

Loughton Town Council

Internal Audit Report 2018-19 (Final update Report)

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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 Governance and Accountability Return (AGAR).

This report sets out the work undertaken in relation to the 2018-19 financial year, during our visit to the Council on 6th December 2018 and subsequently at our offices. Due to unforeseen personal circumstances, our contractor who was due to undertake the final review visit had had to finish working for us: consequently, in order to ensure that the Council is able to meet its AGAR adoption and submission deadlines, we have undertaken a curtailed final review for the year remotely. We wish to thank the new Town Clerk and his staff for assistance in this respect and for providing the additional documentation that we required to finalise our review programme for the year.

Internal Audit Approach

In conducting our review for the year, we have paid due regard to the materiality of transactions and their susceptibility to potential mis recording or misrepresentation in the year-end Statement of Accounts/AGAR. Our programme of cover has been designed to afford 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 AGAR, which requires independent assurance over a series of internal control objectives.

Overall Conclusion

We are again pleased to conclude that, based on the work undertaken this year, the Council continues to maintain adequate and effective internal control arrangements. We are also pleased to record that no significant matters have been identified at this stage of our review process. We are again pleased to acknowledge the excellent quality of records maintained by the Clerk and his staff and thank them again for their assistance, which has ensured the smooth progress of our review process.

Based on the satisfactory conclusions drawn from our review work this year, we have duly signed off the Internal Audit Certificate in the AGAR assigning positive assurances in each relevant area.

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 2017-18 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 financial year-end.
- Noted that the Council holds six bank accounts including those with NatWest, Santander and the Nationwide Building Society;
- Checked and agreed details of transactions in the cashbook to bank statement detail on all accounts' cash books for October 2018 and March 2019, 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;
- Verified the accuracy of detail in the bank reconciliations on all cash books as at 31st October 2018 and March 2019 ensuring that no long-standing uncleared cheques or other anomalous entries exist; and verified the accurate disclosure of the combined year-end balances at Section 2 of the year's AGAR.

Conclusions

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

Review of Corporate Governance

Our objective here 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:

- Continued our review of the Council and standing committee's minutes for the financial year and to date in 2019-20 as published on the Council's website to ensure that no issues exist or may be being considered by the Council that may have an adverse effect, through litigation or other causes, on the Council's future financial stability.
- Noted that Standing Orders and Financial Regulations were reviewed and effectively re-adopted by Council at their meetings on 4th July and 14th February 2018 respectively;

- Noted that Council reviewed statutory guidance on Local Government Investments issued by the Secretary of State at a meeting held 4th July 2018 agreeing that the Council's current Strategy remained appropriate.

Conclusions

We are pleased to record that our review has not identified any issues that may have any adverse effect on the Council's 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 of expenditure being incurred.

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 HMRC in a timely manner.

We have undertaken testing in this area, examining a selection of payments including all those 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 £265,900. We would normally have extended our test sample in this area at our final visit, but due to the aforementioned personal circumstances of our contractor and the fact that no issues arose from our preliminary visit review we have not considered it essential to examine further payments this year.

We are pleased to note that VAT returns continue to be prepared and submitted to HMRC quarterly and have reviewed the Omega control account ensuring that the first three quarters' reclaims match the closing balances for each quarter and have been repaid by HMRC in a reasonable time frame: that for the final quarter of the year totalling £29,710.11 will be, if not already, submitted to HMRC with repayment due for receipt early in 2019-20..

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 examined the Council's insurance policy with Aviva, noting that appropriate cover is in place with Public and Employers Liability standing at £10 million and Fidelity Guarantee cover reduced to £1.2 million as determined by the Council at its meeting on 4th July 2018.

We are pleased to note that the Council register of risks to which it may be exposed has again been reviewed and re-adopted by the full Council at the April 2019 meeting.

We also note that all Council owned playgrounds continue to be inspected regularly with two annual inspections undertaken by professionals of which the most recent inspection was carried out on 5th July 2018.

Conclusions

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

Budgetary Control and 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 level of precept to be drawn down from the District Council: also, that an effective reporting and monitoring process is in place. Additionally, we 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.

We are pleased to note 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.

We also note that, following a detailed budget review process and members' deliberations, the budget and precept for 2019-20 were agreed with the latter adopted at the January 2019 meeting at £719,000.

We have reviewed the year-end budget outturn report generated by the Omega accounts seeking and obtaining appropriate explanations for any significant variances by reference to the detailed transaction reports.

We have examined the level of retained reserves at the financial year-end which total £671,750 (£707,969 as at 31st March 2018) of which Earmarked Reserves total £394,500 (£387,727 at the prior year-end). The balance held in the General Reserve at 31st March 2019 of £277,200 (£320,242 previously) equates to approximately 3½ months' spending at the 2018-19 level and sits comfortably within the generally recognised guideline of between three and six months' revenue expenditure.

Conclusions

We are pleased to record that no issues have been identified in this area warranting formal comment or recommendation.

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 the Council has undertaken a full review of fees for 2018-19 in relation to the cemetery, Licence for Roding Road allotments, fees relating to allotments generally and hire of Kingsley & Murray Hall.

At our interim visit, we examined a random sample of transactions in respect of allotment income checking from inception of agreement through to the banking sheets and relevant bank statements and are pleased to note that no issues arise in this regard.

We also, at that visit, examined a random selection of bookings in respect of the Murray Hall from the booking diary ensuring that fees have been invoiced at the correct rate and fees received within a reasonable time span.

We have, at this final review, examined the extent of outstanding debt as at 31st March 2019 and are pleased to record that only 3 invoices remained unpaid, the oldest dated 20th February 2019.

Finally, in this area we have updated our analysis of income across the various headings with no significant variances existing giving any cause for concern.

Conclusions

In consultation with the Town Clerk at our interim visit we were advised that the Council is to undertake an extensive refurbishment process within Murray Halls and concerns were raised with regard to the Council's position regarding VAT reclaims on the proposed works. We suggested at that time that the Council should. To protect itself and ensure that the VAT element of the capital development spending is recoverable, we suggested that professional advice be sought with regard to the possibility of the "Option to Tax" on the building to ensure VAT on the project is reclaimable and the Council complies with HMRC requirements in this respect. We will follow up on the outcome of the Council's actions in this respect at our next visit.

We are pleased to report that no other 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 summarising each month's

transactions, with individual vouchers sequentially numbered and retained in plastic packets for each period. At our interim visit, we checked transactions for the year to October 2018 ensuring that each payment was appropriately supported and that, where appropriate, VAT had been identified for recovery. We also checked and agreed the balance of cash in hand to the underlying control record.

We also noted that two business cards are in use by the Clerk and Services Manager. A control record in respect of card payments is kept by the Assistant Town Clerk together with the relevant receipts, which are then settled on receipt of the relevant statement from the bank. We have again checked the business card statements against the control record and the receipts for the year to September 2018 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.

Review of Staff Salaries

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to HMRC requirements relating 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 new payroll service is provided to the Council by James Todd & Co 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 November 2018;
- 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 HMRC 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 Registers

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. We are pleased to note the existence of a comprehensive asset register which has again

been reviewed and approved by members with no new acquisitions or disposals occurring during the financial year.

We have, consequently, ensured that the correct value of assets is reported in the year's AGAR.

Conclusions

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

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 an appropriate 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.

The Council has three PWLB loans in place repayable half-yearly and we confirmed the first repayment instalment on these for the year at our interim visit. We have, as part of this final review agreed the outstanding loan liability, as reported in the year's AGAR, to the detail as reported in the UK Debt Agency website of all council loan balances as at 31st March 2019.

Conclusions

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

Statement of Accounts and AGAR

The AGAR now forms the Council's statutory Statement of Accounts subject to external audit review and certification.

Whilst not a formal requirement, we have reviewed the content of the financial information disclosed at Section 2 of the year's AGAR agreeing it to the underlying accounting and other supporting records, with no issues arising.

Conclusions

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

On the basis of our detailed work during the course of the year on the Council's systems of financial and governance control, we have duly signed off the Internal Audit Certificate in the AGAR assigning positive assurances in each relevant area.