

## **Shanklin Town Council**

*Internal Audit Report 2019-20 (Final update)*

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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 2019-20 financial year, during our initial visit to the Council, which took place on 14<sup>th</sup> November 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, reduced the volume of transactions examined as part of the final review, whilst still ensuring governance and financial controls remain effective

## **Internal Audit Approach**

In conducting our review for the year, we have again 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 has again been designed to afford appropriate 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 Certificate in the Council's AGAR, which requires independent assurance over a number of internal control objectives.

## **Overall Conclusion**

We are again pleased to advise that, based on the satisfactory conclusions arising from work completed this year; we consider that the Clerk and Council continue to operate appropriate and effective internal control arrangements.

We also wish to thank the Clerk for maintaining the accounting records in a very clear and tidy manner, which assists the audit review process. We are also pleased to note the satisfactory migration to a bespoke accounting software package (Scribe).

Based on the satisfactory conclusions drawn from our work this year, we have duly signed-off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area.

## Detailed Report

### Maintenance of Accounting Records & Bank Reconciliations

Our objective here is to ensure that accounting records are being maintained accurately and currently and that no anomalous entries appear in the cashbooks, also that effective controls are in place to confirm the accuracy of that detail.

The Council continues to operate a number of bank accounts, with detail of both receipt and payment transactions being recorded for a large part of the year on separate spreadsheets for each account. We note the acquisition of the Scribe accounting software during the year and the satisfactory input of the year's financial transactions to the software. Consequently, we have: -

- Agreed the opening balance detail in both the original spreadsheet cashbooks and now, at this final review, to the Scribe accounting records with that in the 2018-19 Statement of Accounts and certified AGAR
- Ensured that appropriate analysis is available in the cashbook spreadsheets (and now Scribe) to assist in preparation of the annual detailed Statement of Accounts and AGAR submitted to Council and the external auditors for approval / sign-off
- Checked and verified detail of all transactions recorded on each spreadsheet cashbook for all bank accounts for the financial year to 31<sup>st</sup> October 2019 by reference to supporting bank statements at our interim review
- Checked and verified the full year detail entered into the Scribe accounts also to supporting bank statements for the full financial year
- Agreed detail on the month-end bank reconciliations as at 31<sup>st</sup> October 2019 and March 2020 (the latter being based on the Scribe software), and
- Ensured the accurate disclosure of the combined bank balances in the year's AGAR at Section 2, Box 8.

#### *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 Corporate Governance

Our objective here is to ensure that the Council has a robust regulatory framework is 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, no actions of a potentially unlawful nature have been or are being considered for implementation.

We have examined Council minutes for the full financial year to ensure that, as far as we may reasonably be expected to ascertain as we do not attend meetings, no issues exist affecting the Council's financial stability either in the short, medium or longer term and that no unlawful actions are being or have been considered.

We are also pleased to note that both SOs and Financial Regulations (FRs) were re-adopted by the Council in July 2019. We have provided the Clerk with a copy of the latest (2019 edition)

of the NALC model FRs and suggested that the Council's existing document be contrasted with the content of that document and, where deemed appropriate, be updated and submitted to Council for formal adoption in due course.

We are pleased to note the positive progress now being made with development of the new parish office and library accommodation at the Falcon Cross site, which was scheduled for completion in April 2020, but has now obviously been delayed due to the Covid-19 pandemic..

### **Conclusions**

***We are pleased to record that no issues have been identified in this area this year. We shall continue to monitor the Council's approach to governance at future visits continuing our review of minutes and, hopefully, undertaking our next review visit at the new offices.***

***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.***

## **Review of Expenditure & VAT**

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
- All discounts due on goods and services supplied are identified and appropriate action taken to secure any applicable discount
- The correct cashbook analysis has been applied to invoices when processed, and
- Expended VAT is appropriately identified for recovery through reclaims prepared and submitted to HMRC quarterly.

To ensure compliance with the above criteria and in view of their relatively low volume, at our interim visit we examined all payments in the financial year to October 2019 and were pleased to record that all the above criteria have been met appropriately. Due to the Covid-19 situation, we have selected a small sample of 15 payments processed over the remainder of the year for review and are again pleased to record that all the above criteria were again met.

We verified the accuracy of the first two quarters' VAT reclaims prepared and submitted to HMRC to the underlying cashbook records at our interim visit. We note that submission of subsequent reclaims was delayed due to the implementation of the Scribe software and need to input the year's data before submission and understand that they have now been repaid by HMRC with a resultant year-end debtor of £8,618.49 receivable at the financial year-end duly recorded as such in the year-end Balance Sheet.

### *Conclusions*

*We are pleased to report that no issues have been identified in relation to the approval and release of expenditure with all payments appropriately supported and recorded in the cashbooks. We shall ensure the recovery of the final two quarters' VAT reclaims at our 2020-21 interim visit.*

## **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 in order to minimise the opportunity for their coming to fruition. We have: -

- Previously examined the Council's approach to the identification, recording and management of financial risks noting that the Council reviewed and formally re-adopted an updated risk register at the February 2020 Council meeting, and
- Noted that the Council's insurance cover is provided by WPS: we have examined the insurance schedule covering the year to November 2019 and consider that appropriate cover remains in place with Employer's and Public Liability set at £10 million and £15 million respectively, together with Fidelity Guarantee cover of £500,000.

### *Conclusions*

*We are pleased to record that no issues arise in this area warranting formal comment at present: we shall continue to monitor the Council's approach to risk management at future visits.*

## **Budgetary Control & 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 Isle of Wight Council: 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 are pleased to note that, following a full review of the budgetary requirements for 2020-21, the Council has approved and adopted a precept of £295,000, together with the Council Tax Support Grant of £2,918 at the February 2020 full Council meeting.

We have reviewed the level of retained reserves noting that total funds have increased from £372,670 at 31<sup>st</sup> March 2020 (£361,052 as at 31<sup>st</sup> March 2019), with £232,503 set-aside for specific projects. The residual General Reserve balance of £140,167 equates to approximately 7 month's revenue spending and is considered appropriate for the Council's ongoing spending requirements.

### *Conclusions*

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

## Review of Income

The Council has only limited sources of income including the annual precept, hire of Falcon Cross Hall, library book sales, late book return fines, coin machine income at the public WCs and occasional donations, plus limited interest on bank deposits.

We again note that the Council determined to retain hire fees at the same unchanged level since 2012 when the 2019-20 budget was considered. We reviewed detail of September and October 2019 bookings at Falcon Cross Hall at our interim visit by reference to the booking diary ensuring that appropriate booking forms were completed with invoices raised at the correct fee level in accordance with the Council's approved scale of fees and charges, also ensuring that payment has been received within an acceptable time.

We again note that, following our previous recommendation, the Town Clerk and a councillor are checking the library cash floats and takings periodically during the year agreeing the amounts held to the underlying till records. We similarly reviewed the cash takings at our interim visit agreeing the £40 change float and income held to the till's "X" total at that time.

We have also revisited the procedures for emptying and banking of cash takings at the Council's managed public conveniences and are pleased to note the improved controls in place with formal records of the periodic collections and reconciliation to anticipated income by reference to the meter readings.

### *Conclusions*

*We are pleased to record that no issues arise in this area warranting formal recommendation, although, as indicated in our 2018-19 final report, we feel that members should give serious consideration to increasing the Falcon Cross Hall hire fees, which have now remained unchanged for several years especially in view of the increasing staff salary and general running costs of the facility.*

## Petty Cash Account

*No formal petty cash account is in place, the Clerk and librarian reclaiming expenses through the normal trader payments procedures, detail of which we have reviewed and checked as part of the above referenced expenditure check. A £40 change float is held by the Library staff, detail of which we checked and verified at our interim visit.*

## Review of Staff Salaries

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed ensuring 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, together with those in relation to pension contributions to the LG Pension Fund.

We note the Council's approval of increases for all three staff members' salaries in 2019-20 in line with the national pay award for the year, with all three assimilated appropriately to the revised spinal column points applying from 1<sup>st</sup> April 2019.

We have checked and verified the accuracy of the gross salary payments made in October 2019 to the revised staff salaries, also ensuring the accurate calculation of income tax, NI & Pension Fund deductions and the Council's contributions in relation to the last two.

### **Conclusions**

*We are pleased to report that no issues have been identified in this area this year.*

*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.*

## **Asset Register**

The Governance and Accountability Manual requires all councils to maintain a detailed register of their assets. We aim in examining this aspect of the Council's documentation, to ensure that the Council has complied with that requirement with an appropriate and comprehensive register being maintained and being subjected to periodic review and update.

We are pleased to note that the Register has been updated to reflect the new acquisitions during 2019-20, with no assets disposed of during the financial year.

### **Conclusions**

*No issues arise in this area warranting comment this year with the asset register updated appropriately and the value duly and accurately transferred to the AGAR.*

## **Investments and Loans**

The Council continues to place excess funds in a "six-monthly" deposit with the Co-operative bank, reinvesting the amount held together with the interest earned. We have verified the accuracy of interest earned for the year noting that funds have been reinvested accordingly.

The Council has retained significant funds (in excess of £0.25 million) for much of the year, which we acknowledge were accumulated and retained to finance the office and library move to the Falcon Cross site.

Statutory guidance on Local Government investments (3<sup>rd</sup> Edition) issued under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1<sup>st</sup> April 2018 requires all councils with funds in excess of £100,000 to develop and adopt formally an Annual Investment Strategy. We are pleased to note that, following our previous suggestion, the Council adopted an appropriate Strategy at the March 2019 meeting.

No loans are in existence repayable either by or to the Council.

### **Conclusions**

*No issues arise in this area of our review process at present.*

## **Statement of Accounts & AGAR**

We are pleased to note that the Clerk has again produced a detailed Statement of Accounts and Supporting Notes in Income and Expenditure format for the second successive year as the Council's annual turnover exceeds £250,000. The Clerk has duly identified detail of year-end debtors and creditors at the financial year-end with detail input to the Scribe accounting software to generate the year-end Accounts and AGAR financial data. We have duly checked the detail reported in the Accounts to the underlying financial and other documents and are pleased to report that no errors have been identified. We have also verified the accurate transfer of that detail to the AGAR and have duly signed-off the Internal Audit Report assigning positive assurances in each relevant area.

### ***Conclusions***

***We are pleased to record that no issues have been identified in this area this year.***