

Shanklin Town Council

Internal Audit Report 2018-19 (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 2018-19 financial year, during our two visits for the year, which took place on 20th November 2018 and 11th April 2019.

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 Report' 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 to date; we consider that the Council continues to operate adequate 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 assist the audit review process. We are also pleased to note the intended migration to a bespoke accounting software package, which we believe will ease the Clerk's workload with appropriate accounting reports readily available, once data has been input, at the press of a few keys.

We also note the successful translation of the year's financial data, as presented in the AGAR, to an Income and Expenditure basis as required as the annual turnover has now exceeded the £250,000 level for three successive years. We have duly verified the accuracy of the data as presented in the AGAR and signed off the Internal Audit Report accordingly with 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 recorded on separate spreadsheets for each account. Consequently, we have: -

- Agreed the opening balance detail with that in the 2017-18 Statement of Accounts and certified AGAR, with suitable adjustment for the overlooked 2017-18 Co-op second half year's interest (£6.47);
- 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 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 full financial year by reference to supporting bank statements; and
- Agreed detail on the month-end bank reconciliations as at 31st October 2018 and March 2019.

Conclusions

We are pleased to report that no issues have been identified in this area of our review process warranting formal comment or recommendation.

We are also pleased to note the intention to move to a software accounting package and have discussed available options with the Clerk, who we note wishes to move to the RBS Rialtas system. The RBS software is used by a high percentage of our similarly sized clients and will, we believe, ease the clerk's workload and afford ease of production of regular reports for presentation to members detailing not only ongoing financial transactions, but also periodic budget performance reports at any stage of the year together with generating the year-end Statements of Account and AGAR financial data.

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 to date this year: -

- Examined Council minutes for the year to ensure that, as far as we may reasonably be expected to ascertain, no issues exist affecting the Council's financial stability

either in the short, medium or long term and that no unlawful actions are being or have been considered; and

- Noted that revised Standing Orders (SOs) and Financial Regulations (FRs) have been adopted by the Council in the current financial year and have reviewed their content accordingly with no issues arising.

We have also noted previously the intention to move to newly built office accommodation at the Falcon Cross site and are now also pleased to note that updated planning approval has been granted and that positive action is in hand to expedite the new build and subsequent relocation of the offices: we will continue to monitor progress at future visits.

Conclusions

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

To ensure compliance with the above criteria and in view of their relatively low volume, we have examined all payments 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 four quarters' VAT reclaims prepared and submitted to HMRC 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 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 in order to minimise the opportunity for their coming to fruition. We have: -

- Re-examined the Council's approach to the identification, recording and management of financial risks noting that, following the oversight in 2017-18, the Council has reviewed and formally re-adopted an updated risk register at the April 2018 meeting of the Council, again based on the LCRS software: we also note that the documentation was further reviewed and re-adopted at the Annual Meeting in March 2019; and
- Noted that the Council's insurance cover is provided by Aviva / WPS: we have examined the insurance schedule covering the year to November 2018 and consider that appropriate cover is in place with Employer's and Public Liability in place at £10 million and £25 million respectively, together with Fidelity Guarantee cover £500,000.

Conclusions

We are pleased to record that no issues arise in this area warranting formal comment: 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 2019-20, the Council has approved and adopted a precept of £285,000, together with the Council Tax Support Grant of £2,918.

We have reviewed the level of retained reserves noting that total funds have increased marginally from £321,000 to £361,000 at 31st March 2019, with £222,000 now set-aside for specific projects including the new office and library development. The residual General Reserve balance of £139,000 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 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 2018-19 budget was considered. We have reviewed detail of September and October 2018 bookings at Falcon Cross Hall 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 have similarly reviewed the cash takings at this final update 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. We note that these all record a "surplus" of cash against the anticipated income and have reviewed the records for the period from 1st September to date ensuring that all income has been banked accordingly.

Conclusions

We are pleased to record that no issues arise in this area warranting formal recommendation, although, as indicated in our interim report, we consider that members should give serious consideration to increasing the Falcon Cross Hall hire fees, which have now remained unchanged for several years.

We note from examination of minutes that consideration is being given to registering the Falcon Cross Hall for VAT and will monitor the outcome of deliberations and discussions with HMRC in that respect at our next visit.

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. As indicated previously in this report, a £40 change float is held by the Library staff, detail of which we have checked and verified at 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 2018-19 and have verified their accurate calculation by reference to the October 2018 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.

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 2018-19, with no assets disposed of during the financial year.

Conclusions

No issues arise in this area warranting 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 by reference to the bank's confirmatory advice.

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

Statutory guidance on Local Government investments (3rd Edition) issued under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing

on or after 1st 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. As the Council's annual turnover has exceeded £250,000 for three years, it is now required to prepare the AGAR financial information on an Income and Expenditure, rather than Receipts and Payments basis. The Clerk has duly identified detail of year-end debtors and receipts in advance relating to hire of Falcon Cross Hall, together with the costs of goods and services relating to 2018-19, but not invoiced or paid prior to 31st March 2019. 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.