

Keith Robertson Internal Audit Services

EDENBRIDGE TOWN COUNCIL

Interim Internal Audit Report 2020-21

Introduction

In accordance with the Internal Audit Plan, Controls and Procedures have been tested. The tests were to the standards and practices defined in the Governance and Accountability for Smaller Authorities 2019 and meet the needs of the Council. I confirm that I do not have any role within the Council and have carried out my duties without bias.

The interim audit was completed on 8th October 2020 at the Council office. The scope was to review processes and practices at a high level to establish if any particular areas may require further attention before the year end audit in 2021. No substantive or detailed tests were carried out in the interim audit. The audit highlighted some issues for review primarily concerning reserve budgeting and reporting and some clarification on the relationship of the Council as a trustee but none that were likely to cause any significant negative responses in the year end audit. The report below highlights the findings of the audit with reference to the Internal Control Objectives.

Items reported in Audits from 2019-20 Audits

One of the IA reports from 2019-20 was available for review. This report covered only some of the controls to be tested. Other audits were understood to have been completed but were not available for review. No issues were raised needing further consideration in the report reviewed.

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A. Appropriate Accounting Records.

A.1 The financial records are maintained using Edge financial software which is designed for use by local councils. Procedures described indicate that the cash books are kept up to date, correct and regularly balanced. VAT is properly accounted for. I&E reports are available and balance sheet reports can be produced along with Debtor and Creditor reporting. Financial reports produced agree to the financial records for the year end to March 2019-20 and cash books are balanced for the periods since. The reports from edge require some manual reformatting before being presented for review and approval.

B. Financial Regulations, documentation and approvals.

- B.1 The Standing Orders and the Financial Regulations posted on the website were last reviewed in 2018. These are the std SO & FR. I did not review in detail if these are being applied but the high-level review of processes did not raise any significant concerns.
- B.2 Expenditure Approval. Invoices are received by the RFO. Approved by persons commissioning the service/ goods and then entered into the finance system. 2 Councillors sign invoices and a bank transfer is created and signed off using a 2 signature on line banking system.
- B.3 The procedure for approval (and ratifying) of expenditure by the Council in Finance is completed in Finance Committee meetings. The Oct 2020 meeting confirms this but prior meetings were cancelled due to Covid. A process for approval if meetings cannot happen is to be put into place.
- B.4 An investment Strategy should be written to explain the rationale behind having accounts with Lloyds, Barclays and CCLA.

C. Risk

- C.1 It was confirmed that a risk register is completed. This will require a more detailed review at the yearend audit. The register should cover all risks.
- C.2 Insurance – The Parish Council's Insurance cover was not reviewed in this audit.

D. Budgeting, Reporting and Precept

- D.1 Budgetary Control. Budgets are set following an adequate procedure except that reserves budgeting has not been clear in the past leading to unintended draw down on general reserves in 2019-20 because income to from reserves was incorrectly included the I&E budget. All spend expected and all income expected should be budgeted for but reserve movements are to be noted as relevant to I&E but not part of the I&E totals. The Council is aware of this and has updated procedures for 2020-21 but some further improvement of budgeting to include a clear statement of the budgeted reserve movements and balances is recommended. This should clearly state general reserves, earmarked reserves and CIL (earmarked) reserves.
- D.2 Reports of actual vs budget I&E are presented to the Council Finance Committee. The reports from the Edge finance system require some significant re working by the Chairman of the Finance committee to make them relevant and understandable. These reports when presented are thorough and effective. This does present some risk should the Chair not be available to produce these reports and it is noted that the financial regulations state that the RFO is responsible for providing financial information to the Council.
- D.3 The reports produced do not include balance sheet data or reports or Actual reserve levels. A report of reserves that agrees in total to the financial ledgers is needed to ensure the movements and balances on each reserve is transparent.
- D.4 There are categories of spend that represent repairs and renewals of assets and equipment covering a 10 and 30 year program. There is a budget for this and actual spend is reported in these categories. The spend levels are significant but there is a lack of transparency in that no detail of the spend within categories is presented with the accounts. It is recommended that either numerical reports at a lower level are produced or a text explanation of the spend and variances to budget are included in the financial reports.
- D.5 Income and Spend relevant to a trust is included in the Councils I&E as "charity account transfers". The I&E is also reported in the trusts (charity) accounts. The reason for this accounting treatment was not clear during the audit. The legal relationship between the trust and the Council will define what the proper accounting treatment should be and does need to be defined, possibly by taking legal advice. The standard approach is that no transactions of a trust for which the Council is the trustee are included in the books of the Council and certainly not in both the books of the Council and the Trust. Further clarification of the Councils relationship with the trust is needed. It is noted that there a zero net effect on the Councils I&E.

E. Receipts

- E.1 Income is primarily from the annual Precept, rents, fees, plus some substantial CIL funding. No transactions were tested.
- E.2 The Council is VAT registered. The VAT reports for VAT on inputs / outputs and claims was reviewed in principle and is managed via the Edge finance software and appears correct. No transactions were tested. on income.
- E.3 Debtor management manual. The procedures are informal but appear adequate. No transactions were tested.

- F. Petty Cash** – Is used but not tested in this audit. The Council is moving to using the Council's credit card for this expenditure.

G. Employee Costs

- G.1 Staff Wages – Payroll is managed by the Clerk via sage who creates the data for input to the finance systems. The RFO inputs the data. All payments are authorised by Councilors as are any changes to payroll levels. No transactions were tested.

H. Assets

- H.1 Assets – The Clerk advised that an Asset register is maintained using cost values and the July minutes confirm this. There was not time during this audit to review the register or to confirm if insured values in the asset register are consistent with the insurance cover. This will require further review at the year-end audit.

I. Banking.

- I.1 The Council holds significant bank balances totalling over £1 million as 31-8-20 including CiL funds. These are held in current, deposit and investment accounts which spread risk. One account in the ledger reports as a negative balance and should be corrected if that is not the case.
- I.2 The process for the production, approval and sign off of bank reconciliations appears sound. This will be tested further in the year end audit. Notes that Reconciliations should be reported to Committee and minuted.
- I.3 Bank mandates require 2 signatures and the mandates are upto date or being updated.

J. Accounting Statements.

- J.1 The accounts are maintained on an income and expenditure basis and agreed to the financial reports as at 31-3-20. No testing to confirm if current reports agree to the current ledger during this audit but the Edge software will produce correct I&E reports.
- J.2 The finance reports attached to the Oct 2020 Finance Committee agenda were reviewed in this audit. This comprised of a cash book summary and detailed lists of receipts and payments. There were also detailed and relevant I&E reports produced by the Chair of the Finance committee for the period YTD to 31 Aug 2020. I was not possible using these reports alone to confirm if the R&P data aligned to the I&E data and a one-page summary reporting at the total Council level may help to do that. The Oct reports did not contain any balance sheet or reserve analysis.
- J.3 There procedures do enable an audit trail through the financial records but no items were sampled for testing.
- J.4 Cash Balances as at 31 Aug 202 were £1138K in total. The reserve levels and balance sheet at that date were not included in the finance pack and so total reserves were not known, but would be close to that number. Similarly, the levels of Earmarked reserves, General reserves and CIL balances were not reported.
- J.5 The general reserves should be sufficient to cover approximately 6 months of its expenditure (guidance issued provides for 3-12 months, and will depend on the size and assets of the council). It was noted that an Earmarked and General Reserve Fund Policy had been drafted for Governance Committee to consider which may improve the transparency of the reserves reporting.

K. Limited Assurance Review Exemption.

Not in scope

L. Exercise of Public Rights.

Notifications for 2010-20 had an incorrect publication date because it was the same as the start date. This will prompt a negative response in the 2020-21 audit.

M. Trustees.

It is not clear yet if the Council has correctly reported trustee financial transactions.

Keith Robertson FCMA
Internal Auditor
22nd October 2020