

Southern Internal Audit Partnership

Assurance through excellence
and innovation

Ringwood Town Council

Internal Audit Report

**Supplementary Paper to Annual Governance and
Accountability Return 2018/19 Part 3**

04 July 2019

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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 2018/19 Part 3.
- 1.2 We are grateful to Jo Hurd, Rory Fitzgerald, Alyson Greenfield and other officers 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; and,

- the Town Council has met its responsibilities as a trustee.

2.2 We also confirmed that the newly introduced point 'K' relating to authorities which had declared themselves exempt from undergoing a limited assurance review in 2017/18 was to be marked as 'not covered' as Ringwood Town Council did undergo a limited assurance review in 2017/18.

3. Circulation List

3.1 This document has been circulated to the following:

Chris Wilkins, Town Clerk


Rory Fitzgerald, Responsible Finance Officer (RFO)



Chartered Institute of
Internal Auditors

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		
Adequate		Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified.

Recommended Action(s)	
High	3
Medium	2
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 Agresso financial system, and verbal assurance was given that the new financial system, Financial Edge, which will be used for monitoring and reporting progress against 2019/20 budgets will provide at least the same level of detail. Testing of seventeen points for compliance with the Financial Regulations found fourteen were fully compliant and three were not applicable due to no related transactions during 2018/19. The Financial Regulations were adopted in April 2018 and there is a

commitment to ensure any procedural changes necessitated by the introduction of the new financial system are adequately reflected in revised Financial Regulations ahead of them being presented to Council as soon as practicable in the current financial year.

- Payments to suppliers tested were supported by invoices and authorised via Agresso workflows in compliance with the Financial Regulations and VAT was appropriately accounted for. All petty cash transactions tested were supported by receipts, correctly authorised, and processed compliantly with HMRC VAT guidelines.
- Cash receipts and sales invoices tested were raised in compliance with the Council's current charging policies, cash was promptly banked, all receipts were correctly coded, and VAT was appropriately accounted for.
- A financial risk assessment for 2018/19 was presented to the Policy & Finance Committee in March 2018 and review of Policy & Finance Committee minutes through the year shows evidence of risks being assessed for stand-alone projects. A verbal commitment was given that an updated financial risk assessment will be presented to the Policy & Finance Committee to maintain compliance in this area through 2019/20.
- The mixture of linear and zero-based budgeting techniques used to set the 2017/18 precept was also followed when setting the 2018/19 precept, a draft of which was presented to the Policy & Finance Committee in December 2017 and agreed by Council in January 2018. The same approach and sign-off route was also followed for the 2019/20 precept. Year-to-date actuals against budget are reported to the Policy and Finance Committee at each meeting, along with executive summaries drawing attention to any material variations. A summary of transfers to and from reserves is also presented, and general reserves have been maintained in line with general guidelines.
- 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 the Council's financial system 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 September 2018 and March 2019 confirmed they agreed to reports made to the Policy and Finance Committee. The setting up of an investment account with CCLA Investment Management has mitigated risks identified in the last audit around exceeding Financial Regulation guidelines of £250,000 investment with a single financial institution as CCLA specialise in spreading local authority deposits across a number of managed portfolios.
- Budgets and budget monitoring reports have been prepared on the correct income and expenditure accounting basis, as will the final accounting statements. A process is in place to ensure the cash book agrees to the year end nominal ledger, is correctly represented

within the balance sheet, and that the balance sheet is reconciled to the year end trial balance ahead of the accounts being finalised. Steps have been followed to identify year end debtors and creditors, and a detailed transaction list will be extracted from Agresso and kept on record to provide an adequate audit trail to underlying records.

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

- Although testing of points stipulated within the Financial Regulations found a high degree of compliance, and testing of bank reconciliations found 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 2018/19.
- A fixed asset register is maintained, and a physical check of the assets listed was carried out in March 2018 with a stated intention to carry out the next one no later than August 2019: However, although there was evidence of new assets being added to the register during 2018/19, spot-checking of three procurements reported to the Policy & Finance Committee which should have been added to the register found they had not been.
- The Council is the sole trustee for two funds, both of which are being maintained in separate accounts in compliance with the Council's Financial Regulations. However, Charity Commission Annual Returns for 2018/19 were not submitted in-line with the Charity Commission's deadline of 31st January 2019.

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.

Added Value

- For 2019/20, the Annual Governance and Accountability Return Part 3 will include a new category which reads:

'During summer 2019 this authority has correctly provided the proper opportunity for the exercise of public rights in accordance with the requirements of the Accounts and Audit Regulations'.

Current guidance published by the Joint Panel on Accountability and Governance suggests this requirement can be complied with by publication of Sections 1 and 2 of the Annual Governance and Accountability Return on the Council's website, and, also, a statement detailing how public rights can be exercised. For all related notes on this point, please see pages 12 and 13 of [the Practitioners' Guide](#).

- Review of the items contained in the Fixed Asset Register found it 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.

Observation 1 – Quarterly review of bank reconciliations by an appointed Member	Risk	Management Recommendation			
		Action	Priority	Responsible Officer	Target Date
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 and Finance Committee. However, although testing confirmed all bank accounts are being fully reconciled on a monthly basis, reconciliations and bank statements were only presented for Member review at the end of the first quarter 2018/19.	Lack of compliance with the current Financial Regulations.	1.1 This is being dealt with by the new financial management system, Advant-Edge, for which the 1 st quarter reports are due to be presented in July. The suite of reports includes bank reconciliations.	H	RF	July 2019
Auditors assessment of managements response					
Management responses, once completed for July 2019 and applied moving forwards, will help mitigate future risk.					

Observation 2 – Updating the Fixed Asset Register	Risk	Management Recommendation			
		Action	Priority	Responsible Officer	Target Date
<p>Sample testing of six procurements included in monthly reports to the Policy and Finance Committee of a value and nature which suggested they might have required inclusion in the Fixed Asset Register confirmed that three of them were fixed assets, but none had been updated to the register.</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 This occurred because of long term absence of the officer responsible for updating the asset register. All assets procured during 2018/19 have now been added to the asset register</p>	H	RF	Complete
		<p>2.2 The new financial system includes an asset register and the existing register will be migrated to it. The system also includes a feature that automatically updates the register when new assets are acquired</p>	M	RF	October 2019
		<p>2.3 The asset register will be culled to remove low value assets which will instead be included in an inventory to reduce the burden of maintaining a complex asset register.</p>	M	RF	October 2019
<p>Auditors assessment of managements response</p>					
<p>Management responses, once fully implemented, will help mitigate future risk.</p>					

Observation 3 – Charity Commission Annual Returns	Risk	Management Recommendation			
		Action	Priority	Responsible Officer	Target Date
Charity Commission Annual Returns for 2017/18 were not submitted in-line with the Charity Commission’s deadline of 31 st January 2019.	Although there is presently no associated risk of fine or censure, the Charities Aid Foundation has recently advised the Charity Commission to consider introducing fines for late filing of returns in preference of introducing a fee structure for all charities.	3.1 The Charity Commission returns for 2017/18 were delayed because of problems with the recently launched on-line registration system. These have been resolved and the returns duly submitted. The 2018/19 returns have also been submitted ahead of the deadline of January 2020.	H	RF	Complete
Auditors assessment of managements response					
Completed management responses have helped mitigate future risk.					

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 framework of internal control is in place and is operating effectively. No risks to the achievement of system objectives have been identified.
Adequate	Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified.
Limited	Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk.
No	Fundamental weakness identified in the framework of internal control or the framework is ineffective or absent with significant risks to the achievement of system objectives.

Management Recommendation	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	02/04/2019	Agreed	02/04/2019	
Fieldwork commenced	Target	07/05/2019	Actual	07/05/2019	
Fieldwork completed	Target	09/05/2019	Actual	09/05/2019	
Close of audit meeting	Target	09/05/2019	Actual	09/05/2019	
Draft Report Issued	Target	23/05/2019	Actual	24/05/2019	
Factual accuracy agreed and management response provided	Requested	07/06/2019	Provided	24/06/2019	
Final report issued	Target	08/07/2019	Actual	04/07/2019	