

Abergavenny Town Council

Internal Audit Report (Interim) 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 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 to date in relation to the 2019-20 financial year, during our initial visit to the Council for the year, which took place on 27th September 2019. The report will be updated following our final review visit which will be arranged on a mutually convenient date following closure of the year's Omega accounts.

Internal Audit Approach

In commencing 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.

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.

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 current date (i.e. 31st August 2019);
- Examined detail in the Council's combined cashbook for two months (April and August 2019) agreeing detail to the relevant supporting bank statements;
- Verified the inter-account transactions between the current and deposit accounts for the same two months;
- Checked and agreed detail on the monthly bank reconciliations as at 30th April and 31st August 2019;
- 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.

Conclusions and recommendations

We are pleased to record that no significant issues arise in this area currently, although in checking the bank reconciliations, we note that one cheque drawn in February 2019 remains unpaid as at 31st August 2019: we have 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.

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).

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.

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 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 Standing Orders (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 and are due for formal adoption at the October 2019 full Council meeting. In examining the content of both documents, we note reference to the requirement for formal tender action for contracts costing above £50,000: we consider this level potentially too high for a council the size of Abergavenny given its current limited operational responsibilities and suggest that a more appropriate value for formal tender action would be in line with the EU Public Contracts suggested value of £25,000.

We have commenced our review of the Council and Standing Committee minutes for the financial year reading those to date as posted on the website to ensure that 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 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.

Conclusions and recommendations

As indicated above we suggest that a lower value for formal tender action is considered. We shall continue to review minutes at future visits, also monitoring the Council's overall approach to governance.

R3. Consideration should be given to setting a lower value for formal tender action, ideally in the region of £25,000.

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.

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 have discussed the operative procedures for processing and approval of payments for release with the clerk and consider them generally sound, although we are concerned to understand that members do 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, 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 payments.

Consequently, we suggest 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 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 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 have reviewed a sample of payments for the year to 31st August 2019 to ensure compliance with the above criteria comprising 32 payments totalling £188,200 equating to 91% of non-pay related payments in the year to the above date 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 examined the detailed transaction nominal ledger reports for the financial year to date and are pleased to record that no miscodings are apparent at present.

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 quarter's reclaim prepared and submitted for the financial year to the underlying control accounts noting a minor difference to the control account balance as at 30th June 2019.

Conclusions and recommendation

As indicated above, we consider that controls over the approval and release of payments need strengthening with members clearly demonstrating their actions in approving the release of

Council funds. We shall extend our testing in this area at our final visit, also re-examining the year-end nominal ledger reports to ensure that no significant miscodings have occurred.

R5. 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.

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 was last reviewed and adopted at the Council meeting in February 2019. We have examined the content and consider it appropriate for the Council’s present requirements: we would, however, remind the Council of the requirement for the register to be subjected to at least once annual review and formal re-adoption.

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, although we remind members of the requirement for the risk register to be subjected to at least one annual review, update and formal re-adoption: we shall continue to review the Council’s approach to risk management at future visits, also ensuring compliance with the requirements of the Governance and Accountability Manual – “The Practitioner’s Guide” with the previously prepared, approved and adopted assessment register further examined and re-adopted.

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 Monmouthshire 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 2019-20 setting the latter at £374,233, which we note is paid in three tranches.

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 examined detail of the latest Omega budget report detail and are pleased to record that no significant or unexplained variances exist currently.

We also note that members agreed at the June 2019 meeting the set aside of funds for specific projects, etc totalling £195,000.

Conclusions

We are pleased to report that no issues arise in this area currently and will continue to monitor the Council's approach to budgetary control, year-end budget outturn, also assessing the appropriateness of the level of retained reserves to meet the Council's ongoing revenue spending and any development aspirations that might arise.

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 year to date ensuring that, as far as we are reasonably able to ascertain, no miscodings have occurred. We have also prepared a year-on-year analysis of income across the various headings, which will be updated for 2019-20 data at our final visit and be used appropriately to add focus to our review programme.

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.

Fixed Asset Registers / Inventories

The Governance and Accountability Manual (G&AM) requires all councils to maintain an appropriate register of its asset stock: we are pleased to note that the Council has complied with this requirement and will review the detailed document at our final review visit ensuring compliance with the G&AM disclosure requirements.

Conclusions

No matters arise in this area currently.

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 and are pleased to note that the Council has a formal Investment Strategy in place also noting that consideration is being given to the placement of a portion of the “surplus” funds held in a local Credit Union in order to attract a potentially better rate of interest return than is received currently.

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

Conclusions

No issues arise in this area currently: we shall monitor the progress of any potential investment of surplus funds at future visits.

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).	
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.	
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.	
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.	
Review of Expenditure and VAT		
R5	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.	