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# **Thame Town Council**

*Internal Audit Report 2018-19: Third Interim update*

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*For Auditing Solutions Ltd*

## **Background**

All town and parish councils are required by statute to make arrangements for an independent internal audit examination of their accounting records and system of internal control and for the conclusions to be reported each year in the Annual Return. Auditing Solutions Ltd has provided this service to Thame Town Council since 2005.

This report sets out the work undertaken in relation to the 2018-19 financial year with our visit on 25<sup>th</sup> October 2018 and 17<sup>th</sup> January and 13<sup>th</sup> March 2019 together with the matters arising and recommendations for action, where appropriate.

## **Internal Audit Approach**

In undertaking our review for the year to date, we have had regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts/Annual Return. We have employed a combination of selective sampling techniques (where appropriate) and 100% detailed checks in a number of key areas in order to gain sufficient assurance that the Council's financial and regulatory systems and controls are appropriate and fit for the purposes intended.

Our programme of cover has been designed to afford appropriate assurance that the Council's financial systems are 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 'Annual Internal Audit Report' in the Council's Annual Return, which requires independent assurance over a number of internal control objectives.

## **Overall Conclusion**

We are pleased to conclude that, in the areas examined to date, the Council continues to have effective systems in place to help ensure that transactions are free from material misstatement and will be reported accurately in the Annual Governance and Accountability Return for the financial year.

We ask that members consider the content of this report and acknowledge that the report has been reviewed by Council.

We are also pleased to record that Council members and officers continue to operate a sound, pro-active approach to risk management and corporate governance issues, together with the development and management of effective internal controls and procedural documentation.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

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: -

- Agreed the opening Omega trial balance detail with that in the final Statement of Accounts and certified Annual Return for 2017-18;
- Verified that the ledger remains “in balance” at the present date;
- Ensured that the cost centre and nominal ledger coding structure remains appropriate for purpose;
- Checked detail of transactions in the current account cashbook, agreeing three months’ transactions (September and December 2018 and January 2019) to the relevant Lloyds Bank account statements;
- Checked and agreed the daily “sweep” transfers to and from the Current account to maintain the Lloyds Bank Business Extra account balance at circa £20,000 for the same months;
- Checked and agreed detail of receipt and payment transactions in the Barclays account cashbook for the year to 31<sup>st</sup> January 2019; and
- Checked and agreed detail on bank reconciliations prepared using the Omega accounting software, as at 30<sup>th</sup> September 31<sup>st</sup> December 2018 and 31<sup>st</sup> January 2019 for the Lloyds and Barclays accounts.

### Conclusions

*We are pleased to report that no issues have been identified in this area of our review process. We will undertake further work at our final visit.*

## Review of Corporate Governance

Our objective 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 and that, as far as we are able to ascertain, no actions of a potentially unlawful nature have been taken nor are such being considering currently. We are pleased to note that the Standing Orders and Financial Regulations were re-adopted by the Council at the May 2018 meeting.

- We have continued our review of minutes of the Council and it’s Standing Committees for the year to date against the above criteria with no issues arising at present; and
- We note that the Standing Orders and Financial Regulations were adopted at the Full Council meeting on 8<sup>th</sup> May 2018.

### *Conclusions*

*We are pleased to report that no issues have been identified in this area warranting further comment. We will undertake further work at our next visit.*

## **Review of Expenditure**

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Payments are supported by appropriate documentation, 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;
- 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.

Following the implementation of electronic payments, we have examined the procedures in place for the authorisation and release of funds in this respect, ensuring that appropriate controls are in place and that members are undertaking appropriate reviews and checks on payments in order to ensure the effective discharge of their fiduciary responsibilities.

We have continued the testing of our sample of payments to February 2019 in order to ensure compliance with the above criteria and the Council's approved working practices: our test sample includes 34 individual payments in excess of £4,000 also including every 40<sup>th</sup> payment recorded in the cashbook in order to provide a more random sample and totals £894,960 equating to 77% of non-pay related payments to the above date.

We have also examined the quarterly VAT reclaims to December 2018 which are submitted on line as required by HMRC.

### *Conclusions*

*We are pleased to record that no issues have been identified warranting formal comment or recommendation in this area. We will undertake further work at our next visit.*

## **Assessment and Management of Risk**

Our aim here is 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. To meet that objective, we have: -

- Noted that the Council reviewed its Internal Controls and Financial Risk assessments which were approved by Full Council in February 2019;
- Also noted that the Health & Safety and Human Resources requirements provided by Ellis Whittam was approved by Full Council in July 2018 and renewed for a further term; and
- Examined the Council's current insurance schedule for the year to May 2019 with cover again provided by Aviva together with a separate policy for motor vehicles. We are pleased to record that cover in all areas appears appropriate for the Council's current requirements.

### *Conclusions*

*No issues have arisen in this area warranting formal comment or recommendation at this present time. We will undertake further work at our final visit.*

## **Precept Determination and Budgetary Control**

We aim in this area of our work to ensure that the Council has appropriate procedures in place to determine its future financial requirements leading to the adoption of an approved budget and formal determination of the amount of the precept placed on the Unitary Authority, that effective arrangements are in place to monitor budgetary performance throughout the financial year and that the Council has identified and retains appropriate reserve funds to meet future spending plans.

We note that, on 22nd January 2019, a precept of £726,939 be raised for the precept for 2019-20 which was formally approved by Full Council.

We are pleased to note that members continue to receive regular budget monitoring reports with over/under-spends and the level of earmarked reserves the subject of regular review.

### *Conclusions*

*There are no matters requiring formal comment or recommendation in this area of our review process.*

## **Review of Income**

In this area of our review process, we aim to ensure that all income due to the Council is identified, invoiced (where applicable) and recovered at the appropriate rate and within a reasonable time scale; also that it is banked promptly in accordance with the Council's Financial Regulations.

At this interim update visit we have reviewed the Chipside parking procedures in relation to the recording of excess charge car parking fees examining the reports in respect of those tickets issued from October and November 2018 and the processes for the recovery of the fines.

We have also reviewed the controls in place over the hire of Town Hall facilities both the Meeting Room and the Upper Chamber, examining a sample of transactions for October and November 2019 to ensure that all diarised bookings are recorded and have been invoiced at the appropriate approved fee and that payment has been received and banked accordingly.

We have reviewed the Sales Ledger, as it stands currently, and are pleased to report that no significant or long-standing debts are in existence.

We have also considered fees and charges for the meeting rooms and SRRG football pitch hire in accordance with the requirements of the Financial Regulations for 2018-19 noting that they were approved at the April meeting of the Policy and Resources Committee.

### *Conclusions*

*There are no matters requiring formal comment or recommendation in this area of our review process at present. We will undertake further work in this area at our final visit ensuring that income is reported correctly in the Annual Governance and Accountability Return.*

## **Petty Cash Account**

Whilst the amount of spending involved by way of petty cash is very limited, we are required, as part of the annual Internal Audit Reporting process on the Annual Return, to indicate the soundness of controls in this area of the Council's financial activities. Consequently, we aim to ensure that petty cash payments are appropriately supported by a trade invoice or relevant till receipt; that, where applicable, VAT has been identified for recovery and appropriate entries are made in the Omega expenditure codes.

The Council operates an "imprest" account with an approved maximum float of £300, payment detail being summarised in a monthly spreadsheet analysing expenditure accordingly to the relevant nominal codes. We have examined payments made in October 2018 and are pleased to report that all were supported appropriately, that VAT had been identified accordingly for recovery from HMRC and that monthly reimbursements made from the Barclays current account have been accounted for appropriately.

At the first visit we checked the physical cash held, agreeing detail to the supporting trade invoices and till receipts for expenses incurred subsequent to the last "top-up" to the imprest holding of £300; we have also checked and agreed the cash float held in the reception till.

We noted at a previous audit that Council had opened a debit card facility with the Clerk being sole operator of this card. At this interim visit we reviewed a sample of the payments including the purchase orders and relevant supporting invoices.

We have also checked a sample of the petrol account forecourt record slips to the statements to ensure that the correct delivery of fuel is registered and charged to the account.

### *Conclusions*

*No matters arise currently warranting formal comment or recommendation.*

## Review of 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 Revenue and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme, as further revised from 1<sup>st</sup> April 2018 in relation to employee percentage bandings.

The Council continues to use the services of an external payroll bureau (Moorepay Limited) to service its payroll requirements: in order to meet the above objectives, we have: -

- Ensured that the Council reviews and approves pay scales for staff annually, noting that all employees are on formal SCP scales;
- Agreed the gross salaries payable to individuals in September 2018 by reference to the Council's approved pay scales;
- Checked and agreed detail of all enhanced payments processed with the September salaries to supporting and appropriately certified time sheets / travel expense claims;
- Ensured that Tax and NIC deductions and employer's contributions have been calculated appropriately and been paid over to HMRC in an accurate and timely manner; and
- Ensured that the appropriate employee and employer contributions to the pension scheme have been determined.

### *Conclusions*

*We are pleased to report that no issues have been identified in this area of our review process.*

## Investments and Loans

The Council has a range of investments managed by an external fund manager (Rathbones Investment Management). We previously noted re-adoption of the Annual Investment Strategy by the Policy and Resources Committee in February 2018 with members agreeing that no changes in content were necessary at that time.

We have verified the investments with Lloyds Bank and the United Trust Bank with a combined investment of Circa £140,000.

The Council had at our first visit three outstanding PWLB loans: we have verified detail of the half-yearly repayment instalments for 2018-19 to the repayment demands noting that one of the loans has subsequently been repaid.

We have also noted, as in a previous report, that the Council agreed and provided a third-party loan, which was repayable over 12 years, secured by a legal charge over land and/or buildings. The 12-year loan was registered by the Council's solicitors and it has been drawn down with capital repayments, excluding interest, being made monthly.

We have also noted from the accounts that The Council has provided an unsecured loan of £40,000 to Thame Cricket Club for a 12-year term.

An additional loan payment was also agreed for Chinnor Rugby Football Club for £35,000 which was formally approved and drawn down in January 2019.

***Conclusions***

***No matters arise in this area of our review for the year to date. We will undertake further work at our final visit.***