

Abergavenny Town Council

Internal Audit Report (Final update) 2019-20

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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 2019-20 financial year, during our initial visit to the Council, which took place on 27th September 2019. Due to the impact of the Covid-19 pandemic, we have undertaken our final review for the year remotely: we wish to thank the Clerk in assisting the process, providing all necessary additional (to that examined at our interim visit) documentation in electronic format to facilitate completion of our review for the year and sign off of the Internal Audit Certificate in the year's AGAR. We have, obviously in the circumstances and to ease the workload for the clerk in collating the required documentation, reduced the volume of transactions examined, whilst still ensuring governance and financial controls remain effective.

Internal Audit Approach

In conducting our review for the year, we have given 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 is also designed to afford appropriate assurance that the Council's financial systems are 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 number of internal control objectives.

Overall Conclusion

We are pleased to conclude that the Council maintains generally adequate and effective internal control arrangements, with a few issues identified where we consider controls could and should be enhanced further: detail of the matters identified are set out in the following report with recommendations further summarised in the appended Action Plan. We wish to thank the Clerk and Council for the positive reaction and response to the issues raised in our interim report with the current status on those matters duly reflected in the following detailed report and appended Action Plan.

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

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. The Council has also, during 2019-20 transferred £20,000 into a short-term "investment" account with Gateway Credit Union.

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 2018-19 Statement of Accounts to the current year's Omega records
- Verified that the financial ledger remains "in balance" at the financial year-end
- Examined detail in the Council's combined cashbook for four months (April, August & December 2019, plus March 2020) agreeing detail to the relevant supporting bank statements
- Verified the inter-account transactions between the current and deposit accounts for the same four months
- Checked and agreed detail on the monthly bank reconciliations as at 30th April, 31st August 2019 and March 2020
- Discussed the IT back-up arrangements with the Clerk, noting that, whilst on-site back up occurs to a server, due to the temporary nature of the accommodation in use at the time of this visit, no off-site back up facility has been used recently, nor has any attempt been made to restore the backed-up data to ensure that it is not corrupt, and
- Ensured the accurate disclosure of the year-end balance in the AGAR.

Conclusions and recommendations

We are pleased to record that no significant issues arise in this area, although in checking the bank reconciliations at our interim visit, we noted that one cheque drawn in February 2019 remained unpaid as at 31st August 2019: we discussed this with the clerk suggesting that the original cheque be written back as a negative payment and a replacement be issued, assuming the payee still requires payment, which has duly been actioned subsequent to our interim visit.

We also note that, whilst bank reconciliations are presented to members during the course of the year, they are 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 previously adopted by the Council.

We also suggest that appropriate arrangements be made to ensure secure off-site back-up of data is re-implemented together with periodic attempts to restore the data.

R1. Bank reconciliations should be subjected to specific periodic independent review by a nominated councillor as indicated in the Council's adopted Financial Regulations (para 2.2 refers). Bank reconciliations are presented monthly to Policy & Resources Committee and it has been agreed that the Committee Chair will sign-off the bank reconciliations.

R2. Secure arrangements for off-site storage of backed-up data should be re-introduced, together with periodic (ideally at least half-yearly) attempts to restore data and ensure its robustness. The data on the micro server is backed up weekly to an external hard drive. Attempts have not yet been made to restore data.

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.

At our interim visit we noted that SOs and Financial Regulations (FRs) were both re-adopted at the May 2019 full Council meeting, also noting that they had been the subject of further revision to take account of the revised committee structure. In examining the content of both documents, we noted reference to the requirement for formal tender action for contracts costing above £50,000: we considered this level potentially too high for a council the size of Abergavenny given its current limited operational responsibilities and suggested that a more appropriate value for formal tender action would be in line with the EU Public Contracts recommended level of £25,000. We are now pleased to note that further appropriate revisions have been made to both documents, which were duly adopted at the March 2020 meeting.

We have reviewed the Council and Standing Committee minutes for the full financial year to ensure that, as far as we are reasonably able as we do not attend meetings, the Council has neither considered nor is considering taking any action that may result in ultra vires expenditure being incurred. We also note the revised Committee structure approved at the July 2019 Council meeting.

We also understand that no formal documentation exists of the Council's approved financial procedures (frequently rather derogatorily referred to as "idiot's guides"). Whilst not an essential or legal requirement, we consider that these should be produced in order to help ensure easy and effective continuity management in the event of either the clerk or admin assistant leaving or being absent for an extended period with no opportunity for effective hand-over of the approved processes.

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

Conclusions and recommendations

As indicated above we suggested at our interim visit that a lower value for formal tender action should be considered and are pleased to acknowledge the amended value in the revised FRs adopted in March 2020. We shall continue to review minutes at future visits, also monitoring the Council's overall approach to governance.

We also understand 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 of 2020: this timescale will obviously now slip and we will keep the Council advised as soon as we hear of any developments in this respect. We assume 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.

- R3. *Consideration should be given to setting a lower value for formal tender action, ideally in the region of £25,000. Agreed and incorporated in the revised **Financial Regulations adopted in March 2020.***
- R4. *In order to help ensure effective continuity of service provision and effective financial control in the event of any long-term absence of key officers and in line with best practice, consideration should be given to the development of formalised financial procedures. **Work has started on guide to making payments which will form part of the formalised financial procedures.***
- R5. *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 discussed the operative procedures for processing and approval of payments for release with the clerk at our interim visit and considered them generally sound, although we were concerned to understand that members did not routinely scrutinise invoices and other documentation supporting payments when signing cheques. Whilst we do not wish to imply any impropriety as existing currently, we consider that improved controls should be implemented in the light of a relatively recently perpetrated fraud by a town clerk at a South coast council where cheques were being written in erasable ink by the clerk allowing her to change the payees' name subsequent to member signature to her own. Invoices were not, as seems to be the case at Abergavenny, being examined and "signed-off" by members as approved for payment: in the highlighted instance, this allowed the same invoices to be re-presented on a number of occasions resulting in duplicated and fraudulent payments being processed.

Consequently, we suggested that, in order that members may demonstrate the effective discharge of their fiduciary responsibilities in the management of public funds and to mitigate the opportunity for potentially fraudulent action, whilst also further protecting both public funds and officers / members from any potential allegations of inappropriate action in the event of fraudulent payments occurring, a suitably designed rubber certification stamp should be acquired and affixed to each invoice / payment voucher, including the following detail: -

- ✓ Clerk's initials confirming receipt of goods / services and arithmetic accuracy of invoice
- ✓ Expense cost centre and nominal account codes and date of posting to financial ledgers

- ✓ Cheque or other payment reference (ideally on-line, standing order and direct debit payments should be allocated consecutive reference numbers throughout the year)
- ✓ Initials of 1 or 2 members confirming their review and agreement of cheques, etc to invoices / payment vouchers for release.

We reviewed a sample of payments for the year to 30th September 2019 at our first visit to ensure compliance with the above criteria: we have now selected a further smaller sample of payments covering the remainder of the year for similar comparison with the above criteria. Our total sample includes 46 payments totalling £329,350 and equating to 86% by value of non-pay related payments in the year with the above criteria generally met. The high percentage arises due to the level of grant aid provided and the significant contribution to the theatre renovation project.

We have also re-examined the detailed transaction nominal ledger reports for the financial year and are pleased to record that no miscodings are apparent.

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 three quarters' reclaims prepared and submitted for the financial year to the underlying control accounts, also ensuring that the year-end control balance is accurately disclosed as a debtor in the AGAR.

Conclusions and recommendation

As indicated above, at our interim visit, we suggested that controls over the approval and release of payments needed strengthening with members clearly demonstrating their actions in approving the release of Council funds.

R6. The Council should take appropriate steps to further enhance existing controls over the approval and release of expenditure, ideally acquiring and using an appropriately designed rubber certification stamp to be "signed-off" by members when signing cheques, etc., as detailed in the body of the report. A rubber stamp has been purchased and is now being applied to all invoices.

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 pleased to note that the Council has a detailed risk register in place, which has been reviewed and re-adopted at Council meetings in February 2019 and March 2020. We have examined the content and consider it appropriate for the Council's present requirements.

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.

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.

We note that, following due deliberation, the Council agreed its budgetary and precept requirements for 2020-21 setting the latter at £403,995 at the January 2020 full Council meeting.

We are also pleased to note that members receive routine budget reports throughout the year based on the Omega accounting software, with a commentary explaining any significant variances that might exist. We have reviewed detail of the final Omega budget outturn report for the financial year examining and obtaining satisfactory explanations by reference to the detailed nominal account transaction codes where any significant variances have arisen.

We also note that members agreed at the June 2019 meeting the set aside of funds for specific projects, etc totalling £195,000. Ideally, these should be identified individually in the Omega software with a separate control account code established for each in the 320 series with journal transfers of the required amounts for each made from the General Reserve control account code 310.

Members should also, ideally, determine the level of reserves to be carried forward at the close of each financial year with further appropriate journals being raised. The year-end balance carried forward totals £286,488. We note that expenditure of £82,938 is identified in the year-end Income and Expenditure Account as being funded from earmarked reserves (EMRs), which would leave a balance of approximately £112,000 in EMRs at the financial year-end, assuming the expenditure came from the above identified EMR balance approved in June 2019. The residual £174,000 in the General Reserve Fund equates to between 7 & 8 months' revenue spending at the 2019-20 level and is considered appropriate for the Council's ongoing spending plans.

Conclusions and recommendation

We are pleased to report that no significant concerns arise in this: 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.

R7. *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 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. We have also updated our previously prepared year-on-year analysis of income across the various headings to include the 2019-20 data with no significant or unexplained variances arising.

Conclusions

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

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 HM Revenues and Customs (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 2019 with both officers correctly assimilated to the appropriate point on the new salary scale.

Consequent on the above, we have:

- Examined the employment contracts for both officers
- Agreed the gross salaries paid to both in September 2019 by reference to the Council's approved pay scales as set out in the staff employment contracts
- Ensured that tax and NI deductions have been calculated accurately applying the appropriate tax code and NI Table by reference to the relevant HMRC calculators, also agreeing the amount paid over to HMRC in relation to the September 2019 payroll detail
- Similarly, ensured that appropriate employee and employer contributions to the pension scheme have been determined and paid over to the Pension Fund Administrators for September 2019, and
- Verified the net salary payments to both officers after deduction of tax, NI and pension contributions, again for September 2019.

Conclusions

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

We wish to draw the Clerk's attention to the changed rules as regards recording of Staff Cost expenditure in Box 4 of the AGAR which come into effect from the 2020-21 financial year: the JPAG Practitioner's Guide 2020 refers at Page 17.

Fixed Asset Registers / Inventories

The Governance and Accountability Manual (G&AM) requires all councils to maintain an appropriate register of its asset stock: we note that a register is in place and understand from discussion with the Clerk that it was due to be reviewed and updated in depth during the financial year. This has, however, been delayed primarily 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 will, once life has returned to a degree of normality and she is able to occupy her own office again, undertake the review of the register and update it accordingly ensuring that the asset value to be reported in the 2020-21 register will be fully in line with that on the register, which has not, for the above reasons, been updated since March 2019.

Conclusions

Under the extreme circumstances facing the Clerk currently, we do not consider it appropriate to raise a formal recommendation in this area and will review progress on updating the asset register at our 2020-21 interim review.

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, generally held in two accounts with Barclays Bank: we are also pleased to note that the Council has a formal Investment Strategy in place and that, subsequent to our interim visit, the Council approved the placement of £20,000 with Gateway Credit Union in order to attract a potentially better rate of interest return than was being received.

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 monitor the performance of the short term "investment" at future visits.

Statement of Accounts and AGAR

The Accounts and Audit Regulations require that the Council prepares and submits for external audit examination each year detail of the year's financial transactions in the AGAR, together with a Governance Statement which also has to be considered and signed off as approved by the Council prior to submission to the external auditors.

The Omega accounting software generates a detailed Income and Expenditure Account, Balance Sheet and detail for inclusion in the AGAR. Consequently, we have reviewed the detail disclosed in the 2019-20 AGAR agreeing it to the underlying accounting software with no issues arising.

Conclusions

No issues arise in this area and, based on the satisfactory conclusions reached from our programme of cover for the year, we have duly signed off the IA Certificate in the AGAR assigning positive assurances in each relevant area.

Action Plan

Rec. No.	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	Bank reconciliations should be subjected to specific periodic independent review by a nominated councillor as indicated in the Council's adopted Financial Regulations (para 2.2 refers).	<i>Bank reconciliations are presented monthly to Policy & Resources Committee and it has been agreed that the Committee Chair will sign-off the bank reconciliations.</i>
R2	Secure arrangements for off-site storage of backed-up data should be re-introduced, together with periodic (ideally at least half-yearly) attempts to restore data and ensure its robustness.	<i>The data on the micro server is backed up weekly to an external hard drive. Attempts have not yet been made to restore data. Currently not in the office.</i>
Review of Corporate Governance		
R3	Consideration should be given to setting a lower value for formal tender action, ideally in the region of £25,000.	<i>Agreed and incorporated in the revised Financial Regulations adopted in March 2020.</i>
R4	In order to help ensure effective continuity of service provision and effective financial control in the event of any long-term absence of key officers and in line with best practice, consideration should be given to the development of formalised financial procedures.	<i>Work has started on guide to making payments which will form part of the formalised financial procedures.</i>
R5	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 and VAT		
R6	The Council should take appropriate steps to further enhance existing controls over the approval and release of expenditure, ideally acquiring and using an appropriately designed rubber certification stamp to be "signed-off" by members when signing cheques, etc., as detailed in the body of the report.	<i>A rubber stamp has been purchased and is now being applied to all invoices.</i>
Review of Budgetary Control & Reserves		
R7	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).	