

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 audit was completed on 5th May 2021 via video link with the Clerk and RFO and confirmed that the financial management and internal controls are in good order. The clerk and Council were aware that in 2019-20 there were some issues with accounting and budgeting that lead to the precept being set at too low a level to fund current and future expenditure. The interim audit on October 2020 confirmed that while controls around compliance and authorisation of expenditure were good the budgeting and reporting processes needed further work, which at that point was in progress.

The report below highlights the findings of the year end 2020-21 audit with reference to the Internal Control Objectives and Governance Statements in the Annual Return.

Items reported in the interim audits report October 2020.

Budget Reserves. 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. **Partly completed.** The budget process still does not include all I&E and all reserves and the risk of cash flow shortfall from low reserves while highlighted in the budget process was not fully resolved.

Reports Act v budget. The regular reports produced do not include balance sheet data or reports of 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. **Partly completed.** Reports vs budget for I&E are reported but do not include all I&E. Balance sheet reports and reserve reports were produced at year end but still need more regular review.

Reports details: 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. **Accepted as adequate.**

Trusts. Further clarification of the Councils relationship with the trust is needed. **Partly Completed.** The 2019-20 accounts contained net zero transaction of a charity of which the Council is a trustee. The 2020-21 do not include any transactions of the charity. The precise relationship between the Charity and the Council is still being defined and the Council is receiving legal advice.

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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.
- A.2 The financial ledgers are kept up to date, correct and regularly balanced. VAT is properly accounted for.
- A.3 I&E reports are available in summary and detail formats. These reports agree to the accounts with exception of one key budget vs actual report where there is an error within the software set up leading to an under reporting of expenditure. The error is not significant in value terms and does not impact the AGAR report for 2020-21. The Clerk/RFO will work with the software supplier to correct this.

- A.4 Balance sheet reports were produced at year end but required manual adjustments between reserve balances. This was the result on on-gong work to clarify reserve balances during 2021-21 which was finalised at year end 2020-21. The Clerk/RFO will ensure these are corrected by Journal in the financial systems to produce correct open balances for 2021-22 in the accounting system.
- A.5 The Edge software system is capable of producing Nominal Ledger reports with transaction details by account code that agree with the financial totals reported at year end. These were not available as at the year-end for review and it was not clear if these are regularly produced for review by the RFO. [It is recommended that these are run and checked at each month end.](#) (see also comments B.2 and B.4 below)

B. Financial Regulations, documentation and approvals.

- B.1 The Standing Orders and the Financial Regulations reviewed/rewritten by the Governance committee in February 2021 and adopted by Council March 2021
- 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 Councilors sign invoices and a bank transfer is created by the RFO and approved on line . These controls are good but the testing of these controls during the audit by a of sample transactions at random taken from a list of all payments was not possible because a payments list was not available during the audit. (See also A.5) However [the procedure for approval of expenditure by the Council in Finance Committee meetings is supported by the minutes.](#) Sample testing in the next interim audit is required.

C. Risk

- C.1 A risk register of all risks was evidenced in the audit plus reports of a visit with Ellis Whitham to view Risk Assessments and H&S. A Governance committee was operational in 2021 but did not review this but will review in 2021-22 scheduled for the Nov audit meeting.
- C.2 Insurance – The Parish Council’s Insurance cover for building was more than adequate to cover the asset values. Other insured items were not reviewed in detail but cover is in place.

D. Budgeting, Reporting and Precept

- D.1 Budgetary Control. The budget process was detailed and adequate to support the precept for 2021-22. This included a 5 year forward projection with recommendation to increase the precept over the coming years to rebalance reserves due to an unintended draw down on general reserves in 2019-20. The recommended increase for 2021-22 was not fully implemented.
- D.2 The budget did not include all income or spend because CiL is excluded. This is not good practice. It is recommended that all I&E and all Reserves are included when budgeting and reporting. Partial reporting increases the risk misunderstanding finances.
- D.3 Reports of actual vs budget I&E are presented to the Council Finance Committee. The reports are from the Edge finance system (noted in A.3 there is a report error in the software) The quarterly actual vs budget reports are also presented in Excel format. Notes of significant variances were seen on some but not all reports.
- D.4 The reports produced do not include balance sheet data or Actual reserve levels. The reports also exclude CiL. A key control is that reports agree to the accounting records. Partial reporting increases the risk of misunderstood financial data and can present fraud risk. It is noted that a separate CiL report is received by the CiL board. It is recommended that financial reports.
- D.4.1 Include all I&E and that this is agreed to the accounting system data. Notes of key items to be included.
 - D.4.2 Include balance sheet and an analysis of all reserves (Incl General)
 - D.4.3 Reserve reports show open balances, movements and close balances by reserve, including general reserves.

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. No transactions were tested.

Petty Cash – The Council has £200 PC float. No transactions were testing in this audit.

F. Employee Costs

- F.1 Contracts. Model contract reviewed by Ellis Whittam. Minutes and documents reviewed confirmed changed to contracts are properly approved via a personnel committee and full Council.
- F.2 Payroll. The Clerk produces the payroll using Sage software. The RFO inputs salary data to the financial systems, Cllrs review and sign payroll and also approve on line payments as evidenced by the minutes.
- F.3 No transactions tested see note A5

G. Assets

- G.1 The Asset register is upto date and agrees to the AGAR. Insurance cover is in place.

H. Banking.

- H.1 Bank reconciliations are regularly produced and checked. Sample checks confirm the statements and reconciliations to be correct.
- H.2 On line approvals. The RFO raises the payment transaction, two Cllrs sign papers one approves online (bank does not have 2 authorisation facility). CCLA investments – 2 Cllrs sign authorisations.

I. Accounting Statements.

- I.1 The accounts are maintained on an income and expenditure basis and agreed to the financial reports as at 31-3-21. Apart from small differences on one report format (see A.3)
- I.2 The procedures do enable an audit trail through the financial records but no items were sampled formally for testing.
- I.3 Reserve balances are now correct and understood and were reported as at 31-3-21 with some inter reserve adjustment needed and journals are required in the finance system to correct open balances for 1-4-21.

J. Limited Assurance Review Exemption. Not applicable

K. Transparency code Councils under £25000. Not applicable

L. Exercise of Public Rights. Notifications for 2019-20 were published on the website but 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. Publication of the 2019-20 AGAR documents. These were correctly published.

N. Trustees. The status of the legal relationship between the Council and the Charity is under review. There are no transactions of the charity in the accounts of the Council.

Keith Robertson FCMA
Internal Auditor
13th May 2021