



# **St Neots Town Council**

*Internal Audit Report (Final update) 2018-19*

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*Stephen Christopher*

*for Auditing Solutions Ltd*

## **Background and Scope**

All town and parish councils are required by statute to make arrangements for an independent internal audit examination of their accounting records and system of internal control, and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR). Auditing Solutions Ltd were appointed to undertake this function on behalf of St Neots Town Council for the 2018-19 financial year.

This report sets out the results of our final audit visit to the Council for 2018-19, which took place on 31<sup>st</sup> May 2019. It updates the reports we issued following our interim audit visits in October 2018 and February 2019.

## **Internal Audit Approach**

In undertaking our internal audit work, we have had regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Accounting Statements/AGAR. We have employed a combination of selective sampling techniques (where appropriate) and 100% detailed checks in a number of key areas in order to gain sufficient assurance that the Council's financial and regulatory systems and controls are appropriate and fit for the purposes intended.

Our internal audit programme has been 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 'Annual Internal Audit Report' on Page 3 of the AGAR, which requires independent assurance over a number of internal control objectives.

## **Overall Conclusion**

On the basis of the programme of work we have undertaken, we have concluded that the Council has continued to maintain adequate and effective internal control arrangements. We have completed and signed the 'Annual Internal Audit Report' in the 2018-19 AGAR. In doing so, we have concluded that, in all significant respects, the control objectives as set out in that report were being achieved throughout the financial year to a standard adequate to meet the needs of the Council.

The key issues arising from the audit are set out in the body of the report. In undertaking our audit work, we have reviewed the progress that has been made in addressing matters raised in our second interim audit report. We confirmed that good progress had been made in a number of areas and these are detailed in this report. However, in some instances further action is required and our previous recommendations have been carried forward. There are no new matters arising from the audit work undertaken during our final visit.

We ask that Members consider the content of this report and respond in due course to the recommendations drawn together in the appended Action Plan, indicating, where appropriate, the actions to be taken and the likely timescale for their implementation.

This report has been prepared for the sole use of St Neots Town Council. To the fullest extent permitted by law, no responsibility or liability is accepted by Auditing Solutions Ltd to any third party who purports to use or rely, for any reason whatsoever, on this report, its contents or conclusions

# Detailed Report

## Accounting records & Banking arrangements

Our objective is to confirm that the accounting records are accurate and up to date, with no anomalous entries in the cashbooks or financial ledgers, and that appropriate banking arrangements are in place.

The Council continues to maintain its accounting records using the RBS Omega software, which is generally acknowledged as a market leader at this tier of local government.

Barclays Bank is used for day to day business banking services. Three accounts are in use; a Business Current Account and an Active Saver (instant access deposit) Account for the Council's main transactions, together with a separate Priory Centre Current Account. The two main Council accounts are combined into a single cashbook within Omega, in order to reduce the number of data entries and to reflect the fact that Barclays continues to operate an automatic daily transfer between the accounts to retain a balance of £100,000 in the current account.

In addition to the Barclays Active Saver, all other funds not required for immediate use are held in the Public Sector Deposit Fund of CCLA Investment Management Ltd.

As in previous years, two accounts (current and savings account) are maintained to hold funds relating to the "Mayor's Charity", which are set aside for charitable donations. These form part of the Council's overall funds for accounting purposes.

In our audit work for the year, we have:

- Checked and agreed the opening trial balance on Omega for 2018-19 to the closing balances on the 2017-18 AGAR and detailed financial statements;
- Verified that the financial ledgers remained "in balance" at the time of our interim visits and as at 31<sup>st</sup> March 2019;
- Confirmed that the accounting code structure remains appropriate to meet the Council's budget reporting and control requirements;
- Checked the detail in the Omega cashbooks for the Council's current/active saver accounts and the Priory Centre current account for three sample months (June 2018, December 2018 and March 2019), by reference to the relevant bank statements;
- Checked the detail of all transactions on the other accounts for the year, again by reference to the relevant bank statements,
- Checked and agreed the detail on the bank reconciliations for all of the accounts as at 30<sup>th</sup> September 2018, 31<sup>st</sup> January 2019 and 31<sup>st</sup> March 2019, confirming the reconciliations are now subject to independent review by the Town Clerk, as previously recommended, and that there were no long-standing unrepresented cheques or anomalous entries;
- Confirmed that there is accurate disclosure of the overall cash balances in the year-end statutory accounts (Section 2, Line 8 of the AGAR), and

- Confirmed that appropriate procedures remain in place for backing up financial and other IT systems in use at the Council.

### **Conclusion**

***On the basis of our audit work, we are satisfied that the controls in place in this area are adequate and are operating effectively. There are no matters arising that require a formal comment or recommendation.***

## **Corporate governance**

Our objective is to confirm that the Council has robust corporate governance arrangements 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 completed our review of the Council's minutes for the 2018-19 financial year, examining those for the Town Council and its standing committee meetings. We are pleased to report that we have not identified any issues that we consider might have an adverse effect on the Council's financial stability in the short, medium or longer term, or that give us cause for concern that the Council is considering, or has taken, decisions that might result in 'ultra vires' expenditure.

The Council reviewed both its Standing Orders and Financial Regulations during the 2018-19 financial year, taking into account model guidance provided by the National Association of Local Councils (NALC). The latest revision to the Standing Orders was approved by the Town Council at its meeting in June 2018.

Updated Financial Regulations were considered by the Finance & Governance (F&G) Committee in July 2018. These included changes to reflect the greater emphasis on governance and forward planning (in particular the role of Members) included in the NALC guidance. From our review of the minutes and discussions with the Finance Manager, we note that the Financial Regulations were reviewed again by the F&G Committee in February 2019 and subsequently presented to the Full Council in March 2019. Some further changes have been recommended and they are due to be considered again in June 2019.

In our first interim report, we recommended that the Council should consider its approach to the minuting of matters that are considered in a confidential session. The minutes should indicate the general nature of any matters discussed and any resolutions that are confidential or for some reason are not in the public interest to disclose must be recorded in the minutes, without undermining or disclosing the confidential, or other, sensitive information. We are pleased to note that our recommendation has been taken on board.

We were also pleased to confirm that action has been taken to address two other matters raised at our interim visits; with minutes of all Council and committee meetings now being made available on the Council's website, following approval, and the approved (signed) minutes now being stored in a locked cupboard.

### **Conclusion and recommendations**

***On the basis of our audit work in this area, we consider that, in general, the Council has adopted a sound approach to its responsibilities in relation to corporate governance.***

***However, from our review of the file of approved minutes held by the Council, we found that action still needs to be taken to address matters raised in our interim audits, to ensure that complete records are maintained, as required by Schedule 12 of the Local Government Act 1972. The outstanding matters are as follows:***

- (a) In our interim audit reports, we reported that the approved minutes for a number of Council and Committee meetings held in 2018-19 were not on file. In following up at our final audit visit, we confirmed that the signed minutes of seven Full Council meetings and four committee meetings were not on file.***
- (b) Our report also highlighted four other instances where the first page of the approved minutes of Committee meetings which were held on file had not been initialled by the committee chairman, as is also required by Schedule 12 of the Local Government Act 1972. Again, in following up on this matter, we confirmed that this had still not been addressed.***

***R1 As previously recommended, all approved minutes of Council and Committee meetings must be retained on file, as required by Schedule 12 of the Local Government Act 1972.***

***R2 As previously recommended, in addition to signing the final page of each set of minutes, the Chairman of the meeting approving the minutes must also ensure that all other pages are initialled, as required by Schedule 12 of the Local Government Act 1972.***

## **Expenditure**

Our objective is to ensure that:

- The Council's 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 purchase order has been raised on every occasion when one would be expected (exceptions will be for ongoing contracts or certain one-off cheque payments);
- 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 completed our review of the procedures in place in this area. Overall, we selected a sample of 73 non-pay related payments across the financial year for examination to check compliance with the above criteria. Our test sample included all payments in excess of

£4,000, together with a more random selection of every 45<sup>th</sup> payment as recorded in the payments cashbook listing and invoices relating to the Priory Centre, totalling £390,565 and equating to 50% of non-pay expenditure in the year.

We confirmed that VAT Returns continue to be submitted quarterly in electronic format, as required by extant legislation, with detail being reconciled to the Omega financial ledger. We reviewed the detail of the reclaims submitted for all four quarters of the year, with no issues arising.

### **Conclusion**

*We are pleased to report that there are no matters arising from our audit work in this area that require a formal comment or recommendation, with all of the above criteria met.*

## **Assessment and management of Risk**

Our objective is to confirm 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.

There is a requirement for the Council to formally review and approve its risk management arrangements during each financial year. We have confirmed that the risk register was updated by the Finance Manager during the financial year and was reviewed and approved by the F&G Committee at its meeting in February 2019, with copies subsequently sent to all Members.

The Council has a three-year agreement with Zurich Municipal for its insurance cover, which runs until March 2020. We examined the policy schedule for 2018-19 and confirmed that this includes employer's liability of £10m, public liability of £15 million and Fidelity Guarantee of £2 million. This level of cover appears adequate for the current needs of the Council.

A range of health and safety reviews/inspections have been undertaken during the course of the year, including annual RoSPA reviews of play equipment by PlaySafety Ltd, half yearly inspections of play equipment and premises by the Council's insurers (Zurich) and weekly inspections of play areas by qualified Council staff. We examined the records maintained by the Operations team for the weekly inspections undertaken in the year to date and confirmed that these are complete and up to date.

In our first interim report, we recommended that the Council should review the current arrangements for external play area inspections, as it appeared that there was unnecessary duplication. (In both cases, the purpose of the inspections has been to check for compliance with the relevant 'Soft Play Area' Standard EN1176). It was subsequently confirmed that there was duplication and the contract with Zurich was terminated at the end of the financial year.

At our first interim visit, we also noted that reports on the findings of the inspections undertaken by the two external companies in relation to 2018-19 (in April 2018 by PlaySafety Ltd and in September 2018 by Zurich), had not been seen by the Operations Manager (or, in the case of the Priory Centre, by the Priory Centre Manager). We requested that the two companies be approached to provide copies of the reports. These were subsequently obtained

and have been provided to the Managers for review and for follow-up on any actions required, as necessary.

In our interim reports, we also recommended that action should be taken in relation to the monitoring and reporting of the play inspections. From our discussions with the Operations Manager at our final visit, we have confirmed that reports have now been received from PlaySafety Ltd on their most recent annual inspections (completed during April 2019) and that these are due to be reported to the Operations and Amenities Committee in July 2019. We also understand that a detailed schedule of matters arising from the various inspections and required actions is now being developed, in line with our suggestion. We would propose to review the action taken at our first interim visit in 2019-20.

### **Conclusion**

***On the basis of our audit work, we consider that the Council has sound arrangements in place in relation to the management of risk. There are no matters arising from our final audit visit that require a formal comment or recommendation.***

## **Budgetary Control and Reserves**

Our objective here is to confirm that the Council has robust procedures in place for identifying and approving its future budgetary requirements and the level of Precept to be drawn down from Huntingdon District Council (HDC): also, that an effective reporting and monitoring process is in place. We also consider whether the Council retains appropriate funds in earmarked and general reserves to finance its ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

At our first interim visit we focused on the information provided to the Members on progress against the budget. We confirmed that the F&G Committee continues to receive reports on progress against the current year budget on a quarterly basis and also, in line with our recommendation last year, is now receiving a regular update on the overall financial position. We also noted that active consideration is now being given to the use of funding received through the Community Infrastructure Levy (CIL).

At our second interim visit, we reviewed the approach taken by the Council to setting its budget and Precept for 2019-20. We confirmed that the budget process involved detailed consideration by the various committees, in particular F&G, before the Precept was formally approved by the Full Council at its meeting on 7<sup>th</sup> January 2019. The Precept has been set at £1,502,500, (£1,274,405 for 2018-19), an overall increase of 40 pence per week for Band D properties. We are satisfied that Members were provided with an appropriate level of information on which to base the budget decision, with comprehensive supporting documentation included in the budget pack produced by the Finance Manager.

As in previous years, consideration was given during the budgetary process to the level of reserves and balances that are required going forward. At our final visit, we confirmed that the overall reserves of the Council as at 31<sup>st</sup> March 2019 amounted to £631k (£721k at 31<sup>st</sup> March 2018) of which £202k (£315k) is set aside as Earmarked Reserves, with a further £198k (£186k) of accumulated CIL receipts. The main reason for the reduction in Earmarked Reserves was the reallocation of £78k to the General Fund, which was then used to support the 2018-19 budget. At the year end the General Reserve balance stood at £231k (£219k).

## Conclusion

*On the basis of our audit work in this area, we consider that the control arrangements are adequate and are operating effectively. The only matter we wish to highlight to Members, is the importance of ensuring that the Council's General Reserve requirements are kept under review as part of future budget planning.*

*As we reported last year, although there is no formal national guidance on the level of General Reserve that should be held (as this will vary depending on the risks faced by individual councils), a yardstick of between 3 months and 6 months of the annual Precept is often quoted – with the former possibly more realistic for larger authorities. The General Reserve balance held as at 31st March 2019 only equates to 15% of the 2019-20 Precept, which is comparatively low - although we note that the Council has budgeted to increase this to just under £250k by the end of 2019-20. With the continuing pressures on spending, going forward, it will be important for the Council to ensure that its General Reserve position is closely monitored.*

## Income

In addition to its Precept and contributions from developers, through section 106 or the CIL, the Council receives income from a variety of sources, in particular hall hire (Priory Centre and Eatons Centre), allotment rents and cemetery charges.

Our objective is to confirm that robust procedures are in place to ensure that all income due to the Council is identified and invoiced (where appropriate), with recovery effected within a reasonable time span. In the course of our audit visits, we examined underlying records relating to allotment rents, cemetery charges and hall bookings.

Allotments: We reviewed the process for the allocation of allotments and the invoicing of allotment holders. In the previous year, new allotment fees were agreed, which came into effect from 1<sup>st</sup> October 2018. As a consequence, two half yearly invoices were raised during 2018-19. We checked the records relating to the second instalment (billed in October 2018) and confirmed that the correct amounts were invoiced and in the majority of cases, payments were received promptly. There is evidence that any outstanding issues are followed up on a timely basis, with allotments re-allocated, where appropriate. There are no matters arising from our review.

Cemeteries: We reviewed the interment applications made over a two-month period (May and June 2018) and confirmed that the invoices subsequently raised were in order. There are no matters arising from our review.

Hall bookings: We reviewed a sample of one week's diary entries for bookings at the Priory Centre and Eatons Centre (w/c 7<sup>th</sup> January 2019), agreeing these to the computerised diary record and confirming that hirers' agreements are in place. We then checked the accounts raised in relation to each booking, to ensure these were correct. There are no matters arising from our review.

Review of fees and charges: As noted above, new allotment rents were agreed from October 2018 and will also apply in 2019-20. We confirmed that the fees and charges to apply in 2019-20 for the other income areas were discussed and agreed at the F&G Committee meeting on 9<sup>th</sup> October 2018.

*Outstanding debtors:* During our audit visits we have also reviewed the aged debtor position and have confirmed that effective control arrangements remain in place, with appropriate action being taken in relation to outstanding payments.

### **Conclusion**

***There are no matters arising from our audit work in this area that require a formal comment or recommendation.***

## **Petty Cash**

We are required, when completing the ‘Annual Internal Audit Report’ in the AGAR, to confirm that there are effective controls over any petty cash accounts operated by the Council. To meet that objective, we confirm that:

- Any petty cash accounts in operation are managed effectively and that all expenses incurred are appropriately supported by a trade invoice or relevant till receipt;
- Only low value expenditure is incurred from any petty cash account(s) in use;
- VAT is identified and coded accordingly to the VAT control account for periodic recovery from HMRC; and
- The physical cash held is periodically reconciled to the supporting records.

Two separate petty cash accounts are operated, one for the Council and one for the Priory Centre. During the course of our first interim audit, we reviewed the Council petty cash account, held by the Finance staff and confirmed that it is being managed effectively and that the cash balance held as at the date of the audit visit agrees to the underlying accounting records. At our final audit visit, we confirmed the balances of the two petty cash floats at the year-end and that they had been included correctly in the overall cash and short-term investments balance reported in Section 2, Line 8 of the AGAR.

### **Conclusion**

***On the basis of the audit work we have undertaken during the year, we consider that the control arrangements in this area are adequate and are operating effectively. There are no matters arising that require a formal comment or recommendation.***

## **Salaries and Wages**

In examining the Council’s payroll function, our objective is to confirm that extant employment legislation is being adhered to, that the requirements of HM Revenue and Customs (HMRC) legislation are satisfied regarding the deduction and payment over of income tax and NI contributions and that the requirements of the local government pension scheme are met.

The majority of the Council’s staff are paid on a monthly basis, although a few casual bar staff and cleaning staff continue to be paid weekly. The Council has “outsourced” preparation of the payroll to a local bureau which provides detail of all relevant documentation by way of payslips, Yellow Book Returns and cost analyses, etc. in electronic format, some of which is

printed off and filed routinely (NB: this excludes printing of payslips, although they are available electronically).

To meet the above objectives, we undertook the following work:

- Confirmed that the Council reviews and approves pay scales for staff annually;
- Confirmed, that appropriate signed contracts of employment are held for new members of staff;
- Checked the detail of staff salaries and wages paid in September 2018 (monthly) and week 24 (weekly) respectively, by reference to the Finance Manager's schedule of staff in post and a selection (not all) of staff personnel files agreeing the gross salaries or hourly rates paid to the individual employment contracts;
- Checked to ensure that tax and NI deductions have been made applying the appropriate tax code and NI Table, also ensuring that appropriate amounts are paid over to HMRC regularly each month;
- Checked that the appropriate employee and employer contributions to the pension scheme have been determined and paid over to the County's Pension Fund Administrators;
- Checked that the appropriate employee and employer contributions to the pension scheme have been applied in accordance with the current arrangements;
- Reviewed timesheets, where relevant, to confirm the accurate payment of any enhanced hours due to employees; and certified for payment by their section head; and
- Examined the procedures in place for the release of staff salaries and wages by the payroll contractor to individual staff.

At our final audit visit, we confirm that staff related costs for the year had been reported correctly in the AGAR (Section 2, Line 4).

### ***Conclusion***

***There are no matters arising from the audit work undertaken in this area that require a formal comment or recommendation.***

## **Asset Register / Inventory**

The reporting arrangements for assets in the AGAR require councils to report the value of each asset at purchase cost or at a suitable proxy where that value is not known, and for community assets to be valued at a nominal £1. The value of individual assets should not change from one year to another, with the only changes being the inclusion of new assets purchased or removal of assets disposed of.

The Council maintains a comprehensive asset register, with asset values recorded in accordance with the above requirements, which is updated at the end of each financial year.

At our final audit visit, we reviewed the asset register as at 31<sup>st</sup> March 2019 and agreed total asset value of £4,446,360, reconciling the movements from the previous year end. We also confirmed that the correct value has been included in Section 2, Line 9 of the AGAR.

### ***Conclusion***

***There are no matters arising from our audit work that require a formal comment or recommendation.***

## **Investments and Loans**

Our objective is to confirm that an appropriate investment strategy is in place, that any funds not required for immediate use, whether temporarily or on a longer-term basis are invested in line with that strategy and that interest earned is brought to account correctly and appropriately in the accounting records. We also confirm that any loan repayments due to or payable by the Council are transacted in accordance with the relevant loan agreements.

During the course of our audit visits, we have confirmed that:

- The Council's investment strategy has been updated and was approved by the Council on 25<sup>th</sup> September 2018. The strategy document is in line with revised guidance issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) which applies from the 2018-19 financial year;
- As noted earlier in this report, surplus funds that are not retained in the Council's main Barclays "Active Saver" account are held in the CCLA Public Sector Deposit Fund;
- The two half-yearly instalment repayments on the outstanding PWLB loan recorded in the cash book and financial ledger agree to the third party "demand" notices;
- The capital and interest repayments made to PWLB in the year, and the balance outstanding at the year-end, have been reported correctly in the AGAR (Section 2, Lines 5 and 10), and
- The final repayment to Huntingdonshire County Council for the loan provided in relation to the Priors Centre extension was made during the year, with the amount repaid reported correctly in the AGAR (Section 2, Line 5).

### ***Conclusion***

***There are no matters arising from our audit work in this area that require a formal comment or recommendation.***

## **Statement of Accounts and AGAR**

We have examined the detailed accounting statements prepared by the Finance Manager using the RBS Omega system and also the draft of the statutory "Accounting Statements 2018-19" that the Council is required to complete and approve (Section 2 of the AGAR). We have agreed the detail to the supporting accounting records and to other related documentation.

### ***Conclusions***

***There are no matters arising from this area of our review that require any formal comment or recommendation. We look forward to receiving a copy of the finalised AGAR (Sections 1 and 2), once the document has been approved by the Council.***

*On the basis of the work undertaken during the course of our review for the year, we have completed and signed the Annual Internal Audit Report in the AGAR, assigning positive assurances in all areas of internal control*

Recommendation	Response
<b>Corporate Governance</b>	
R1	As previously recommended, all approved minutes of Council and Committee meetings must be retained on file, as required by Schedule 12 of the Local Government Act 1972.
R2	As previously recommended, in addition to signing the final page of each set of minutes, the Chairman of the meeting approving the minutes must also ensure that all other pages are initialled, as required by Schedule 12 of the Local Government Act 1972