

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 2019/20 Part 3**

17 July 2020

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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 2019/20 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 summer 2019 it correctly provided for the exercise of public rights as required by the Accounts and Audit Regulations.
- 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 2018/19 was to be marked as 'not covered' as Ringwood Town Council had a limited assurance review in 2018/19.

3. Circulation List

3.1 This document has been circulated to the following:

Chris Wilkins, Town Clerk

Rory Fitzgerald, Responsible Finance Officer (RFO)



The Southern Internal Audit Partnership conforms to the IIA's professional standards and its work is performed in accordance with the International Professional Practices Framework (*endorsed by the IIA*).

4. Summary Findings

| Assurance Opinion | | |
|-------------------|---|--|
| 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. |

| Recommended Action(s) | |
|-----------------------|----------|
| High | 9 |
| Medium | 0 |
| Low | 0 |
| Total | 9 |

| 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 newly introduced Edge financial system. Testing of nineteen points within the Financial Regulations found a high level of compliance, with fourteen fully compliant and two not applicable due to no related transactions during 2019/20. Issues with three non-compliant points are addressed elsewhere within this report. |

- Payments to suppliers tested were supported by invoices and authorised via Edge workflows with VAT appropriately accounted for. Although Covid-19 prohibited detailed testing of petty cash transactions, procurements were minimal and reconciliations evidenced that transactions were coded and posted to Edge in a timely manner and processed compliantly with HMRC VAT guidelines. VAT returns can be substantiated to transactional level within Edge and all four quarters were submitted within HMRC's deadlines.
- Sales invoices tested were raised in compliance with the Council's current charging policies and correctly coded with VAT appropriately accounted for.
- Although the last external audit report confirmed no financial risk assessment was presented to the Policy & Finance Committee during 2018/19, this was rectified in February 2020, and a recurring diary action to present an updated financial risk assessment at each November Policy & Finance Committee meeting has been made. Review of Policy & Finance Committee minutes through the year showed evidence of risks being assessed for stand-alone projects
- A draft budget setting out the 2019/20 precept was presented to the Policy & Finance Committee and then Full Council in January 2019, as was a draft budget setting out the 2020/21 precept in January 2020. Year-to-date actuals against budget were reported to the Policy & Finance Committee at each meeting, along with executive summaries drawing attention to any material variations. 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 is being provided with the correct information in a timely manner and that internal controls around these processes and the subsequent posting of anonymised payroll costs to Edge are robust.
- All of the Council's bank accounts are reconciled by the Finance Officer on a monthly basis and testing of all reconciliations completed for December 2019 confirmed they agreed to reports made to the Policy & Finance Committee. Cross-referencing of actual bank statements to the balances reflected in the year-end reconciliations confirmed all agreed.
- Although identified issues with the final accounts were still being investigated at the time fieldwork ended, 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.
- 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 detailed financial results which present an accurate reflection of actual performance against budget are compiled and analysed monthly ahead of being presented to the Policy & Finance Committee, a known in-balance between debits and credits on the year-end Edge

Summary Trial Balance of £14,087.95 is still to be resolved, the sum of total cash and investments on the Edge Detailed Statement of Accounts does not equal the equivalent figures on the Edge Balance Sheet by £132.41 and the total sum of year end bank account and petty cash reconciliations which comprise the cash-book does not equal the equivalent figures on the Edge Balance Sheet by £48.76.

- Initial review of the asset register found it had not been updated to accurately reflect acquisitions and disposals throughout the year. A revised asset register was provided which had been updated, but until a robust procedure is in place to ensure updates are carried out on a consistent basis throughout the year, the Town Council is not complying with point H of Part 3 of the AGAR to ensure asset registers are accurate and properly maintained. It was also confirmed that no physical stock-check of assets has been carried out since March 2018.
- Although sample testing of ten procurements found spend was being carried out by budget managers against authorised budgets, purchase orders within Edge for six of these procurements had been raised after the invoice had been received, meaning budget reports extracted from Edge would not accurately reflect the Town Council's committed spend.
- Although testing of points stipulated within the Financial Regulations found a high degree of compliance, and testing of bank reconciliations found that they are being accurately reconciled on a monthly basis, the quarterly independent review of bank statement reconciliations by a Member stipulated within the Financial Regulations was only complied with once during 2019/20, a continuation of the non-compliance noted in 2018/19, where quarterly independent review was also only carried out once.
- The Financial Regulations were adopted in April 2018. Although there was a commitment stated during the 2018/19 audit to ensure any updates necessitated by general changes in procedure and the introduction of the new financial system would be adequately reflected in revised Financial Regulations as soon as practicable in 2019/20, this has not yet been completed.
- The summary of rights was published on the Council's website from 27th June 2019 to 31st July 2019. However, as noted by the external auditors, this was a period of 25 consecutive working days rather than the required 31.

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

- The Town Council has delivered a number of key changes across the past twelve months, such as the introduction of the new Edge Financial System, the installation of a new server and the delivery of the IT infrastructure upgrade which has enabled office staff to work remotely during the ongoing Covid-19 situation. For part of this period, the RFO increased his contracted hours to help support delivery. However, as noted in the Executive Summary, issues raised in the last audit such as review of the Fixed Asset Register and the carrying out of a physical stock-check have not been completed, and other projects such as review of the Financial Regulations and creation of a Procurement Policy have also not progressed. A review of available staff-capacity or a benchmarking exercise against similar sized authorities might indicate whether extra resource is required to allow a smoother delivery of business as usual and project work.
- As noted in last year's audit, review of the items contained in the Fixed Asset Register found it still contains a number of items which are potentially beneath a realistic de minimis value and might be better managed via the creation of an inventory list which still allows periodic physical checking but does not require the level of detail needed for the Fixed Asset Register. Revisiting the present de minimis value may also allow for management of the fixed asset register to be carried out within Edge, which has capacity for a limited number of assets to be tracked and would potentially allow automatic update of acquisitions and disposals.
- Introducing a control where any temporary acting-up or change to usual contractual arrangements are time-limited and confirmed in writing with the affected member of staff would avoid any potential confusion over the nature and length of the change and ensure any necessary clarification is sought at the start of the arrangement rather than the end.

| Observation 1 – Accuracy of year-end accounts | Risk | Management Response | | | |
|--|---|--|----------|----------------------|----------------|
| | | Action | Priority | Responsible Officer | Target Date |
| <p>At the time audit fieldwork was completed, the following issues with year-end balances within Edge were still to be resolved:</p> <ul style="list-style-type: none"> • Debits and credits on the year-end Edge Summary Trial Balance differed by £14,087.95. • The sum of total cash and investments on the Edge Detailed Statement of Accounts did not equal the equivalent figures on the Edge Balance Sheet by £132.41. • The total sum of year end bank account and petty cash reconciliations which comprise the cash-book did not equal the equivalent figures on the Edge Balance Sheet by £48.76. <p>Although the RFO is liaising with Edge to try and resolve these issues ahead of completing the AGAR, with the possibility of applying for an extension to the reporting deadline also being considered to allow full resolution, this has necessitated a rating of ‘no’ for points A and J of the internal control objectives on Part 3 of the AGAR and the provision of a supplementary note stating the implications and actions being taken.</p> | <p>Related figures on Section 2 of the AGAR cannot be substantiated, risking errors and a future restatement of balances.</p> | <p>1.1: The finance system, Edge, does not have a facility to record creditors such as tenant deposits, which stood at £14,140.62 at 1/4/19. The figure of £14,087.95 represents the value of deposits less a brought forward balance of £185.08 on the creditors control account. A work around has been suggested by Edge to bring the balance sheet opening and closing positions into balance.</p> | High | Rory Fitzgerald, RFO | 31 July 2020 |
| | | <p>1.2: The remaining small difference between the cash and investments in Edge and the balance sheet is being investigated.</p> | High | Rory Fitzgerald, RFO | 31 August 2020 |
| | | <p>1.3 The difference</p> | High | RF | 31 |

| Observation 1 – Accuracy of year-end accounts | Risk | Management Response | | | |
|---|------|---|----------|---------------------|-------------|
| | | Action | Priority | Responsible Officer | Target Date |
| | | between the petty cash reconciliations and the balance sheet is being investigated. | | | August 2020 |
| Auditors assessment of managements response | | | | | |
| Management actions, once implemented, and completion of ongoing investigations, will help mitigate future risk. | | | | | |

| Observation 2 – Maintaining the Fixed Asset Register | Risk | Management Response | | | |
|---|--|---|----------|----------------------|------------------|
| | | Action | Priority | Responsible Officer | Target Date |
| <p>Sample testing of procurements included in monthly reports to the Policy & Finance Committee of a value and nature which suggested they might have required inclusion in the Fixed Asset Register confirmed that those which were fixed assets had not been updated to the Fixed Asset Register, and related disposals had not been actioned either.</p> <p>Although a revised Fixed Asset Register was provided with these issues corrected, the lack of robust controls to ensure the Fixed Asset Register is properly maintained has necessitated a rating of ‘no’ for point H of the internal control objectives on Part 3 of the AGAR and the provision of a supplementary note stating the implications and actions being taken.</p> <p>It was also confirmed that no physical check of the items on the Fixed Asset Register has been carried out since March 2018.</p> | <p>The Fixed Asset Register, which is relied upon by the Council’s insurers when setting levels of cover and premiums, is not a true reflection of the Council’s current fixed assets.</p> | <p>2.1: The officer responsible for maintaining the fixed asset register became ill and subsequently left during the year. Maintenance of the asset register has now been picked up by the RFO.</p> | High | Rory Fitzgerald, RFO | Complete |
| | | <p>2.2: A complete inventory check was planned for autumn 2019 and will happen as soon as conditions permit.</p> | High | Rory Fitzgerald, RFO | 31 December 2020 |
| <p>Auditors assessment of managements response</p> | | | | | |
| <p>Transfer of responsibility and completion of a full inventory check will help mitigate future risk.</p> | | | | | |

| Observation 3 – Raising of purchase orders within Edge | Risk | Management Response | | | |
|--|--|---|----------|----------------------|-------------------|
| | | Action | Priority | Responsible Officer | Target Date |
| Sample testing of procurements found that, while spends were only being carried out by budget-holders against authorised budgets, there were six instances where the purchase order within Edge had been raised after the invoice had been received. | Understatement of committed spend within Edge financial reports. | 3.1: Whilst clear instructions have been given to ensure that orders are raised before a purchase is made, there are instances where this is not feasible. The requirement will be re-stated with clearer guidance on acceptable exceptions, such as utilities and rolling contracts. | High | Rory Fitzgerald, RFO | 30 September 2020 |
| Auditors assessment of managements response | | | | | |
| Management actions, once implemented, will help mitigate future risk. | | | | | |

| Observation 4 – Quarterly review of bank reconciliations by an appointed Member | Risk | Management Response | | | |
|--|--|--|----------|----------------------|-------------|
| | | Action | Priority | Responsible Officer | Target Date |
| <p>Financial Regulation 2.2 stipulates that a Member shall be appointed to verify bank reconciliations for all accounts at least once each quarter, signing both the reconciliations and original bank-statements as evidence, with any exceptions reported to the Policy & Finance Committee.</p> <p>Although testing confirmed all bank accounts are being fully reconciled on a monthly basis, reconciliations and bank statements were only presented for Member review once in 2018/19 and once in 2019/20.</p> | Lack of independent assurance that cash at bank figures presented to Policy & Finance actually represent cash at bank. | 4.1: The Policy & Finance Committee have been asked to nominate a Member to review bank reconciliations with those reviews booked a year in advance. The nomination has taken place. | High | Rory Fitzgerald, RFO | Complete |
| Auditors assessment of managements response | | | | | |
| Management action will mitigate future risk. | | | | | |

| Observation 5 – Review of the Financial Regulations | Risk | Management Response | | | |
|--|--|---|-------------|---------------------------------|---------------------------------|
| | | Action | Priority | Responsible Officer | Target Date |
| <p>Financial Regulation 18.1 states it shall be the duty of the Council to review the Financial Regulations of the Council annually.</p> <p>However, the last review was carried out in March 2018, with the subsequent review in March 2019 delayed due to anticipated changes required to reflect new processes introduced following the change to the new Edge financial system.</p> <p>General review of the existing Financial Regulations found that certain points, such as 14.1 covering the custody of all title deeds and Land Registry Certificates, no longer adequately reflected changes in current practice such as electronically registering details rather than holding physical copies.</p> | <p>Financial Regulations do not adequately reflect actual procedures, risking non-compliance and weakened internal controls.</p> | <p>5.1: The new financial management system has necessitated a number of changes in practice, particularly around the placing and approving of orders. We are now in a position to capture these changes in revised financial regulations which will be presented to members before the end of this year.</p> | <p>High</p> | <p>Rory Fitzgerald, RFO</p> | <p>30 November 2020</p> |
| <p>Auditors assessment of managements response</p> | | | | | |
| <p>Management actions, once implemented, will help mitigate future risk.</p> | | | | | |

| Observation 6 – Public Exercise of Rights | Risk | Management Response | | | |
|--|--|---|-------------|---------------------------------|-----------------|
| | | Action | Priority | Responsible Officer | Target Date |
| <p>Part 3 of the 2019/20 AGAR includes a new point, L, to confirm that the authority has demonstrated that during summer 2019 it correctly provided for the exercise of public rights as required by the Accounts and Audit Regulations.</p> <p>Compliance with this point required publication of the summary of rights for 31 consecutive working days ahead of the deadline of 31st July 2019.</p> <p>However, as publication commenced on 27th June 2019, publication only covered 25 consecutive working days ahead of the deadline.</p> <p>This has necessitated a rating of ‘no’ for point L of the internal control objectives on Part 3 of the AGAR and the provision of a supplementary note stating the implications and actions being taken.</p> | <p>Lack of compliance with point L of the AGAR and restricted ability for local residents to inspect Sections 1 and 2 of the 2018/19 AGAR without needing to search through published agendas.</p> | <p>6.1: This error was noticed shortly after the end of the exercise of Public Rights in 2019 and was caused by a mis-reading of the requirements (31 consecutive days v 31 consecutive working days). The requirement is now clearly understood.</p> | <p>High</p> | <p>Rory Fitzgerald, RFO</p> | <p>Complete</p> |
| <p>Auditors assessment of managements response</p> | | | | | |
| <p>Management understanding will help mitigate future risk.</p> | | | | | |

Appendix 1 – Definitions of Assurance Levels and Management Recommendations

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 Response | 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 | 13/03/2020 | Agreed | 18/03/2020 | |
| Fieldwork commenced | Target | 05/05/2020 | Actual | 02/06/2020 | Postponed in response to Covid-19 situation. |
| Fieldwork completed | Target | 22/05/2020 | Actual | 06/07/2020 | Approach to fieldwork changed in response to Covid-19 situation and identified issues with Final Accounts. |
| Close of audit meeting | Target | 07/05/2020 | Actual | 06/07/2020 | Commensurate with delay in completing fieldwork. |
| Draft Report Issued | Target | 20/07/2020 | Actual | 09/07/2020 | |
| Factual accuracy agreed and management response provided | Requested | 23/07/2020 | Provided | 16/07/2020 | |
| Final report issued | Target | 24/07/2020 | Actual | 17/07/2020 | |