

Shepton Mallet Town Council

Internal Audit Report 2020-21 (Interim)

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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 our initial review for 2020-21, undertaken during October and November 2020. Due to restrictions imposed by the Covid-19 pandemic, this work has of necessity been undertaken remotely.

Internal Audit Approach

The objective of this interim review is to provide an appropriate level of assurance to the Council on their governance, procedures and financial control in advance of the main review at the financial year end. Any recommendations, therefore, should be seen as an ‘early warning’ of issues that need to be addressed in order to provide full and supportable assurances in the Annual Governance and Accountability Return (AGAR) for 2020-21.

In commencing our review for the year, we have had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts / AGAR. Our programme of cover is designed to afford reasonable assurance that the Council has appropriate and robust financial systems in place that 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’ as part of the Council’s AGAR process, which requires independent assurance over a number of internal control objectives.

As stated above, due to current restrictions this review has been undertaken remotely. We offer our thanks and appreciation to the Deputy Clerk / RFO for submitting copies of necessary records, and responding to questions.

Overall Conclusion

Details of the work undertaken on the Council’s accounting and other records during this interim review are set out in the following detailed report. We note that the Council has taken action on the recommendations made on the 2019-20 AGAR by the former Internal Auditor, which were reinforced by the External Auditor. As stated above, the comments and recommendations in this 2020-21 interim report are designed to help Councillors achieve an unqualified final 2020-21 audit report. Councillors should, therefore, formally consider this report and respond to the recommendations made in due course.

Detailed Report

Review of Accounting Arrangements & Bank Reconciliations

The Council's accounting records are maintained using Rialtas Alpha software. Banking is undertaken via a Current Account and an Instant Access Account with Unity Trust Bank, a CCLA investment, and three small Charity Accounts (one with Unity Trust, and two with Lloyds Bank).

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in the financial records. To that end, we have:

- Ensured that an appropriate analysis of income and expenditure is available in the accounting system;
- Checked that the closing balances, as reported in the Statement of Accounts for 2019-20 (as restated during the External Audit), have been rolled forward correctly as opening balances for 2020-21 in the Rialtas Alpha system;
- Checked and agreed sample transactions in the accounting system to the relevant bank account statements; and
- Checked detail on the software-based bank account reconciliations as at 30 September 2020 to ensure that no long-standing uncleared cheques or other anomalous entries exist.

We note the high level of balances (over £805,000 as at 30 September 2020) with Unity Trust Bank, and feel that, unless there are approved spending plans which will deplete this balance in the short term, there is scope to invest sums in other short-term accounts to optimise interest earnings and spread the risk to Public Funds.

We note that bank reconciliations are usually reviewed at Council meetings, although we have not been provided with copies initialled by Councillors, which is doubtless due to the pandemic restrictions on meetings. This, however, is an important internal control, evidence of which is required to comply with Financial Regulation 2.2.

Conclusions and Recommendations

- R1. Consideration should be given to reducing the balance held with Unity Trust, by taking out short-term investment accounts to both optimise interest earnings and spread risk.*
- R2. Once the normal pattern of open meetings has resumed, Council should ensure that bank reconciliations are properly approved and certified in accordance with internal control requirements.*

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:

- Examined the minutes of the Full Council and its Standing Committees' meetings for the year to date to ascertain whether any significant issues affecting the Council's financial stability either in the short, medium or long term exist;
- Noted that the Council's Standing Orders (SOs) and Financial Regulations (FRs) were last reviewed during 2019-20, but are based on the existing NALC Model Forms. We would advise Council that a further revision of FRs is expected in early 2021 to reflect the UK's withdrawal from the EU;
- Noted that the Clerk is CiLCA qualified, and that the Council can therefore take advantage of the General Power of Competence (GPoC). However, we feel that this power should be subject to formal annual approval by the Council;
- Noted that elements of information available on the Council's website shows a good level of compliance with the Transparency Code 2015, although this information is not collected onto a single website page (for instance, the Risk Register is available as an adjunct to the Policy and Resources Committee Minutes). We believe it is Best Practice for all Councils to present information clearly and easily to interested parties in accordance with the tenets of Open Government. Compliance with the requirement to report Local Authority Land and Building Assets on an annual basis also needs to be complied with.

Conclusions and Recommendations

R3. Council should confirm the use of the GPoC on an annual basis.

R4. Council should consider adding to, and providing a clear reference to, its published financial information in accordance with the Transparency Code.

Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Internal Control over payments by Councillors is evidenced and maintained;
- 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;
- An official order has been raised for all purchases and service delivery where one would be expected;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- 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.

Due to the restrictions imposed by the pandemic, we have undertaken a limited sample test of high-value transactions with the assistance of the Deputy Clerk / RFO, who has scanned and submitted the requested documentation. Again, undoubtedly due to the pandemic, there is an absence in the test sample of independent internal checks being undertaken by Councillors, which is an important part of internal control and should be re-introduced as soon as possible. This can be evidenced by the signing of the rubber stamp that is in use on all payments.

We have reconciled the Final 2019-20 and Quarter 1 2020-21 VAT returns to both the accounting records and bank statements, with no issues arising.

Conclusions

Although there are no specific issues we wish to raise at this time, we would remind Councillors of the importance of undertaking periodic independent checks of financial transactions, to meet the requirements of both Financial Regulations and the governance assurances required in the 2020-21 AGAR.

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 in order to minimise the opportunity for their coming to fruition.

We are pleased to note that the Council reviewed its risks at the meeting on 30 June 2020, which meets the governance requirement and satisfies the 2019-20 AGAR recommendation. We note, however, that Council has commissioned a further review, which we will examine during our final review for 2020-21.

The Council maintains its insurance needs with Royal Sun Alliance via WPS Council Guard, under a 3-year Long Term Agreement that ends on 30 September 2022. The key insurance covers are £10M for Employers Liability, £15M for Public Liability, and £1M for Official Indemnity, along with cover for identified assets, all of which we feel is appropriate for a Council of this size.

We note that, with regard to the pandemic, the Council has closed its play facilities at Collett Park up to the time of this review. We will re-visit this issue as part of our final 2020-21 review.

Conclusion

There are no issues that we wish to bring to the attention of Council at this time. We will revisit this area in more depth during the final 2020-21 review, including safety inspections of playparks following the lifting of pandemic restrictions.

Budgetary Control and Reserves

Our aim here is to ensure that: -

- The Council has undertaken a budget determination exercise, which forms the basis of the annual precept request from the parent Council.
- The Council has received regular reports identifying the budget position throughout the year.
- The Council has formally approved the establishment of specific reserves.
- The utilisation of reserves and the return of unused balances to the General Fund are reported to the Council at regular intervals.
- Year-end reserves and General Fund balances are reviewed to ensure that they are both appropriate and are likely to be utilised.

This interim visit took place in advance of the 2021-22 Budget setting and Precept determination process being undertaken by the Council: consequently, we shall examine the outcome of the Council's deliberations in this regard during our final update review for the year.

Conclusion

There are no issues arising in this area of our review warranting formal comment at this time.

Review of Income

In considering the Council's income streams, we aim to establish that robust systems are in place to ensure the identification of all income due to the Council from its various sources, that income is invoiced in a timely manner and that effective procedures are in place and to pursue recovery of any outstanding monies due to the Council. At this interim stage, we have:

- Noted that the Council's Allotment fees were reviewed and approved in by the Place-making and Protection Committee in July 2020, setting revised fees for 2020-21 and 2021-22.

Conclusion

There are no issues arising in this area of our review warranting formal comment at this time.

Petty Cash Account

A Petty Cash account is managed by the Deputy Clerk / RFO, with periodic checks undertaken by the Town Clerk. The approved balance for this account is £100, and it is managed on a non-impres basis. The balance shown in the Alpha system (£34.54) is the closing balance as at 31 March 2020, and this will be updated in Alpha during the 2020-21 accounts closedown.

Due to the pandemic restrictions we have not been able to undertake any work on this during the interim review. We will, therefore, revisit this area as part of our final 2020-21 review.

Salaries and Wages

In examining the Council's payroll function, we aim to ensure that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenue and Customs (HMRC) in relation to the deduction and payment over of income tax and NI contributions.

We note that payroll management has been outsourced to Data Payroll Services.

We have test-checked the payroll records made to staff for both August and September 2020 (noting that the NJC pay award, backdated to 1 April 2020, was paid with September salaries), with no issues arising.

We have not, however, seen any records in the Minutes formally approving the payment of the latest NJC award, which should be retrospectively approved at the next appropriate meeting. We will review this as part of our final 2020-21 review.

Conclusion

There are no issues arising in this area of our review warranting formal comment at this time.

Investments and Loans

The Council has previously approved (in May 2018) an Investment Strategy, which is currently under review.

In May 2018 the Council placed a total of £193,064 with CCLA. This can be regarded as a long-term (ie. greater than one year) investment, which conflicts with Paragraph 6.1 of the current Investment Strategy. The revised Policy should, therefore, reflect this investment, and allow for any similar investments in future.

The Council has no loans repayable by or to it.

Conclusions and Recommendation

R5. The revised Investment Strategy should reflect the placement of current and future long-term funds.

Review of Fixed Asset Registers

The Governance and Accountability Manual (GAM) requires councils to develop and maintain a register of all assets. The Annual Return requires disclosure of the value of assets retained by the Council as at 31st March annually, that requires asset values to be reported at cost price or, where that value is unknown, a nominal value of £1. Annual Return values are then updated to reflect the cost of any new acquisitions or deletions / disposal.

We have been provided with a copy of the Asset Register, showing a total of £244,819 as shown on the 2019-20 AGAR. We note that this shows evidence of being calculated on the basis of actual purchase costs or, if this is not reasonably ascertainable, a nominal valuation of £1, which accords with the requirements of the Practitioners' Guide as issued by NALC's Joint Panel on Accountability and Governance (JPAG). The Register also shows related insurance values, and notes both acquisitions and disposals.

We note, though, that four items do not have any valuation:

- Allyn Saxon Drive (allotments)
- Garson Street (trees)
- Bunting
- Mayor's Chain of Office

It would seem appropriate to record a nominal value of £1 for each of these items, which is an immaterial change to the reported Asset total in the AGAR.

We note that the £193,064 CCLA investment referred to previously is not currently recorded on the Asset Register. As this constitutes a long-term investment, this should be added to the Asset register total to accord with JPAG guidance. This represents a material change to the reported AGAR figure, which will need to be highlighted on the 2020-21 return.

We believe it to be Best Practice to keep a photographic record of significant assets, to assist insurance claims in the case of loss by either theft or damage, and we suggest that Council considers the establishment of such a record.

Conclusion and Recommendation

R6. The valuations on the Asset Register as at 31 March 2021 should be reviewed to include nominal values for the four assets identified, and the CCLA long-term investment.

Re c. No.	Recommendation	Response
Review of Accounting Arrangements & Bank Reconciliations		
R1	Consideration should be given to reducing the balance held with Unity Trust, by taking out short-term investment accounts to both optimise interest earnings and spread risk.	
R2	Once the normal pattern of open meetings has resumed, Council should ensure that bank reconciliations are properly approved and certified in accordance with internal control requirements.	
Review of Corporate Governance		
R3	Council should confirm the use of the GPoC on an annual basis.	
R4	Council should consider adding to, and providing a clear reference to, its published financial information in accordance with the Transparency Code.	
Investments and Loans		
R5	The revised Investment Strategy should reflect the placement of current and future long-term funds.	
Review of Fixed Asset Registers		
R6	The valuations on the Asset Register as at 31 March 2021 should be reviewed to include nominal values for the four assets identified, and the CCLA long-term investment.	