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# **Abergavenny Town Council**

*Internal Audit Report (Final update) 2020-21*

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## **Background**

Statute requires all town and parish councils to arrange for an independent Internal Audit (IA) 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 2020-21 financial year, during our interim review of the Council's records for the year, which was undertaken remotely due to the prevailing Covid-19 situation and restrictions in November 2020 and during our final review which was undertaken partially at our offices and partially on site on 14<sup>th</sup> May 2021. We wish to thank the Clerk in assisting the process, providing all necessary documentation to facilitate completion of our review for the year.

## **Internal Audit Approach**

In undertaking our review, 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 / AGAR. Our programme of cover is designed to afford 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 'IA Certificate' in the Council's AGAR, which requires independent assurance over a series of internal control objectives.

## **Overall Conclusions**

We are pleased to advise that, based on the work undertaken this year, the Council continues to maintain adequate and effective internal control arrangements with no significant concerns identified: only one very minor account recording issue has been identified at this final review detail of which we have discussed with the Clerk and included as an additional recommendation.

We are pleased to record that, based on the satisfactory conclusions drawn from our review programme, we have duly signed off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area.

We also take this opportunity to remind the Clerk of the requirements of the guidance notes in the year's AGAR in relation to the documentation that should be displayed on the Council's website, together with the need to ensure compliance with the timing requirements for publication of the Notice of Public Rights to examine the Council's documentation for the financial year.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

The Council's accounting records are maintained using Rialtas Omega software with separate current and deposit accounts in place at Barclays with transactions recorded in a single cashbook in the accounting software: a daily sweep facility is in place to retain a current account balance of £10,000. As identified in last year's report, the Council also transferred £20,000 into a short-term "investment" account with Gateway Credit Union during 2019-20.

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. We have consequently:

- Verified the accurate carry forward of closing trial balance detail in the 2019-20 Statement of Accounts to the current year's Omega records;
- Verified that the financial ledger remains "in balance" at the financial year-end;
- Examined detail in the Council's combined cashbook for four months (April & September 2020, plus January and March 2021) agreeing detail to the supporting bank statements;
- Verified the inter-account transactions between the current and deposit accounts for the same four months;
- Checked and agreed detail on the monthly bank reconciliations as of 30<sup>th</sup> April and September 2020, plus 31<sup>st</sup> January and March 2021; and
- Ensured the accurate disclosure of the year-end combined account balances in the year's AGAR at Section 2.

### Conclusions

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

*However, we noted last year that, whilst bank reconciliations were being presented to members during the course of the year, they were not subjected to specific independent review and sign-off, as required in the NALC / One Voice Wales model Financial Regulations (Para 2.2 refers), as also adopted by the Council. We are pleased to note that, despite the Covid situation, a nominated member has been provided with month-end reconciliations periodically during the year and has signed these off: we have examined the signed copies of those as of 31<sup>st</sup> July and 30<sup>th</sup> November 2020, plus that at 31<sup>st</sup> January agreeing detail of all to the underlying bank statements and cashbooks.*

## Review of Corporate Governance & Regulatory Framework

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 (SOs) and that, as far as we are reasonably able to ascertain as we do not attend meetings, no actions of a potentially unlawful nature have been or are being considered for implementation.

We note that SOs and Financial Regulations (FRs) were both re-adopted at the March 2020 full Council meeting and are pleased to note that both now refer to the extant Public Contracts Regulations 2015 with a formal tender limit set at £25,000.

We have reviewed the Council and Standing Committee minutes for the financial year and to date in 2021-22 as posted on the Council's website to ensure that, as far as we are reasonably able to ascertain, the Council has neither considered nor is considering taking any actions that may result in ultra vires expenditure being incurred.

We understand that, following our recommendation last year, work had commenced on the development of the Council's approved financial procedures (frequently rather derogatorily referred to as "idiot's guides") although progress has been delayed due to the Covid situation: we will review any progress at our next visit.

Also, whilst not a significant concern we note the approval of a number of grant / donation payments during the course of the financial year and are pleased to note that, as suggested last year in line with best practice, the approving minutes now identify the powers relied on for each such payment.

### ***Conclusions and recommendation***

***We shall continue to review minutes at future visits, also monitoring the Council's overall approach to governance.***

***RI. In line with best practice, the minutes approving the payment of grants and donations should ideally identify the specific powers relied in in each case. The powers for approval of grants and donations are now being recorded in the approving minutes.***

## **Review of Expenditure & VAT**

Our aim here is to ensure that: -

- Council and Trust 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 order has been raised on each occasion when one would be expected;
- 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 note that the Council is now paying virtually all traders and staff salaries online and have discussed the operative procedures for processing and approval of payments for release with the clerk and consider them sound, with the clerk setting up the payments and a nominated councillor then, following advice of the payments being set up, going online, reviewing the detail, and then releasing the payments. We are also pleased to note that, as recommended last year, an appropriately

designed stamp has been acquired and that the councillor, when next visiting the office, reviews and signs-off the invoices as approved for payment.

We have selected an extended sample of 53 payments for the financial year to ensure compliance with the above criteria. Our test sample now totals £315,966 and equates to 93% by value of non-pay related payments in the year with the above criteria appropriately met. The high percentage arises due to the level of “match funding” and grant aid provided in the year.

We note that VAT reclaims are prepared and submitted to HMRC for repayment at the end of each quarter and have checked and agreed detail of the first three quarterly reclaims for the financial year to 31<sup>st</sup> December 2020 to the underlying control accounts, all having been repaid by HMRC. The final quarters reclaim has we note also been submitted to and been repaid by HMRC appearing correctly in the 2020-21 Accounts / AGAR as a debtor.

### ***Conclusions***

***We are pleased to acknowledge the action taken to address our prior year recommendation and confirm that appropriate controls are now in operation.***

## **Assessment and Management of Risk**

In this area we aim 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 are again pleased to acknowledge the existence of a comprehensive register of risks having been provided with the 2020-21 version that was adopted by the Council in March 2020: we note that the document has been reviewed subsequently being re-adopted at the last full Council meeting. We have examined the content and consider it appropriate for the Council’s ongoing requirements.

We have also examined the content of the Council’s insurance schedule with Zurich and are pleased to record that we consider that cover remains appropriate for the Council’s ongoing requirements with Public and Employer’s Liability both in place at £10 million and Fidelity Guarantee cover set at £250,000.

### ***Conclusions***

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

## **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 Monmouth CC: 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 note that, following due deliberation, the Council agreed its budgetary and precept requirements for 2021-22 setting the latter at £403,050 at the January 2021 full Council meeting.

We are also pleased to note that members continue to receive budget reports periodically throughout the year based on the Omega accounting software, with a supplementary commentary explaining any significant variances that might exist. We have reviewed detail of the final Omega budget outturn report for the financial year obtaining explanations for any significant variances arising by reference to the detailed nominal account transaction codes in the accounting software.

We are also pleased to note that our previous recommendation suggesting that a separate account code be established for each individual earmarked reserve, which in total, stand at £184,500 at the financial year-end. The residual General Reserve balance of £174,650 equates to approximately six months' revenue spending at the 2020-21 level and sits comfortably within the generally recognised guideline of between three and six months such spending.

### ***Conclusions and recommendation***

***We are pleased to report that no residual issues remain in this area following action to identify the individual EMRs in the financial ledger.***

R2. *Consideration should be given to the establishment of separate nominal account codes in the Omega software for each approved Earmarked Reserve with funds transferred into each by journal from the General Fund (Code 310). This has been actioned accordingly.*

## **Review of Income**

Our objective in this area is to ensure that the Council identifies and recovers all income to which it is entitled and has appropriate arrangements in place to ensure its prompt recovery. The Council has very limited income sources, primarily the annual precept, quarterly VAT reclaims and bank interest, together with occasional grants and donations.

We have examined the detailed nominal account transactions for the financial year ensuring that, as far as we are reasonably able to ascertain, no miscodings have occurred and all anticipated income has been received and banked in a timely manner. In doing this and, whilst not material, we noted that a few salary adjustments during the year were required due to payments being made by a fixed amount standing order with the bank. These totalled less than £1 and have been coded to an income code rather be recorded as a contra to the original staff cost code: we also noted that two further refunds / reimbursements have been coded as income, rather than as contras to the originally charged nominal expense code.

### ***Conclusions and recommendation***

***We are pleased to record that no significant issues have been identified in this area, although, as the Council operates on an Income and Expenditure accounting basis, when refunds of incurred expenditure arise, they should be coded as contras to the original data entry.***

R3. *Where adjustments and / or overpayments of expenses incurred are received, they should be coded as a contra to the original expense code and not as an income item.*

## Petty Cash Account

*The Council does not operate a petty cash account, any ad hoc expenses incurred by officers being reimbursed through the normal payment processing system.*

## Review of Staff Salaries

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards 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 have noted previously that payroll preparation has been outsourced to a local accountancy firm with appropriate documentation provided to facilitate processing of monthly payments of net salaries to staff members, HMRC and the pension fund administrators: we understand that due to inconsistent service provision, the Clerk has sought and is employing another external accounting firm to provide the payroll service.

We note implementation of the nationally agreed pay award effective from 1<sup>st</sup> April 2020, payment being made in September 2020 with arrears backdated to 1<sup>st</sup> April 2020.

We have:

- Agreed the gross salaries paid to both officers in September and October 2020 by reference to the Council's approved pay scales as set out in the staff employment contracts, which we examined last year, also ensuring the accurate calculation of arrears associated with the 2020-21 pay award, payment being made with the September 2020 salaries;
- Ensured that tax and NI deductions for both months have been calculated accurately applying the appropriate tax code and NI Table by reference to the relevant HMRC calculators;
- Similarly, ensured that appropriate employee and employer contributions to the pension scheme have been determined and deducted for both months; and
- Verified the net salary payments to both officers after deduction of tax, NI and pension contributions, again for September and October 2020.

## Conclusions

*We are pleased to report that no issues have arisen from our work in this area warranting formal comment or recommendation.*

## Fixed Asset Registers / Inventories

"The Practitioner's Guide" requires all councils to maintain an appropriate register of its asset stock: we noted last year that a register was in place and understood in discussion with the Clerk that it was due to be reviewed and updated in depth during the financial year. This was delayed due to the need for the clerk to vacate her office with the major refurbishment work being undertaken in the premises and, latterly, due to the impact of the Covid-19 lockdown.

We note that the register has now been reviewed and updated accordingly and have examined the content at this final visit ensuring that the asset value recorded in the register has been appropriately disclosed in the 2021-22 AGAR and takes due account of the new additions and / or disposals in the financial year. Whilst not a cause for any concern, we suggest that the register should ideally be expanded to include, where known or identifiable, the dates when assets were acquired and, where relevant the serial numbers of equipment such as PCs, etc. Several of our clients have also developed a photographic register of their assets which has been of assistance in expediting insurance reclaims in the event of damage to property either accidental or wilful.

### *Conclusions*

*No matters arise currently warranting formal comment or recommendation, although, as indicated above and in line with best practice, we suggest that the register be expanded to include the dates of acquisition (where known) and any relevant serial numbers, together with the development of a photographic register of assets.*

## **Investments and Loans**

We aim here to ensure that the Council is maximising its interest earning potential through “investment / deposit” of surplus funds in high interest bearing accounts / deposits.

All funds are, as indicated earlier in this report, held in two accounts with Barclays Bank, together with a £20,000 deposit with Gateway Credit Union.

The Council has no loans in place currently repayable either by or to it.

### *Conclusions*

*No issues arise in this area this year: we shall continue to review the Council’s approach to the placement of surplus funds at future visits.*

## **Statement of Accounts and AGAR**

The Accounts and Audit Regulations require that the Council prepares and submits for external audit examination each year detail of the year’s financial transactions in the AGAR, together with a Governance Statement which also must be considered and signed off as approved by the Council prior to submission to the external auditors.

The Omega accounting software generates a detailed Income and Expenditure Account, Balance Sheet and detail for inclusion in the AGAR. Consequently, we have reviewed the detail disclosed in the 2020-21 AGAR agreeing it to the underlying accounting software with no issues arising.

### *Conclusions*

*No issues arise in this area and, based on the satisfactory conclusions reached from our programme of cover for the year, we have duly signed off the IA Certificate in the AGAR assigning positive assurances in each relevant area.*

## Action Plan

Rec. No.	Recommendation	Response
<b>Review of Corporate Governance</b>		
R1	In line with best practice, the minutes approving the payment of grants and donations should ideally identify the specific powers relied in in each case.	<i>The powers for approval of grants and donations are now being recorded in the approving minutes.</i>
<b>Review of Budgetary Control &amp; Reserves</b>		
R2	Consideration should be given to the establishment of separate nominal account codes in the Omega software for each approved Earmarked Reserve with funds transferred into each by journal from the General Fund (Code 310).	<i>This has been actioned accordingly.</i>
<b>Review of Income</b>		
R3	Where adjustments and / or overpayments of expenses incurred are received, they should be coded as a contra to the original expense code and not as an income item.	