
Abergavenny Town Council

Internal Audit Report (Interim) 2020-21

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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 systems 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 2020-21 financial year, during our interim review of the Council's records for the year, which was undertaken remotely due to the ongoing Covid-19 situation and restrictions between 22nd & 25th November 2020. We wish to thank the Clerk in assisting the process, providing all necessary documentation in electronic format to facilitate commencement of our review for the year.

Internal Audit Approach

In undertaking this interim review, we have again had 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 is 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.

We hope to be able to conduct the final update review on site in the early summer and will liaise with the Clerk to determine the approach to be taken nearer that time: it will obviously depend on the status of the Covid pandemic at that time.

Overall Conclusions

We are pleased to advise that, based on the work undertaken to date, the Council continues to maintain adequate and effective internal control arrangements with no significant concerns identified, although we have reiterated two residual recommendations from last year's report in order that they are not overlooked.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Council's accounting records are maintained using Rialtas Omega software with separate current and deposit bank accounts in place at Barclays with transactions recorded in a single cashbook in the accounting software: a daily sweep facility is in place to retain a current account balance of £10,000. As identified in last year's report, the Council transferred £20,000 into a short-term "investment" account with Gateway Credit Union during 2019-20.

Our objective here is 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 consequently:

- Verified the accurate carry forward of closing trial balance detail in the 2019-20 Statement of Accounts / AGAR to the current year's Omega records
- Verified that the financial ledger remains "in balance" as at 31st October 2020
- Examined detail in the Council's combined cashbook for two months (April & September 2020) agreeing detail to the relevant supporting bank statements
- Verified the inter-account transactions between the current and deposit accounts for the same two months, and
- Checked and agreed detail on the monthly bank reconciliations as at 30th April and September 2020.

Conclusions

We are pleased to record that no significant issues arise in this area at the present time.

We noted last year that, whilst bank reconciliations were being presented to members during the course of the year, they were not subjected to specific independent review and sign-off, as required in the NALC / One Voice Wales model Financial Regulations (Para 2.2 refers), as also adopted by the Council. We understand that bank reconciliations are routinely presented to the Policy & Resources Committee with agreement reached that the Committee Chair will review and sign-off the bank reconciliations: we have not, due to this review again necessarily being undertaken remotely, had a chance to ensure compliance in this respect at the present time, but will do so at our final review visit.

We will undertake further work in this area at our final visit for the year reviewing two further months transactions and month-end reconciliations, also ensuring the accurate disclosure of the account balances in the year's AGAR.

Review of Corporate Governance & Regulatory Framework

Our objective here is to ensure that the Council has a robust regulatory framework in place, that Council and Committee meetings are conducted in accordance with the adopted Standing Orders (SOs) and that, as far as we are reasonably able to ascertain as we do not attend meetings, no actions of a potentially unlawful nature have been or are being considered for implementation.

We note that SOs and Financial Regulations (FRs) were both re-adopted at the March 2020 full Council meeting, also noting that both now refer to the extant Public Contracts Regulations 2015 with a formal tender limit set at £25,000.

We have reviewed the Council and Standing Committee minutes for the financial year to date as posted on the Council's website to ensure that, as far as we are reasonably able, the Council has neither considered nor is considering taking any action that may result in ultra vires expenditure being incurred.

We understand that, following our recommendation last year, work has commenced on the development of the Council's approved financial procedures (frequently rather derogatorily referred to as "idiot's guides") and will check on progress at our final visit.

Also, whilst not a significant concern we again note the approval of a number of grant / donation payments during the course of the financial year and as suggested last year urge that, in line with best practice, the approving minutes should ideally identify the powers relied on for each such payment.

Conclusions and recommendations

We shall continue to review minutes at future visits, also monitoring the Council's overall approach to governance.

As indicated in last year's report, we believe that, following the UK's exit from the EU, NALC were, prior to the current Covid-19 crisis, preparing a further revision to both SOs and FRs which was due to be promulgated in the summer: this timescale has obviously slipped due to the ongoing pandemic situation and we will keep the Council advised as soon as we hear of any developments in this respect, assuming that One Voice Wales will be making similar amendments in due course once the current Covid-19 position has been resolved or, at least, has settled down.

R1. In line with best practice, the minutes approving the payment of grants and donations should ideally identify the specific powers relied in in each case.

Review of Expenditure & VAT

Our aim here is to ensure that: -

- Council and Trust resources are released in accordance with the approved procedures and budgets
- Payments are appropriately supported, 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
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount
- An official order has been raised on each occasion when one would be expected
- 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 note that the Council has moved to paying virtually all traders and staff salaries online and have discussed the operative procedures for processing and approval of payments for release with the clerk and consider them sound with the clerk setting up the payments and a nominated councillor then, following advice of the payments being set up, going online, reviewing the detail and then releasing the payments. We are also pleased to note that, as recommended last year, an appropriately designed stamp has been acquired and that the councillor, when subsequently visiting the office, review and sign-off the invoices as approved for payment.

We have selected a sample of 27 payments for the year to 31st October 2020 at this interim review to ensure compliance with the above criteria. Our test sample totals £113,880 and equates to 90% by value of non-pay related payments in the year to that date with the above criteria appropriately met; we are also pleased to note that invoices have been signed-off appropriately in line with last year's recommendation.

We note that VAT reclaims are prepared and submitted to HMRC for repayment at the end of each quarter and have checked and agreed detail of the first two quarterly reclaims for the financial year to 30th September 2020 to the underlying control accounts, both having been repaid by HMRC.

Conclusions

We are pleased to acknowledge the action taken to address our prior year recommendation and confirm that appropriate controls are in operation currently. We shall extend our test sample to cover payments for the remainder of the year at our final visit also ensuring timely and accurate submission of the remaining quarterly VAT reclaims.

Assessment and Management of Risk

In this area we aim 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 in order to minimise the opportunity for their coming to fruition.

We are again pleased to acknowledge the existence of a comprehensive register of risks having been provided with a copy dated 2020-21, which was adopted in March 2020: we have examined the content and consider the document appropriate for the Council's present requirements. We have, however, seen no indication from our review of minutes to date that the document has been examined and re-adopted by the Council formally in the current financial year.

We have also examined the content of the Council's current year insurance schedule with Zurich and are pleased to acknowledge that cover appears appropriate for the Council's present requirements with Public and Employer's Liability both in place at £10 million and Fidelity Guarantee cover set at £250,000.

Conclusions

No issues arise in this area currently warranting formal comment or recommendation. However, we take this opportunity to remind the Clerk and Council of the requirement ("Governance and Accountability Manual – The Practitioner's Guide" refers) for risk registers to be subjected to formal review and adoption at least once in each financial year.

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 Monmouth CC: also, that an effective reporting and monitoring process is in place. We also 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.

This review took place in advance of the Council's formal consideration, approval and adoption of the budget and precept for 2021-22: consequently, we will review the outcome of members' deliberations at our final visit.

We are pleased to note that members continue to be provided with regular budgetary performance reports during the year and have reviewed the latest report generated by the Omega accounting software with no significant unexplained or un-anticipated variances arising. We have, however, noted that the budget value of the annual precept receivable has not been recorded in the software resulting in total income for the year showing as 0% in the report.

We noted last year that members agreed at the June 2019 meeting the set aside of funds for specific projects totalling £195,000. As indicated in our report, the individual elements should ideally be identified in the Omega software with a separate control account code established for each in the 320 series.

As also reported last year, members should ideally determine the level of reserves to be carried forward at the close of each financial year with the accounting software updated accordingly by journal transfer to or from the General Reserve.

Conclusions and recommendation

We are pleased to report that no significant concerns arise in this area currently: however, in line with best practice and to help ensure members are able to be kept informed of the level of General Fund and EMR balances available at any stage of the year, we suggest that separate codes be established for each intended EMR and balances be transferred into each accordingly by journal from the General Reserve balance. We understand that the Clerk intends to take appropriate action, but has not yet had a chance to implement this recommendation, which we, consequently, reiterate in order that it is not overlooked.

We shall undertake further work in this area at our final visit ensuring that the 2021-22 budget and precept are formally approved and adopted, that no significant variances from the anticipated budget outturn arise and seeking explanations for any that do exist at the year-end. We shall also again assess the ongoing appropriateness of the year-end reserve balances (General and Earmarked) to meet the Council's ongoing revenue spending requirements and development plans / aspirations.

R2. *Consideration should be given to the establishment of separate nominal account codes in the Omega software for each approved Earmarked Reserve with funds transferred into each by journal from the General Fund (Code 310).*

Review of Income

Our objective in this area is to ensure that the Council identifies and recovers all income to which it is entitled and has appropriate arrangements in place to ensure its prompt recovery.

The Council has very limited income sources, primarily the annual precept, quarterly VAT reclaims and bank interest, together with occasional grants and donations.

We have examined the detailed nominal account transactions for the financial year to date ensuring that, as far as we are reasonably able to ascertain, no miscodings have occurred and all anticipated income has been received and banked in a timely manner.

Conclusions

We are pleased to record that no issues arise in this area warranting formal comment or recommendation. We shall undertake further work in this area at our final review visit.

Petty Cash Account

The Council does not operate a petty cash account, any ad hoc expenses incurred by officers being reimbursed through the normal payment processing system

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 the Employee Rights Act 1998 and the requirements of HMRC legislation as regards the deduction and payment over of income tax and NI contributions.

We note that the payroll is outsourced to a local accountancy firm with all appropriate documentation provided to facilitate processing of monthly payments of net salaries to both staff members, HMRC and the pension fund administrators: we also note implementation of the nationally agreed pay award payable from 1st April 2020 payment being made in September 2020 with arrears backdated accordingly.

Consequent on the above, we have:

- Agreed the gross salaries paid to both officers in September and October 2020 by reference to the Council's approved pay scales as set out in the staff employment contracts, which we examined last year, also ensuring the accurate calculation of arrears associated with the 2020-21 pay award, payment being made with the September 2020 salaries
- Ensured that tax and NI deductions for both months have been calculated accurately applying the appropriate tax code and NI Table by reference to the relevant HMRC calculators
- Similarly, ensured that appropriate employee and employer contributions to the pension scheme have been determined and deducted for both months, and
- Verified the net salary payments to both officers after deduction of tax, NI and pension contributions, again for September and October 2020.

Conclusions

We are pleased to report that no issues have arisen from our work in this area warranting formal comment or recommendation.

Fixed Asset Registers / Inventories

The “Governance and Accountability Manual- The Practitioner’s Guide” requires all councils to maintain an appropriate register of its asset stock: we noted last year that a register was in place and understood in discussion with the Clerk that it was due to be reviewed and updated in depth during the financial year. This was delayed due to the need for the clerk to vacate her office due to the major refurbishment work being undertaken in the premises and also latterly due to the impact of the Covid-19 lockdown.

The Clerk has confirmed that the register has now been reviewed and updated accordingly: consequently, we shall ensure at our final visit that the asset value to be reported in the 2021-22 AGAR corresponds with the detail in the updated register, also allowing for any new additions or disposals over the remainder of the current financial year.

Conclusions

No matters arise currently warranting formal comment or recommendation: we shall undertake further work in this area at our final review visit.

Investments and Loans

We aim here to ensure that the Council is maximising its interest earning potential through “investment / deposit” of surplus funds in high interest bearing accounts / deposits.

All funds are, as indicated earlier in this report, held in two accounts with Barclays Bank, together with a £20,000 deposit with Gateway Credit Union.

The Council has no loans in place currently repayable either by or to it.

Conclusions

No issues arise in this area this year: we shall continue to review the Council’s approach to the placement of surplus funds at future visits.

Action Plan

Rec. No.	Recommendation	Response
Review of Corporate Governance		
R1	In line with best practice, the minutes approving the payment of grants and donations should ideally identify the specific powers relied in in each case.	
Review of Budgetary Control & Reserves		
R2	Consideration should be given to the establishment of separate nominal account codes in the Omega software for each approved Earmarked Reserve with funds transferred into each by journal from the General Fund (Code 310).	