
Shanklin Town Council

Internal Audit Report 2017-18 (Final update)

Stuart J Pollard

*Director
Auditing Solutions Ltd*

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 2017-18 financial year, during our two visits for the year, which took place on 15th November 2017 and 12th April 2018.

Internal Audit Approach

In conducting 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 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 Report' as part of the Council's AGAR process, 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 Council continues to operate adequate and effective internal control arrangements and have duly signed-off the Internal Audit Report assigning positive assurances in all but one area, as follows.

We have neither seen nor been provided with evidence that the Council has undertaken a review of the operational and financial risks to which it may be exposed during the financial year, contrary to the requirements of the Governance and Accountability Manual (G&AM). Consequently, when completing the Governance section of the AGAR (Section 1), a negative response will need to be given at Box 5 in relation to the assessment of risks.

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 recorded on separate spreadsheets for each account. Consequently, we have: -

- Agreed the opening balance detail with that in the 2016-17 Statement of Accounts and certified Annual Return;
- Ensured that appropriate analysis is available in the cashbook spreadsheets to assist in preparation of the annual detailed Statement of Accounts and AGAR submitted to Council for approval;
- Checked and verified detail of all transactions recorded on each spreadsheet cashbook for all bank accounts for the financial year by reference to supporting bank statements;
- Agreed detail on the month-end bank reconciliations as at 31st October 2017 and March 2018; and
- Verified the accurate disclosure of the combined cash and bank balances in the AGAR Section 2, Box 8.

Conclusions and recommendation

We are pleased to report that no issues or concerns have been identified in this area of our review process: however, we have discussed the account recording arrangements with the clerk, as we consider that, given the current and increasing level of financial activity, the use of spreadsheets to maintain the financial records is a time-consuming activity.

We believe that the Clerk's time could be used to greater benefit were an appropriate accounting software package acquired, which is capable of automatically generating monthly cashbooks, bank reconciliations, budget reports, VAT returns, detailed year-end accounts and data for inclusion in the AGAR. The software used by the majority of our larger councils is the RBS Omega suite, which has been designed specifically for this tier of local government and provides all the above facilities with an extremely efficient support service.

R1. Consideration should be given to migrating the accounting records onto a bespoke accounting software package, such as that provided by RBS / Rialtas, as is used by a high proportion of town councils nationally.

Review of Corporate Governance

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, no actions of a potentially unlawful nature have been or are being considered for implementation. We have, consequently, undertaken the following work in this area: -

- Full Council minutes, together with those of the Planning & General Purposes Committee have been reviewed for the year to ensure that no issues exist affecting the Council's financial stability either in the short, medium or long term; and
- We noted previously that the Clerk had completed a review of Financial Regulations (FRs) in January 2017, also now noting that she has virtually completed revisions to Standing Orders (SOs), which are due to be taken to the April 2018 meeting. NALC has just this last week issued a revised set of SOs and we have duly passed a copy to the clerk so that she may incorporate any further changes to the previous Council document in the version to be taken to the April Council meeting for approval.

We are pleased to note that the Council has determined that the move of the office and library to the Falcon Cross site and associated building work will be the prime objective for completion during 2018-19 and will monitor progress at our next visit.

Conclusions

We are pleased to report that no significant issues have been identified in this area and will review the outcome of the revisions to SOs and progress on the office / library move to the Falcon Cross site at our next visit. We shall continue to monitor the Council's approach to governance at future visits.

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.

We have again reviewed the operative control procedures in place over the release of payments and consider that they remain sound and continue to operate effectively with clear indication of members involvement on the process.

To ensure compliance with the above criteria, we have examined payments processed in the financial year and are pleased to record that all the above criteria have been met appropriately. We have also verified the accuracy of the VAT reclaims prepared and submitted to HMRC for the financial year to the underlying cashbook records.

Conclusions

We are pleased to report that no issues have been identified in relation to the approval and release of expenditure with all payments in the year appropriately supported and analysed in the cashbooks.

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 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 and been pleased to acknowledge the Clerk's actions in reviewing and updating the LCRS software with detail apparently last revised and submitted to the Council for formal adoption in September 2016; and
- Noted that the Council's insurance cover has again been provided by Aviva / WPS: we have examined the insurance schedule covering the year to November 2017 and consider that appropriate cover is in place with Employer's and Public Liability both standing at £10 million and Fidelity Guarantee cover at £375,000.

Conclusions and recommendation

We have been unable to establish whether the risk assessments have been subjected to review, update and formal re-adoption subsequent to that undertaken in September 2016 as, whilst the clerk and lead member were certain that the review was undertaken, no documentary evidence exists confirming that the review was completed and / or presented to Council for formal adoption during the year.

Given the absence of any confirmatory evidence we are obliged to record a negative comment in this section of the year's Internal Audit Report and advise the Council that they will similarly have to record a negative response in Section 1, Box 5 of the AGAR for 2017-18.

R2. The Council must ensure that risk registers are subjected to at least once annual review, the updated documents being formally presented to and adopted by the Council.

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 2018-19, the Council has approved and adopted a precept of £213,296, together with the Council Tax Support Grant of £5,648.

We are also again pleased to note that members are provided with quarterly budget performance reports and have reviewed the position as at both 30th September 2017 and the financial year-end with only one significant variance in evidence, that relating to the cost of upgrading the Council's website.

We have reviewed the level of retained reserves noting that total funds have reduced from £506,000 as at 1st April 2017 to £321,000 at 31st March 2018, primarily as a result of the refurbishment costs of the public conveniences taken on from the Isle of Wight Council. Of the year-end funds, £106,000 is set-aside for specific projects including the new office and library development. The residual General Reserve balance of £215,000 equates to almost a year's revenue spending and is potentially high, although we acknowledge that the funds earmarked for the office and library move / development (£45,000) may well be significantly below the final cost.

Conclusions

We are pleased to report that no significant issues arise in this area warranting formal comment or recommendation, although we suggest that members need to be mindful of the level of retained funds ensuring that they are not excessive.

Review of Income

The Council has only limited sources of income in addition to the annual precept, arising primarily from hire of the Falcon Cross Hall, library book / waste bag sales, late book return fines and occasional donations, plus limited interest on bank deposits and, in 2017-18 public convenience coin income.

We have, as indicated earlier in this report, verified all income deposited at the bank to the cashbooks for the financial year and, where available / applicable, other supporting documentation.

We again note that the Council has determined to retain hire fees at the same unchanged level since 2012 when the 2018-19 budget was considered.

We reviewed detail of August & September 2017 bookings at the 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 have now reviewed the procedures in place for emptying the coin boxes at the Council operated public conveniences, also examining the underlying records being maintained. We

have made a few suggestions to the Clerk and councillor who empties the coin boxes periodically aimed at affording him greater insurance against any potential allegations of inappropriate or fraudulent action, although we note that the physical takings generally exceed the anticipated income based on the activity as identified on the coin box meters.

We have suggested that a more formal record of the cash takings should be maintained contrasting the actual coin income with that anticipated per the individual meters, also that the collection sheets should be signed by the collecting officer(s) and clerk. Ideally the collections should be undertaken by two officers / members in order to afford assurance to each and the Council that all income collected is appropriately accounted for: we do not wish to imply that any impropriety exists in this respect and are purely endeavouring to ensure that best practice is observed and individuals are appropriately protected.

We are pleased to 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 have similarly reviewed the cash takings at this final update visit agreeing the income held to the till's "X" total at that time.

Conclusions and recommendations

We are pleased to record that no significant issues arise in this area warranting formal recommendation this year, although we consider that members should give serious consideration to increasing the Falcon Cross Hall hire fees, which have remained unchanged for five years.

R3. *The records relating to public convenience coin box income should be redesigned to afford for a reconciliation between the actual cash taking and those anticipated based on the coin box meter detail of usage.*

R4. *Ideally two people should empty the coin boxes and sign the cash collection sheets.*

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 have checked and verified at both our interim and this final update 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 HM Revenues and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions.

We note the Council's approval of increases for all three staff salaries in 2017-18 and have verified their accurate calculation by reference to the November 2017 payslips and supporting time records, where appropriate.

We have also checked detail of the month's deductions from these employees in respect of tax / NIC and pension contributions by reference to the current year's HMRC Database and LGPS scale of percentage charges to be applied dependent on gross salary earned.

Conclusions

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

Investments and Loans

The Council has again placed 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 to date noting that funds have been reinvested accordingly by reference to the bank's confirmatory advice.

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 & Annual Return

We are pleased to note that the Clerk has again produced a detailed Statement of Accounts and Supporting Notes. We have checked the detail reported on these documents to the underlying financial and other documents and are pleased to report that no errors have been identified, although a few amendments were necessary to reflect the changes detailed in previous sections of this report. 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 apart from that in relation to risk assessments.

Conclusions and recommendation

We are pleased to record that no additional issues have been identified in this area this year and commend the Clerk on the satisfactory production of a balanced comprehensive Statement of Accounts.

R5. In view of the apparent absence of any formal review and update / formal re-adoption of the Council's risk registers in the year, a negative response will have to be given in the Governance Statement – AGAR Section 1, Box 5.

Rec. No.	Recommendation	Response
Review of Accounting Records and Bank Reconciliations		
R1	Consideration should be given to migrating the accounting records onto a bespoke accounting software package, such as that provided by RBS / Rialtas, as is used by a high proportion of town councils nationally.	
Assessment and Management of Risk		
R2	The Council must ensure that risk registers are subjected to at least once annual review, the updated documents being formally presented to and adopted by the Council.	<i>RISK ASSESSMENT COMPLETED. TOWN CLERK RFO</i>
Review of Income		
R3	The records relating to public convenience coin box income should be redesigned to afford for a reconciliation between the actual cash taking and those anticipated based on the coin box meter detail of usage.	
R4	Ideally two people should empty the coin boxes and sign the cash collection sheets.	
Statement of Accounts / AGAR		
R6	In view of the apparent absence of any formal review and update / formal re-adoption of the Council's risk registers in the year, a negative response will have to be given in the Governance Statement – AGAR Section 1, Box 5.	