
Loughton Town Council

Internal Audit Report 2017-18 (Final Update)

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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 (AGAR). Auditing Solutions Ltd has provided this service to Loughton Town Council since 2001.

This report sets out the work undertaken in relation to the 2017-18 financial year, during the course of our two visits to the Council, which took place on 9th and 10th November 2017 and on 19th April 2018.

Internal Audit Approach

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 (AGAR). Our programme of cover has again been 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 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' in the Council's Annual Return (AGAR), which requires independent assurance over a number of internal control objectives.

Overall Conclusion

We have concluded that, on the basis of the programme of work undertaken during our two visits this year, the Council continues to maintain more than adequate and effective internal control arrangements. We are again pleased to acknowledge the excellent quality of records maintained by the Clerk and her staff and thank them again for their assistance, which has ensured the smooth progress of our review process.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

Our objective has been to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. We have to date:

- Checked and agreed the opening trial balance with the 2016-17 closing Statement of Accounts and certified Annual Return detail;
- Ensured that a full and effective cost centre and nominal account coding structure remains appropriate for purpose and continues to be operated;
- Ensured that the accounts remain 'in balance' at the end of the year under review;
- Noted that the Council holds four bank accounts with NatWest Bank, a Business Savings Account with Santander Bank and a Business Instant Saver with the Nationwide Building Society;
- Checked and agreed details of transactions in the cashbook to bank statement detail for cash books 1 to 6 for the months of May and August 2017 and for the month of March 2018, noting that all were complete and accurate and had been prepared in a timely manner;
- Checked that bank reconciliations are prepared routinely each month utilising the appropriate software facility; and
- Verified the accuracy of detail in the bank reconciliations for cash books 1 to 6 as at 31st May and 31st August 2017 and as at 31st March 2018 ensuring that no long-standing uncleared cheques or other anomalous entries exist.

Conclusions

We are pleased to report that there are no issues arising in this area of our review process warranting formal comment or recommendation; we have ensured the accurate disclosure of the combined cash and bank balances in the year's detailed Statement of Accounts and AGAR.

Review of Corporate Governance

Our objective is to ensure that the Council has robust corporate governance documentation and processes in place, and that, as far as we may reasonably be expected to ascertain (as we do not attend Council or Committee meetings) all meetings are conducted in accordance with the adopted Standing Orders and no actions of a potentially unlawful nature have been or are being considered for implementation. We have: -

- Noted that Standing Orders were reviewed by Council at their meeting on 13th December 2017 and Financial Regulations were reviewed by Council at their meeting on 28th February 2018; and
- Completed our review of Council minutes for the year to 31st March 2018, examining those for the full Council and its standing committee meetings. We are pleased to record that our review has not identified any issues that may have an adverse effect on the Council's financial stability in the short, medium or longer term or that give us concern that the Council may either be considering, or have taken, decisions that might result in ultra vires expenditure being incurred.

Conclusions

We are pleased to report that no issues have been identified in this area of our review process 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 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;
- Members have met their fiduciary duties approving release of each payment in accordance with extant legislation;
- An appropriate order has been placed in each case where one would be anticipated;
- All discounts have been taken;
- 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 and that submissions have been returned to HMR&C in a timely manner.

We have completed testing in this area, selecting a sample of all payments in excess of £3,500, plus every 35th payment regardless of value for compliance with the above criteria. Our test sample of 39 payments totals £322,533 being 56,48% of the value of non-salary related payments made during the year to date.

We are pleased to note that VAT returns have been submitted to HMR&C during the year under review for the three quarters to 31st December 2017; we understand that the VAT return for the quarter to 31st March 2018 will be submitted shortly.

Conclusions

We are pleased to report that no issues have been identified in this area of our review process 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 identified and to minimise the opportunity for their coming to fruition. We have:

- Noted that a comprehensive review of the risk register was undertaken by Council at its meeting in March 2018;

- Examined the Council's insurance policy with Aviva, with cover being provided to 31st March 2018, to ensure that appropriate cover is in place, noting that Public and Employers Liability cover stands at £10m with Fidelity Guarantee cover at £1.4m; and
- Further noted that all Council owned playgrounds are inspected daily, any issues being reported back to the appropriate line manager and appropriate action being taken as required. Additionally, twice weekly inspections are carried out by a suitably qualified person with written reports being kept of these inspections. Finally, twice yearly professional inspections are undertaken on behalf of the Council.

Conclusions

We are pleased to report that no issues have been identified in this area of our review process warranting formal comment or recommendation; we consider the insurance cover in place is appropriate for the Council's present needs.

Budgetary Control and Reserves

We aim in this area of our work to ensure that the Council has appropriate procedures in place to determine its future financial requirements leading to the adoption of an approved budget and formal determination of the amount to be precepted on the District Council, that effective arrangements are in place to monitor budgetary performance throughout the financial year and that the Council has identified and retains appropriate reserve funds to meet future spending plans. To meet this objective, we have:

- Noted from our review of the minutes that members continue to be provided with regular management accounting information, based on reports generated from the Omega accounting system with over/under-spends and the level of earmarked reserves the subject of regular review;
- Also noted that a detailed budget exercise was undertaken and approved by Council at its meeting on 17th January 2018; and
- Further noted that the precept has been agreed by Council at the same meeting at £665,000 plus Council Tax Support Grant of £13,508.

Finally, we note that Total Reserves as at 31st March 2018 were £707,969 of which Earmarked Reserves total £387,727. The balance of General Reserves at £320,242 are just over four months average revenue expenditure and are within the guidelines of between three and six months revenue expenditure.

Conclusions

We are pleased to report that no issues have been identified in this area of our review process warranting formal comment or recommendation; we consider that appropriate resources are in place to finance the ongoing revenue spending and future development aspirations of the Council.

Review of Income

In this area of our review, we aim to ensure that income due to the Council is identified, invoiced (where applicable) and recovered at the appropriate rate and within a reasonable time scale; also, that it is banked promptly in accordance with the Council's Financial Regulations.

In addition to the annual precept, the Council receives income from a variety of sources including burial and associated fees, allotment rents, hall hire, the hire of sports facilities and bank interest.

We are pleased to note that Cemetery Fees for 2017/18 were reviewed at the Environment & Heritage meeting on 16th November 2016, allotment fees for 2017/18 were agreed at the Environment & Heritage meeting on 22nd June 2016, the Kingsley & Murray Hall hire fees were reviewed at the Recreation Committee meeting on 2nd November 2016 and the Council Chamber hire fees were reviewed at the Resources and General Services Committee meeting on 7th December 2016.

We have, at our interim visit, examined a sample of transactions in respect of cemetery Income for the months of June to August 2017 checking from the sequential burial register to source paperwork to the banking sheets to the relevant bank statements and are pleased to note that no issues arise in this regard.

We have also, at this final visit, examined all bookings in respect of the Kingsley and Murray Halls for the week commencing 22nd May 2017 from the booking diary to the production of the appropriate invoice to receipt and banking of payments; again with no issues arising.

Conclusions

We are pleased to report that no issues have been identified in this area of our review process warranting formal comment or recommendation.

Petty Cash Account and Credit / Debit Cards

A petty cash account is operated in the Council's office on a simple "imprest" basis with a maximum holding of £150. An excel spreadsheet is maintained each month as the summary for the payment approvals, individual vouchers are sequentially numbered and retained in plastic packets for each period. We have, at our interim visit, checked the transactions for the period August to October 2017 verifying the vouchers in respect of expenditure and noting that, where appropriate, VAT has been reclaimed. We have also checked the balance of cash in hand at the time of our visit.

We note that the Council hold two business cards for the use of the Clerk and the Services Manager. A control record in respect of card payments is kept by the Deputy Clerk together with the relevant receipts which are then paid on receipt of the relevant statement from the bank. We have checked the business card statements against the control record and the receipts for the period from 21st July to 20th August with no issues arising.

Conclusions

We are pleased to report that no issues have been identified in this area of our review process warranting formal comment or recommendation.

Salaries and Wages

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the requirements of HM Revenue and Customs

(HMR&C) with regard to the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme. To meet this objective, we have at this visit:

- Reviewed the Council's payroll preparation procedures;
- Noted that a payroll service is provided to the Council by Acumen Payroll Services;
- Checked to ensure that the Council has reviewed and approved appropriate pay scales for staff;
- Checked and agreed the amounts paid to individuals by reference to the approved new pay rates, examining payments made in July 2017;
- Ensured that PAYE, NIC and superannuation deductions have been made accurately by reference to the HMRC Basic PAYE Tools software and revised pension contribution bands;
- Ensured that the appropriate month's deductions and contributions have been paid over to HMR&C and the Essex County Council Pension Fund in a timely manner;
- Checked that any overtime paid is properly supported by authorised timesheets; and
- Ensured that BACS funds are released in accordance with government legislation and the Council's own Financial Regulations.

Conclusions

We are pleased to report that no issues have been identified in this area of our review process warranting formal comment or recommendation.

Asset Register

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned.

We note that a detailed Asset Register was agreed as at 31st March 2017 and that this Register is updated on an ongoing basis. We further note that the Asset Register Policy was agreed at the Resources and General Services Committee at their meeting on 12th April 2017. We understand that the Asset Register as at 31st March 2018 is unchanged from the previous year.

Conclusions

We are pleased to report that no issues have been identified in this area of our review process warranting formal comment or recommendation. We have ensured that the correct figure of Assets is reported in the AGAR.

Investments and Loans

Our objectives here are to ensure that the Council is "investing" surplus funds, be they held temporarily or on a longer term basis in appropriate banking and investment accounts; that an appropriate investment policy is in place; that the Council is obtaining the best rate of return on any such investments made; that interest earned is brought to account correctly and appropriately in the accounting records and that any loan repayments due to or payable by the Council are transacted in accordance with appropriate loan agreements.

We have noted that the Santander 180-day Bond which matured on 6th June 2017 was not renewed with the proceeds being credited to the Santander Business Reserve Account.

The Council has three PWLB loans in place repayable half-yearly and we have confirmed the first repayments instalments for the current year at our interim visit. We have subsequently confirmed the second instalment repayments at this final visit.

The Council does not have any loans repayable to it.

Conclusions

We are pleased to report that no issues have been identified in this area of our review process warranting formal comment or recommendation; we have verified the residual loan liability at the financial year-end in the AGAR.

Statement of Account and AGAR

The 1996 Accounts and Audit Regulations required all Councils to prepare annually a detailed Statement of Accounts, together with supporting statements identifying other aspects of the Council's financial affairs.

We have reviewed the Statement of Accounts and AGAR detail prepared by the Clerk, as generated from the accounting software with no obvious errors or anomalies in the detailed content

Conclusions

No issues have been identified in relation to the verification of detail in the Statement of Accounts and AGAR this year.

On the basis of our detailed work during the course of the year on the Council's systems of financial control and content of the detailed Statement of Accounts and that summarised detail set out in the AGAR, we have signed off the Internal Audit Report of the AGAR assigning positive assurances in each relevant area.