

Southern Internal Audit Partnership

The logo for Southern Internal Audit Partnership features the company name in a bold, dark blue sans-serif font. A green, wavy horizontal line is positioned above the text, starting under 'Southern' and ending under 'Partnership'.

Assurance through excellence
and innovation

Ringwood Town Council

Internal Audit Report

**Supplementary Paper to Annual Governance and
Accountability Return 2020/21 Part 3**

03 June 2021

Prepared by: Nigel Spriggs.

FINAL REPORT

1. Introduction

- 1.1 The scope of this review was to ensure that adequate control exists over the internal control objectives specified under points A-M of the Annual Governance and Accountability Return 2020/21 Part 3.
- 1.2 We are grateful to Chris Wilkins, Jo Hurd and Rory Fitzgerald for their assistance during the course of the audit.

2. Objectives

- 2.1 This review has sought to assess the effectiveness of controls in place focusing on those designed to mitigate risk in achieving the following key objectives:
 - Appropriate accounting records have been properly kept throughout the financial year.
 - The Town Council complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.
 - The Town Council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.
 - The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.
 - Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.
 - Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.
 - Salaries to employees and allowances to Members were paid in accordance with the Authority's approvals, and PAYE and NI requirements were properly applied.
 - Asset and investments registers were complete and accurate and properly maintained.
 - Periodic and year-end bank account reconciliations were properly carried out.
 - Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate debtors and creditors were properly recorded.

- The Town Council demonstrated that during the previous year (2019-20) it correctly provided for the exercise of public rights as required by the Accounts and Audit Regulations.
- The authority has complied with the publication requirements for the 2019/20 AGAR.
- The Town Council has met its responsibilities as a trustee.

2.2 We also confirmed that point 'K' relating to Authorities which had declared themselves exempt from undergoing a limited assurance review in 2019/20 was to be marked as 'not covered' as Ringwood Town Council had a limited assurance review in 2019/20 and that point 'L' relating to Authorities with an annual turnover not exceeding £25,000 was not applicable and, therefore, also to be marked as 'not covered'.

3. Circulation List

3.1 This document has been circulated to the following:

Chris Wilkins, Town Clerk

Rory Fitzgerald, Responsible Finance Officer (RFO)

4. Summary Findings

Assurance Opinion		
Reasonable		There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Recommended Action(s)	
High	5
Medium	0
Low	0
Total	5

Key Observations
<p>Areas assessed to be working well/controls are effective</p> <ul style="list-style-type: none"> Detailed financial results comparing year-to-date actuals against budget are compiled and reported to the Policy & Finance Committee on a monthly basis in a format which provides an audit trail to original transactions within the Council's Financial Information System (Edge). Testing of nineteen points within the Financial Regulations found sixteen fully compliant and two not applicable due to no related transactions during 2020/21. An issue with a single non-compliant point relating to annual review of the Financial Regulations is addressed elsewhere within this report.

- Payments to suppliers were supported by invoices and authorised via Edge workflows with VAT appropriately accounted for. Testing of procurements via petty cash found that floats had been balanced and transactions were coded and posted to Edge in a timely manner. VAT returns can be substantiated to transactional level within Edge and the RFO is responsible for ensuring returns are submitted within HMRC's deadlines.
- Sales invoices were raised in compliance with the Council's current charging policies and correctly coded with VAT appropriately accounted for.
- A financial risk review on the potential effects of COVID-19 was presented to the Policy & Finance Committee in May 2020 and an annual financial risk assessment in November 2020. Risk assessments for new projects and activities are conducted and presented to the Policy & Finance Committee as necessary.
- Draft budgets setting out 2020/21 and 2021/22 precepts were presented to the Policy & Finance Committee and then Full Council by January 2020 and January 2021 respectively. Year-to-date actuals against budget were reported to the Policy and Finance Committee at each meeting, along with executive summaries, summaries of cash-book movements and transfers to and from reserves. General reserves have been maintained in line with guidelines, with additional commentary provided as necessary.
- Testing of payroll transactions found that the specialist company contracted to ensure monthly salary, PAYE, NI and Members' allowance payments are correct are being provided with the correct information in a timely manner. Internal controls around these processes and the subsequent posting of anonymised payroll costs to Edge are robust.
- The RFO maintains a comprehensive fixed asset register with additions and disposals updated as required. A record is made of the last time each asset was checked. The Policy & Finance Committee reviewed the register in March 2021 and approved increasing the de-minimus level to £100.
- Bank statements are reconciled by the RFO on a monthly basis and testing of all reconciliations for September 2020 confirmed they agreed to bank statements and the cash-book summary presented to the Policy and Finance Committee. Cross-referencing of the year-end reconciliations confirmed they agreed to bank statements and verbal confirmation was given that these balances would be accurately reflected in the year-end cash-book. An arrangement is in place for a Councillor to review reconciliations and statements following each Policy & Finance Committee meeting.
- Budgets and budget monitoring reports have been prepared on the correct income and expenditure accounting basis, as will the final accounting statements, and figures such as debtors and creditors on the final balance sheet can be substantiated to transactional level by Edge reports. Issues raised in the 2019/20 audit where two variances remained unidentified have now been resolved.
- The Council maintained separate bank accounts for the two charities it acts as trustee for and filed the relevant Charity Commission returns in a timely manner.

Areas where the framework of governance, risk management and control could be improved

- Although point 18.1 of The Financial Regulations states that it is the duty of the Council to review its Financial Regulations annually, the current Regulations were adopted in April 2018 and have not been reviewed since.
- The Council failed to fully comply with points M and N of Part 3 of the AGAR which relate to providing for the exercise of public rights as required by the Accounts and Audit Regulations and the publication requirements of the 2019/20 AGAR as per related guidance notes.

5. Added Value

- 5.1 One of the Core Principles that underpin the Professional Practice of Internal Auditing is to 'promote organisational improvement'. The Added Value section of the report provides insight, opportunities and collaborative learning (best practice) that the organisation may wish to consider moving forwards. We do not consider the issues raised in this section to adversely impact the control environment in the achievement of objectives reviewed.
- 5.2 The points raised below are for management to discuss and consider within the context of the organisation, and Internal Audit do not require a response on these.

Added Value

- As referenced in Observation 2, the Council has not complied with point M of Part 3 of the AGAR for a second successive year and has also not complied with the newly introduced point N, both of which relate to publication requirements of the previous year's AGAR. In all instances of non-compliance, efforts were made to comply, but published guidance was mis-interpreted. As the Council's external auditors are responsible nationally for publishing the guidance, confirming with them in advance that they view the Council's proposed publication and public rights arrangements for each year's AGAR as compliant may avoid non-compliance going forwards.

Observation 1 – Updating Financial Regulations	Risk	Management Response			
		Action	Priority	Responsible Officer	Target Date
<p>Point 18.1 of The Financial Regulations states that it is the duty of the Council to review its Financial Regulations annually.</p> <p>As has been noted in the past two audits, the current Regulations were adopted in April 2018 and have not been reviewed since. This has in part been caused by wishing to align the Regulations with new processes relating to the introduction of Edge.</p> <p>Although testing for compliance with the Regulations found no issues, there are instances, such as Point 14.1 relating to the custody of all title deeds, where processes have changed due to advances in technology and the wording of the Financial Regulations no longer reflect current and / or best practice.</p>	Financial Regulations no longer describe best practice.	1.1 Annual review of financial regulations to be programmed into the annual schedule of committee reports	High	Rory Fitzgerald, Responsible Financial Officer	Immediate
		1.2 Current Financial Regulations to be reviewed to ensure compliance with the recently adopted financial management system and new ways of working	High	Rory Fitzgerald, Responsible Financial Officer / Chris Wilkins, Town Clerk	30 September 2021

Observation 1 – Updating Financial Regulations	Risk	Management Response			
		Action	Priority	Responsible Officer	Target Date
		enabled by technology.			
Auditors assessment of managements response					
Management actions, once implemented, will help mitigate future risk.					

Observation 2 – Points M and N of Part 3 of the AGAR	Risk	Management Response			
		Action	Priority	Responsible Officer	Target Date
<p>Point M of Part 3 of the 2020/21 AGAR requires that, during the previous year, the Council correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations, while Point N requires that the Council complied with the publication requirements for the 2019/20 AGAR.</p> <p>Due to two unidentified variances detailed in the 2019/20 internal audit report, it was necessary to select 'No' for box A of Part 3 of the 2019/20 AGAR relating to whether appropriate accounting records had been properly kept throughout the financial year.</p> <p>The RFO, working with the suppliers of EDGE, subsequently identified and corrected the two variances and verbally notified the external auditor ahead of publishing the Notice of Public Rights for the year ended 31 March 2020 on 31st August 2020 in advance of the amended 1st September 2020 publication deadline, with every box under Section 1 – Annual Governance Statement 2019/20 marked 'Yes'.</p> <p>However, because external audit did not</p>	<p>The Council has failed points M and N of Part 3 of the 2020/21 AGAR.</p>	<p>2.1 An extended period for the exercise of public rights will be published ahead of the AGAR submission.</p>	High	Rory Fitzgerald, Responsible Financial Officer	30 June 2021
		<p>2.2 The external Auditor will be contacted to confirm that the Town Council's provisions are compliant with the rules, prior to the deadline for publishing the AGAR at the end of August</p>	High	Rory Fitzgerald, Responsible Financial Officer	30 July 2021
		<p>2.3 Box 4 of section 1 of the 2020/21</p>	High	Rory Fitzgerald, Responsible	Complete

Observation 2 – Points M and N of Part 3 of the AGAR	Risk	Management Response			
		Action	Priority	Responsible Officer	Target Date
<p>complete their review until November 2020, they have ruled that the Council failed to approve and publish the AGAR ahead of the 1 September 2020 deadline, meaning the Council should have answered 'No' to Section 1, Box 1 and, also, Section 1, Box 4.</p> <p>Because of this, Points M and N of Part 3 of the 2020/21 AGAR will need to be marked 'No'.</p>		<p>AGAR will be marked as "no" on the basis that this is in respect of the 2019/20 annual return</p>		<p>Financial Officer</p>	
Auditors assessment of managements response					
Management actions, once implemented, will help mitigate future risk.					

Appendix 1 – Definitions of Assurance Levels and Management Actions

We use the following levels of assurance and prioritisations in our audit reports:

Assurance Opinion	Framework of governance, risk management and management control
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Management Action	Current risk
High Priority	A significant risk of; failure to achieve objectives; fraud or impropriety; system breakdown; loss; or qualification of the accounts by the organisation's external auditors. Such risk could lead to adverse impact on the organisation or expose the organisation to criticism.
Medium Priority	A serious, but not immediate risk of: failure to achieve objectives; system breakdown; or loss.
Low Priority	Areas that individually have no major impact, but where management would benefit from improved risk management and / or have the opportunity to achieve greater efficiency and / or effectiveness.

Assignment – Progress Control Sheet

Assignment stage	Assignment Progress				Comments
Audit Outline	Issued	31/01/2021	Agreed	31/01/2021	
Fieldwork commenced	Target	06/05/2021	Actual	06/05/2021	
Fieldwork completed	Target	28/05/2021	Actual	25/05/2021	
Close of audit meeting	Target	28/05/2021	Actual	26/05/2021	
Draft Report Issued	Target	14/06/2021	Actual	28/05/2021	
Factual accuracy agreed and management response provided	Requested	14/06/2021	Provided	02/06/2021	
Final report issued	Target	10/06/2021	Actual	03/06/2021	