

Keith Robertson

Internal Audit Services

EDENBRIDGE TOWN COUNCIL

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 2021 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 13th October 2021 at the Council offices with the Clerk and RFO. The audit plan was to review progress on items flagged as needing attention at the 2020-21 year end audit.

The report below highlights the findings of the interim audit with reference to the Internal Control Objectives and Governance Statements in the Annual Return.

Items reported in the year end audit 2020-21.

1. Appropriate Accounting Records

A1. Balance sheet: Journals to be entered to the finance system to agree to manually produced balances. **Completed.** The prior year balances on the balance sheet were correct.

A2. Nominal Ledger reports: These were not available at the time of the audit.

Partly completed. Details of I&E are now published. A review of postings for the current year to date is being undertaken by the RFO to confirm if the postings to each account are correct.

A3. Expenditure approval. Unable to test transactions due to A2. **Completed.** Tested sample transactions as part of the interim audit and all ok.

D. Budgeting & Reporting.

D2. Budgets. 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. **Due to time restraint this was not tested at the interim audit. The Clerk noted that progress has been made and this audit confirmed that Cil is now a separate reserve.**

D.4. Reporting - Balance Sheets. The reports produced do not include balance sheet data or Actual reserve levels. The reports also exclude CiL. Recommended that reports include balance sheet and an analysis of all reserves (Incl General). **Partly completed.** Balance sheet data is now produced and reported in the finance pack (tested the finance reports as at 31 Aug 2021) but the data in the reports was not all correct.

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. **Not tested at the interim audit.**

Interim Internal Audit Report October 2021

A. Appropriate Accounting Records.

A.2 Nominal Ledger Suggest that the RFO does a quick review of postings as part of the month end close to spot any obvious errors.

D. Budgeting & Reporting.

D.4 Reporting I&E. Reports are now sourced from the Edge finance system with less intervention by a Council member. Data is available in summary and detail formats. These reports agree to the accounts, but the Clerk & RFO noted that there is an error within the Edge software that reports incorrect prior year I&E data. The system supplier is aware of this and will update the software. The finance pack reports are at a detail level. The Clerk & RFO are considering if detail may be more appropriate for account holders and that a “dashboard” type summary with relevant notes may be also useful to members.

D.4 Reporting Balance sheet. Reports are now produced as part of the finance pack at month end. The data for the year-to-date 31 August was tested. The production of a balance sheet improves controls because it allows members to confirm bank balances reported agree to bank reconciliations approved, to review Debtor and Creditor balances and to monitor all reserve balances. Some report balance errors were found and some of the Debtor and Creditor balances do not appear to be correct, even though the reports were reviewed by members at the September meeting.

- Net assets and Reserves do not balance – It is a fundamental accounting principle that these must balance but this was not spotted by the RFO, Clerk or Members. The report error may be due to the accounts closing process. Advice is needed from the software supplier.
- The Reserve balances reported do not agree to the opening balances plus/minus the surplus/deficit of I&E year to date. This is again a key principle of accounting and when correct enables members to monitor reserve and net asset levels. The error may be due to the accounts closing process. Advice is needed from the software supplier.
- Creditor balances reported appear to be significantly overstated. This appears to be because costs accrued in prior years were not reversed (as required) when actual payments were made. This overstates liabilities and when released may increase the current year surplus and reserves by circa £50K. It is noted that the process now used to accrue will not produce the same errors.
- Debtor balances also appear overstated but not to a significant extent.

Recommended.

1. Confirm with the finance system supplier the correct month end close process and ensure that balance sheets are correct when reported.
2. Ensure cut off dates for I&E and Balance sheets are aligned and that the report dates are correctly stated.
3. Provide lists of Debtors and Creditors at each reporting period that agree to the balance sheet- and be available for members to review. An aged debtor /creditor report would help.
4. VAT creditor balances were not tested as part of this audit but these should be reviewed as correct before reporting.
5. Write back and Debtor and Creditor balances and review the impact on reserves before completing the 2022-23 budget.

It was not possible to test all of the items flagged in the year end audit due to time restraints. The key risks around the transparency of the budget process in prior years and the draw on reserves has been identified and corrected. It is also noted that to continue to draw on the reserves is not good practice. Some further testing of the supporting I&E and Balance sheet reporting to be addressed at the year-end audit 2021-22 was discussed. The underlying controls do however appear to be adequate and the financial monitoring problems can be quite easily resolved.

It is important that the true financial position, including reserve balances is understood before completing the 2022-23 budget & precept.

Keith Robertson FCMA

Internal Auditor

8th November 2021