

# Keith Robertson Internal Audit Services

## EDENBRIDGE TOWN COUNCIL

### Interim Internal Audit Report 2021-22

#### 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 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 audit was completed on 28<sup>th</sup> April 2022 at the Council offices with the Clerk and RFO and confirmed that the financial management and internal controls are in good order. The issues noted with the accounts in the prior year audit and the interim audit on October 2021 with reference to financial reporting of actual data have now been rectified with the financial accounts now accurate and well managed. There are still some concerns around the forecasting and budgeting for reserve levels where some improvements are needed. The audit standards ref budget settings have however been met.

The report below highlights the findings of the year end 2021-22 audit with reference to the Internal Control Objectives and Governance Statements in the Annual Return.

#### Update on Items reported in the 2020-21 year end audit and the interim audit report October 2021.

**A. Appropriate Accounting Records.** Nominal Ledger reports. It was recommended that these are run and checked at each month end. **Completed.**

#### **D. Budgeting & Reporting**

- **Software error.** Oct 2021 Int Audit. Causing incorrect reports – Now resolved **Completed.**
- **Debtor & Creditor Controls.** Oct 2021 Int Audit. DR & CR balances not correct. Now resolved **Completed.**
- **Budgeting** Prior year audit. Reports produced did 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 was noted that a separate CiL report is received by the CiL board. It was recommended that :
  - all transactions and balances (inc CIL) are included when reporting financial results.. **Completed.** Actual financial data does show all I&E and all of reserves on the balance sheet.
  - Reports should show open balances, movements and close balances by reserve, including general reserves & CIL. **Partly completed.** CIL is now a separate reserve as reported in the actual results. CIL remains to be considered as an “addendum” to the budget process in that spend funded from CIL reserves is not part of the budget process. That acceptable if the assumption is there will be no impact on total spend even if CIL funded projects are in progress. CIL is reported on the Balance Sheet as CIL fund (and for 2022/23 clearly shows allocated and unallocated funds). However, as a minimum the following should be clearly demonstrated in the budget process. Opening Total reserves, plus income, less spend = Total closing reserves. This principle should apply to actual reporting, forecasting and budgeting of I&E and Reserves. This will then confirm that the Council has adequately planned for the I&E and reserve levels needed for it to fulfil its objectives, and proven the closing reserve balances. Budget reports in (App 1) show some differences.

## **Internal Audit Report 2021-22**

### **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 presented to the Council and to the AGAR for 2021-22.
- A.4 Balance sheet reports were produced at year end. Sample tests confirmed these were correct and the DR & CR balances were reasonable.
- A.5 A sample of financial transactions were tested. There was an adequate audit trail for all documents tested and these were all correctly posted to the accounts.
- A.6 Bank reconciliations are prepared routinely, are subject to independent scrutiny and sign-off by members.
- A.7 The Council has more than £100K of funds. These are invested in no/low risk accounts. The investment policy is under review. The Clerk/RFO are considering moving funds into the CCLA cash management fund ( low risk).

### **B. Financial Regulations, documentation and approvals.**

- B.1 The Financial Regulations were reviewed/rewritten on 5<sup>th</sup> May 2021. The Standing Orders in March 2021. Sample tested confirmed the SO & FR are complied with.
- 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 . Samples of expenditure tested confirmed the controls are good and are being properly applied.
- B.3 VAT data tested was correct. The final VAT return submitted (refund not yet received) agreed to the year-end debtor control account.

### **C. Risk**

A **risk register** of all risks does exist but has not been updated in the past 2 years. There is an extensive and current on-line risk assessment and risk management system, from "Worknest" provider. Risk is managed well but there is still a need to update the Risk Register. Other third party providers assess and report on risks (e.g Playgrounds).

The last review by the system supplier (Worknest) was Oct 2021 which was reported and minuted to full Council October 2021. The last review by Governance Committee minuted was Feb 2021 confirming risk management was up to date.

While there is a well-managed risk assessment system in place it is not clear if all risks are being reported and addressed. [It is recommended that the risk register is updated and reviewed in 2022.](#)

Insurance – The Parish Council's Insurance cover for building was more than adequate to cover the asset values.

## **D. Budgeting, Reporting and & Precept**

- D.1 Budgetary Control. The budget process is detailed with substantial written text reviewed and approved by the Council. The spend funded by the precept & other income is well documented and approved. Scenario planning for future years and the precept required demonstrates good practice. The process included a forecast of the current year & budget for the coming year. Noted that CIL is assumed as zero I&E in forecasting and budgeting.
- D.2 As noted in comments on the update from prior audits there is still concern that budget process does not include all income, spend and all reserves. The procedures for I&E budget are thorough but there remains some discrepancy on the values of closing reserves in that the formula  $\text{Open Balances} + \text{income, less spend} = \text{closing reserves}$  was not correct. (app 1) **It is recommended that all I&E and all Reserves are included when budgeting and reporting ( even if the assumption is of zero CIL income and spend). The Council must show that its planning process applies to all finance within its control, as a part of the process for setting the precept, and that the closing balances on reserves are proven to be correct given the budget assumptions.** It is noted that App 1 does provide a clear summary of the budgeting position, but has been created on Excel and not on EDGE, thus appears to have error in the 'reserves' calculations.
- D.3 Reports of actual vs budget I&E are presented to the Council Finance Committee. The I&E and Balance sheet reports are reported from the Edge finance system, quarterly with actual vs budget reports. Notes of significant variances are reviewed in Finance committee.

## **E. Receipts**

- E.1 Income is primarily from the annual Precept, rents, fees, plus some substantial CIL funding.
- E.2 The precept agreed to the local authority statement.
- E.3 The Council is VAT registered. Quarterly VAT claims are received and processed correctly.

**F. Petty Cash** – The Council has £200 PC float. With minimal transactions during the year.

## **G. Employee Costs**

- G.1 Contracts. Model contract reviewed by Worknes. Minutes and documents reviewed confirmed changed to contracts are properly approved via a personnel committee and full Council.
- G.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.
- G.3 The Oct 2022 interim audit will review in detail processes and data test for employee accounting.

## **H. Assets**

- H.1 The Asset register is upto date and agrees to the AGAR. The register does need a refresh and tidy up bit is adequate to meet the audit standards.
- H.2 Insurance cover is adequate and in place.
- H.3 Asset register shows some assets need to have the insurance reviewed – This will be reviewed in May 2022.

## **I. Banking.**

- I.1 Bank reconciliations are regularly produced and checked. Sample checks confirm the year end reconciliations to be correct and are reviewed and approved by the Council.
- I.2 On line payments 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.

**J. Accounting Statements.**

- J.1 The accounts are maintained on an income and expenditure basis and agreed to the financial reports as at 31-3-21.
- J.2 There is an audit trail through the financial records with all sampled tests being correct.
- J.3 Reserve balances. The Council has considered reserve balances, which with increase in the precept are considered by the Council to be adequate.
- J.4 Debtor and Creditor balances are now correct and reconciled.

**K. Limited Assurance Review Exemption.** Not applicable

**L. Transparency code requirements.** The Council did correctly publish the required TC data for a Council with turnover over £200K.

**M. Exercise of Public Rights.** Notifications for 2020-21 were correctly published on the website in 2021-22

**N. Publication of the 2020-21 AGAR documents.** These were correctly published in 2021-22.

**O. Trustees.** The Council is the managing trustee of 3 trusts (Charities). 2 of these have no transactions or balances with Nil returns being completed on the Charity Commission Website. The Council intends to close these charities.

The 3rd is a live Charity with turnover of a few thousand pounds and balances of circa £40K. This charity has its accounts produced by the Council's RFO and holds regular trustee meetings are held with minutes posted on the Council's website. The accounts of the charity are not subject to an independent examination because turnover is below £25K. There are no financial transaction or balances of the charities held in the accounts of the Council.

Other than noted above the accounts of this charity were not subject to any checks in this internal audit.

Keith Robertson FCMA  
Internal Auditor  
07<sup>rd</sup> May 2022

## Appendix A – Draft Budget I&E and Reserve Balances

Edenbridge Town Council	Full Year*			22/23 B
Budget 2022/23	19/20 A	20/21 A	21/22 F	Budget
SUMMARY				
Salaries and staff costs	(328,753.21)	(330,194.36)	(359,726.00)	(373,204.59)
10/30 maint plans	(105,162.76)	(88,930.90)	(129,331.00)	(95,000.00)
Utilities & Services	(33,508.51)	(34,547.68)	(43,200.00)	(39,825.00)
Eqpt, maint, vehicles, buil	(63,763.53)	(39,551.90)	(47,130.00)	(59,580.00)
Depreciation	(12,455.35)	(10,544.20)	(14,800.00)	(8,000.00)
SLA's	(14,000.00)	(14,000.00)	(14,000.00)	(15,000.00)
Audit/professional fees	(10,782.06)	(6,603.15)	(12,000.00)	(12,600.00)
Refuse sacks	-	(6,286.00)	(6,000.00)	(6,000.00)
Contingency	(5,150.20)	(14,040.82)	(13,200.00)	(13,200.00)
Grants	(7,725.00)	(7,880.00)	(7,880.00)	(7,880.00)
Charity & internal tfrs	(14,947.94)	(2,625.00)	(2,625.00)	-
Public toilets	(10,166.59)	(15,393.68)	(18,214.00)	(18,388.36)
Church House & Rickards	(13,973.17)	(6,202.13)	(10,300.00)	(10,928.00)
Market Expenses	-	-	(4,500.00)	(9,300.00)
Street lighting	(16,254.97)	(15,758.09)	(17,500.00)	(20,500.00)
Covid-19	-	(6,812.40)	(1,000.00)	(500.00)
CIL Funded Projects	(140,164.00)	(72,831.35)	-	-
Other	(23,636.55)	(12,301.03)	(23,901.00)	(28,960.00)
	<u>(800,443.84)</u>	<u>(684,502.69)</u>	<u>(725,307.00)</u>	<u>(718,865.95)</u>
Precept	513,234.00	554,973.00	582,721.65	656,371.00
Cemetery fees	16,317.35	30,389.40	15,000.00	15,000.00
Refuse sacks	-	8,019.23	10,000.00	10,000.00
Rents	35,156.30	20,651.56	26,200.00	23,009.60
Market Income	-	-	6,000.00	6,000.00
CW Management Fee	14,947.94	2,625.00	2,625.00	-
Covid 19	-	3,471.43	4,438.00	-
CIL Grants to Council	140,164.00	72,831.35	-	-
Other	40,901.40	20,158.02	22,691.00	19,207.75
	<u>760,720.99</u>	<u>713,118.99</u>	<u>669,675.65</u>	<u>729,588.35</u>

\* Comparatives are Actual income and expenditure for 2019/20 and 2020/21 and Forecast income and expenditure for 2021/22. The forecast for 2021/22 is budget income and expenditure amended to reflect expected spend against the 10/30 year maintenance plans, market income and expenditure and other unbudgeted income.

<b>Reserves</b>	At 31/3/2021 Actual	At 31/3/2022 Forecast	At 31/3/2023 Forecast
Opening Reserves			
- Maintenance reserves	230,340.24	273,060.00	<b>275,381.00</b>
- Other earmarked reserves	43,034.23	29,271.00	<b>29,271.00</b>
- General reserve	203,391.47	203,051.24	<b>145,099.00</b>
- Total Council reserves	476,765.94	505,382.24	<b>449,751.00</b>
Earmarked reserves transfer from I&E	28,956.53	2,321.00	<b>1,652.00</b>
General reserve transfer to I&E	(340.23)	(57,952.24)	<b>9,070.19</b>
Closing Council Reserves	<u>505,382.24</u>	<u>449,751.00</u>	<u><b>460,473.19</b></u>
- Maintenance reserves	273,060.00	275,381.00	<b>277,033.00</b>
- Other earmarked reserves	29,271.00	29,271.00	<b>29,271.00</b>
- General reserve	203,051.24	145,099.00	<b>154,169.19</b>
CIL Fund	536,207.62	566,841.09	<b>566,841.09</b>
Total Reserves held by the Council	<u>1,041,589.86</u>	<u>1,016,592.09</u>	<u><b>1,027,314.28</b></u>

Note:

Fcast: Open reserves Actual £1,041,590 + Income £669,675 - spend £725,307 = Fcast close £985,958  
Report is £1,016,592  
Diff £30,634

Note:

Budget: Open reserves Fcast £985,958 + Income £729,588 - spend £718.866 = Fcast close £996,680  
Report is £1,027,314  
Diff £30,634