

Waltham Abbey Town Council

Internal Audit Report 2021-22 (First Interim Up-date)

Chris Hackett

*For and on behalf of
Auditing Solutions Ltd*

Background

Statute requires all town and parish councils to arrange 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 in short).

This report sets out the work undertaken in relation to our first review for 2021-22, which took place on 20th and 21st September 2021 together with our preparatory work. The review was completed remotely. We wish to thank officers for providing the records in electronic format. Further reports will be issued after our second interim review early in the New Year and after our final review in the summer.

Internal Audit Approach

In commencing our review for the year, we have again had regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts and AGAR. Our programme of cover has been designed to afford reasonable 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 eleven internal control objectives.

Overall Conclusion

We are pleased to report that based on the work undertaken this year to date, the Council continues to maintain generally satisfactory internal control arrangements, although we have highlighted a few areas where control should be strengthened. Our detailed findings are set out in the following sections. We have made three recommendations intended to further strengthen the control environment.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Council uses the Rialtas Omega accounting package (the Ledger) to record its financial transactions with support from DCK accounting to up-date the records and to prepare the year end AGAR and accounts. Five cash books are maintained. Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. To meet our objectives, we have to date:

- Reviewed the external auditor's report on the 2020/21 accounts confirming they raised no issues requiring our follow-up;
- Checked and agreed the 2021/22 opening trial balance as recorded in the Ledger to the 2020-21 closing balances confirming consistency;
- Ensured that a full and effective cost centre and nominal account coding structure remains in place and is appropriate for purpose;
- Ensured that the accounts remain 'in balance' at the time of this review based on the back-up of the Ledger provided to us;
- Discussed with officers the arrangements for backing up the Ledger electronically to ensure the security of the system in the event of a system failure;
- Discussed with officers the arrangements for processing journals, manual adjustments to the Ledger, which we understand are prepared by officers and reviewed by DCK;
- Checked and agreed the principal combined Current and Money Manager cashbook transactions for September 2021 to the relevant bank statements, including the transfers or "sweeps" between the accounts. We then checked the detail on bank reconciliations for this cash book as at the end of August and the end of September 2021, ensuring that no long standing, unpresented cheques or other anomalous entries exist;
- Reviewed the reconciliation on cash book two, this is effectively a control account used to post income. We confirmed there were no unreconciled items at the end of September 2021;
- For the Imprest Account cash book we obtained bank statements for September 2021 and agreed the reconciliation at 31st August and 30th September 2021 then we agreed the transactions in September between the Cash Book and the bank statement. Also, we agreed the reimbursements from the main cash book; and
- For the cash book recording payments on the Commercial Card, we agreed transactions in September 2021 between the cash book and the charge card statement and agreed the reconciliation at 30th September 2021.

A further cash book recording petty cash was tested and the results are set out later in this Report.

Conclusions

Reconciliations are being regularly completed and the accounts are in balance. We will undertake further testing at later reviews.

Review of Corporate Governance

Our objective here 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:

- Commenced our review of the Council and its extant Standing Committees' minutes for the financial year to date, examining those published on the Council's website to ensure that no issues exist, or may be under consideration, by the Council that may have an adverse effect, through litigation or other causes, on the Council's future financial stability;
- Noted that that the Council continues to review, monitor and up-date its governance arrangements with reports on its Standing Orders presented to Council in April 2021 and Financial Regulations in November 2020. Further that a range of policies was reviewed at the Policy and Resources Committee in September 2021;
- Noted that the Council continues to post payments over £500 on its website which we regard as good practice. At the time of this review the latest posting was for the quarter ending 30th June 2021 ; and
- Noted that the Council advertised to the public its 2020/21 accounts during the summer of 2020.

Conclusion

There are no issues arising in this area to warrant formal recommendation currently.

Review of Expenditure

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;
- Members have met their fiduciary duties approving release of each payment in accordance with extant legislation;
- An appropriate order has been placed in each case where one would be anticipated;
- All discounts have been taken;
- 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 and that submissions have been returned to HMR&C in a timely manner.

We discussed controls over the authorisation of payments with officers. To obtain assurance in this area we have commenced our sample testing, selecting payments recorded in the main cash book including those individually in excess of £4,000, plus every 50th payment regardless of value to 30th September 2021 for compliance with the above criteria. Our test sample of 24 payments (relating to 60 invoices in all) totalled £137,370 and represented 34% of all non-pay related expenditure for the year to date. All payments in our sample were supported by invoices.

We have reviewed the first quarter's VAT return, covering the period April to June 2021 confirming receipt of the funds reclaimed into the Council's accounts. We also confirmed receipt of the VAT debtor balance outstanding at the 31st March 2020 (relating to 2019/20) into the Council's accounts.

Conclusions

There are no matters requiring formal recommendation, payments are supported by invoices. We will extend our testing at our next review.

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 and to minimise the opportunity for their coming to fruition. We have:

- Obtained the Council's current year insurance policy provided by Royal Sun Alliance, which runs to 31st March 2022, noting that cover includes:
 - Buildings and contents;
 - Business interruption insurance;
 - Employer's Liability £10m;
 - Public liability £15m;
 - Fidelity guarantee £0.750m; and
- Confirmed with officers that play areas are inspected daily by Council staff and that quarterly safety inspections are carried out by an external assessor.

Conclusions

There are no issues arising in this area to warrant formal recommendation currently, although we note that following receipt of the precept the Council's cash holdings at 30th September 2021 together with its CCLA deposit totalled £879,000 which exceeds the Fidelity Guarantee limit of £750,000. The Council may wish to consider increasing insurance cover in this area in line with the maximum potential cash holding, which is good practice.

Budgetary Control and 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 District Council: also, that an effective reporting and monitoring process is in place. Additionally, we 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 note that budget reports are prepared and presented to Policy and Resources Committee during the year. These include a summary report and detail of the annual budget and the position against the year to date.

It is too early to review the 2022/23 budget setting process. We will consider this together with reserves at later reviews.

Conclusions

There are no issues arising in this area of our work to date to warrant formal recommendation.

Review of Income

In this area of our review we aim to ensure that income due to the Council is identified, invoiced (where applicable) and recovered at the appropriate rate and within a reasonable time scale; also, that it is banked promptly in accordance with the Council's Financial Regulations.

Income is derived from Allotments, the Cemetery, Town Mead Social Club, Sports Facilities, Town Hall/Town Hall Bar, Market Stalls and Tourist Information Centre. We reviewed the Council's latest budget monitor report generated by the Ledger to identify areas to test and then:

- Discussed the fall in income on the Town Hall bar with the officers, confirming the reason;
- Rental income: we followed up a recommendation from 2020/21 that the lease to the tenant at the Larsen Recreation Ground should be renewed and a signed copy retained by the Council. Due to pressure on officer time from, for example the Covid lockdown, this has yet to be addressed;
- Agreed the precept as set and recorded in the Council minutes to the amount recorded as receipted into the main cash book;
- Tested three burials in June/July 2021 from the Burial Register confirming a certificate of cremation/burial was held and agreeing the fee charged to the schedule of rates and to the invoice and Ledger;
- For the Saturday and Tuesday markets we agreed the income in the Ledger for July 2021 (as a sample) to the supporting cash sheets and receipts issued by the Council;

- For the income arising on the Town Mead, we tested two cash sheets from the venue, as a sample, through to the income reported in the Ledger;
- Tested three Town Hall bookings in July from the booking diary confirming the fees were invoiced at the correct rate and agreeing the income to Ledger. We noted the three hirer's are long standing clients and the booking forms could not be located, although the Deputy Clerk confirmed the Town Council does regularly check that hirer's hold suitable public liability insurance cover and as necessary DBS checks, (confirmation they can deal with vulnerable people or children); and
- Reviewed the overall level of debt recorded on the sales ledgers operated by the Council noting the position is stable overall. We noted there was some work to do to match credits with invoices within the system, officers confirmed this was in hand.

Conclusions and recommendation

The Council has arrangements in place for processing income and monitoring recovery, we note debtor's reports are presented to Policy and Resources Committee. We will continue to monitor income collection and recovery at our later visits. We make one recommendation to strengthen control.

R1 For long standing customers hiring Council venues, officers should ensure a hire agreement is retained showing contact details and if necessary, up-date the documentation.

Imprest and Petty Cash Accounts, Bar Cash Floats and Credit Card Accounts

We are, as part of the AGAR process, required to provide an opinion on the robustness of the Council's petty cash accounting procedures.

As last year we noted there is a petty cash float at the Town Hall with a balance of up to £200, this is topped up as and when required. Transactions are recorded in a cash book on the Ledger. As noted earlier in this report the Council has also an Imprest Account and a Commercial Card Account. Also various floats are held. We have:

- Checked the payments from petty cash for the month of September 2021 confirming they were supported by signed and authorised vouchers and till receipts or invoices. We checked the transfer into petty cash in September 2021 and confirmed regular reconciliations were being completed between the account balance and the actual cash held. We further noted that VAT is separately recorded enabling amounts to be recovered from HMRC;
- Tested the payments made on the Commercial Card in September 2021 to supporting invoices, as noted earlier we checked the reconciliation on this account to the Card statements. We discussed with officers the controls over the use of the Card;
- We agreed the reconciliation of the imprest account as noted earlier in this report; and
- Discussed the controls over floats with the officers. Due to the closure of venues during lock-down controls over floats have not always been maintained in respect of the Town Hall bar. Officers checked the Town Hall bar float at the time of this review noting the

physical cash held totalled £807.50 compared to the expected balance per the accounts of £1,300.

Conclusions and recommendation

The Council has arrangements for controlling petty cash. Controls over cash floats should be reviewed.

- R2 *Officers should confirm the existence of all cash floats and review and ensure controls are in place for ensuring safe custody of floats including regular independent checking of all balances and secure storage of cash. Officers should report to members the position on all floats and the controls in place. In undertaking this exercise officers should prioritise the floats at the Town Mead bar which has recently been closed for refurbishment.*

Review of Staff Salaries and Wages

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the requirements of HM Revenue and Customs (HMRC) with regard to the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme. To meet this objective, we have sample tested payroll transactions. Specifically, we have though sampling:

- Reviewed the Council's payroll preparation procedures which utilise the Sage software;
- Checked the gross pay recorded on the payroll system to a sample staff contract;
- Checked Sage payroll reports and the Ledger to confirm regular payments are made to the Pension Fund Provider and HMRC;
- Sample checked the computation of staff gross and net pay and salary deductions for July 2021, as compiled "in house" using bespoke Sage payroll software; and
- Started to compile a month on month trend analysis of payroll costs to enable us to identify any unusual changes in costs during the year.

Conclusions and recommendation

The Council is maintaining its payroll system and making payments to HMRC and the pension provider. There is scope to strengthen overall controls by annually producing a confidential establishment list showing for all staff their paypoint and contractual hours and overtime arrangements. This would assist Members in discharging their governance responsibilities in terms of overseeing payroll and the budget setting processes.

- R3 *An establishment list should be reported annually to a Member Committee.*

Rec. No.	Recommendation	Response
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2021/22 Recommendations

Review of income

R1 For long standing customers hiring Council venues, officers should ensure a hire agreement is retained showing contact details and if necessary, up-date the documentation.

Imprest and Petty Cash Accounts, Bar Cash Floats and Credit Card Accounts

R2 Officers should confirm the existence of all cash floats and review and ensure controls are in place for ensuring safe custody of floats including regular independent checking of all balances and secure storage of cash. Officers should report to members the position on all floats and the controls in place. In undertaking this exercise officers should prioritise the floats at the Town Mead bar which has recently been closed for refurbishment.

Review of Staff Salaries and Wages

R3 An establishment list should be reported annually to a Member Committee.

Rec. No.	Recommendation	Response/latest position
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Up-date on 2020/21 Recommendations

Review of Accounting Records & Bank Reconciliations

R1 The Chair of the Committee reviewing the bank reconciliation should sign them off.

Officers confirmed this is now being brought up to date.

Review of Corporate Governance

R2 The Council needs to ensure that it complies with the requirements of the Transparency Code in publishing the required detail including detail of payments over £500.

This is now happening.

Review of Expenditure

R3 The email authorisation from each of the members approving payments should be retained on a file for future reference and to provide an audit trail. The email should make it clear which payments have been approved.

Agreed, although with meetings now happening more face to face, payments will be approved at meetings.

Review of income

R4 The Agreement with the tenant at the Larsen Recreation Ground should be renewed and a signed copy retained by the Council.

We will ensure that the Rochford nursery (Larsens) tenant has an updated agreement, she is already aware that we need to do this.

The matter is in hand.