previous year. As in previous years, detailed supporting information was provided by the Town Clerk to inform the decision-making process. As part of the process, consideration was given to the fees and charges to apply for 2020-21 and the level of reserves required.

At the year end, the Council's overall reserves, including its long-term investment of £86,335 with Hodge Bank, amounted to £498,510 (compared to £580,072 at the previous year-end). Of the total reserves, £312,175 (£322,725) has been earmarked for a range of purposes, with the remaining £186,335 (£257,624) held as a General Fund (contingency reserve). This equates to 45% of the 2020-21 Precept, which is not unreasonable.

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 to the Council.

- We are pleased to note that Members continue to review the Council's scales of fees and charges annually. Those for 2019-20 were confirmed in January 2019 and, as noted above, the fees and charges for 2020-21 were considered as part of the budget-setting process;
- As noted earlier in this report, we have checked and agreed four sample months' receipts transactions from cashbooks to relevant bank statements;
- We checked the details of interments, as recorded in the Burial Register for the period 1st April to 31st December 2019, ensuring that all entries are supported by appropriately completed undertakers' applications and that the correct fee has been invoiced and 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;

- We reviewed the Main Hall and Drill Hall booking diaries for a sample of one month (September 2018), to confirm that invoices have been raised for the correct fees and payment received promptly and that booking forms and other relevant documents are held.
- Our reviews of allotment income and market income were due to be undertaken at our final audit visit. However, as this work had to be performed remotely, it has not been possible for us to undertake any detailed work. On the basis of previous audit reviews, we consider these areas to be relatively low risk and they will be covered in detail in our 2020-21 audit.
- We examined the Sales Ledger “Aged Debtors Report” as at the end of March 2020 and confirmed that the amount of outstanding debt remains very low and the debtor position is well managed.

Conclusion

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

Petty Cash and Credit Card Usage

We are required, as part of the Internal Audit Certification process in the AGAR to assess and give a view on the effectiveness of control over any petty cash account in use 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. We verified the payments made from June to August 2019 to suppliers’ invoices or till receipts and the separation of VAT for periodic recovery with no matters arising; and

The Council holds a corporate Barclaycard for occasional urgent/internet purchases with one authorised user, a maximum credit limit of £10,000 and settlement in full by monthly direct debits. We checked and agreed the expenditure arising in August 2019 to suppliers’ invoices or till receipts and all were in order.

At our final audit visit, we confirmed that the petty cash balance as at 31st March 2019 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 that require a formal comment or recommendation.

Salaries and Wages

In examining the Council's payroll function, our objective is to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenues and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme as further revised from 1st April 2019 in relation to the employee contribution percentage bandings.

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 NJC award for 2019-20;
- Confirmed that an appropriate signed contract of employment is held for all staff;
- Checked and agreed the computation of staff gross and net pay and salary deductions for September 2019;
- Checked to ensure that the appropriate tax codes have been applied for the year and that the correct taxation and national insurance deductions have been calculated and are being paid over appropriately;
- Checked to ensure that the appropriate percentage deductions for staff contributions to the Local Government Scheme are being applied in the year, and
- Verified the accuracy of the payment by BACS of the monthly salary payments to employees for September 2019, also confirming the accuracy of payments made to HMRC and the Pension Fund Administrators, and that the Council's procedures for Member approval had been followed.

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 2020 and agreed the total asset value of £3,834,981 - reconciling the movements from the previous year end value of £3,446,974. The most significant change has been the requirement to include the value of the long-term investment of £86,335 with Hodge Bank, in accordance with the requirements of the Practitioners' Guide.

We have confirmed that the total value of assets, together with this investment, has been correctly reported in the ‘total fixed assets and long-term investments’ value in the Accounting Statements (Section 2, Box 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 is complying with its investment policy, which was approved in January 2017;
- 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;
- Confirmed that a short-term investment with Hodge Bank which matured in February 2020 was re-invested in a 2-year Fixed Rate Bond with the Bank on 27th February. We have also confirmed with the Finance Officer that the purchase of the Bond has been correctly accounted for (i.e. shown as expenditure in the year, with the total value of the investment recorded within the Council’s Asset and Investment Register as at 31st March 2020);
- Checked and agreed the instalment repayments for the Council’s three outstanding Public Works Loan Board (PWLB) loans to the third party “demand” notices, and
- Confirmed that the capital and interest repayments made to PWLB in the year, and the balance outstanding at the year-end, have been reported correctly in the AGAR (Section 2, Boxes 5 and 10 respectively)

Conclusion

There are no matters arising that require a formal recommendation. However, Members should note that with the reallocation of the Hodge Bank investment as a long-term investment, its value will no longer appear on the monthly bank reconciliation statements produced by the Omega system - which only reports the balances of cash and short term investments - or in the end of year Balance Sheet produced by the software.

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. The only significant change required to the draft accounts was the need to adjust the accounting treatment of the Hodge Bank long-term investment, referred to above.

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 Annual Return, assigning positive assurances in all areas of internal control.