

Report to Eye Town Council

The Quarterly Internal Audit Review as at October 2017

1. Summary.

The Internal Auditor attended the Town Council's offices on 31 October 2017 to commence the Second Quarterly Internal Audit Review with Mrs Wendy Alcock, the Town Clerk and Responsible Financial Officer (RFO). An Audit Plan for the Quarterly Reviews is in place. The Quarterly Reviews will lead into the full End-of-Year Internal Audit in April/May 2018.

This Quarterly Review has confirmed that significant progress has been achieved by the Town Clerk/RFO both in terms of increasing her own knowledge in all aspects of her work and in terms of improving the quality of information held within the Scribe accounting system. Suitable documentation is available to evidence the operation of adequate and effective internal financial controls.

The following Internal Audit work was carried out on the adequacy of the systems of internal control in accordance with the Audit Plan. Comments and any recommendations arising from the review are made below.

2. Proper Book-keeping and Accounting procedures.

The Scribe accounting system was confirmed as being up-to-date; entries within the system included the October 2017 accounts payable. The Town Clerk/RFO is now extremely competent in dealing with the essential elements of the system and undertakes all necessary up-dates, report generation and regular reconciliation between the Accounts and the bank statements. Indeed, a step-change improvement has been achieved in many areas, including the recording of allotment income, with each allotment holder being listed in the system to enable sales invoices to be prepared and debts monitored.

The Scribe system is maintaining the Receipts & Payments accounting system and was seen to be in good order. The system is well referenced and the Town Clerk/RFO demonstrated to the Internal Auditor the clear audit trail from the underlying financial records to the Accounts, with supporting invoices and vouchers in place.

Local Government Act 1972 (Section 137) payments and VAT payments are tracked and identified within the accounting system.

The Receipts and Payments relating to the Town Hall Renovations are being routed through the existing bank accounts with the Scribe accounting system maintaining individual Cost Centres to identify the grants received and payments made under the contracts.

3. Bank Reconciliation.

Bank Reconciliations as at 31 August 2017 and 30 September 2017 were presented to the Town Council at the meetings held on 20 September 2017 and 18 October 2017 respectively.

The Internal Auditor examined in detail the bank reconciliation as at 30 September 2017 presented to Council. An up-dated List of Unpresented Receipts was provided to the Internal Auditor (viz. items relating to £244.25 of allotment fees received which were included in the Scribe system as at 30 September 2017 but not yet credited to bank at that date). Bank and cash balances and the List of Unpresented Cheques as at 30 September 2017 were also examined and the revised Bank Reconciliation as at 30 September 2017 was confirmed to be correct.

The bank statements as at 30 September 2017 in respect of the Council's Barclays Business Current Account (£126,324.43) and the Business Savings Account (£48,977.02) agreed with the entries in the Bank Reconciliation at that date. The National Savings Account balance of £30,405.90 is recorded as unchanged from that included in the End of Year Accounts as at 31 March 2017.

The List of Unpresented cheques totalling £1,121.94 as at 30 September 2017 was presented to the Internal Auditor and confirmed as the amount included in the Bank Reconciliation at that date.

The Petty Cash Balance recorded within the Scribe system as at 30 September 2017 was confirmed as £107.48.

The system for recording Petty Cash payments in the Scribe system was examined, including the dates when £100 payments were placed into the account as reimbursement for expenses incurred.

4. Payment Controls.

The Town Clerk/RFO confirmed that a Draft Payments List is signed at each meeting of the Town Council by one of four designated authorised signatories. Cross referencing between the List and invoices/vouchers for payment is made prior to the signing of cheques for payment by two signatories. The invoices/vouchers for payment are signed confirming approval for payment has been given.

At its meeting on 18 October 2017 the Town Council agreed to convert its Barclays Current Account from a cheque account to Internet Banking and Cheque Account and to apply for a credit card (limit £1,500 per month) for the Town Clerk/RFO (Minutes 10.2 and 10.3 refer). The Town Clerk/RFO confirmed to the Internal Auditor that the setting-up process has still to be completed and the Finance & Governance Committee has yet to agree the process to be followed. The overall controls in place will provide that the Town Clerk/RFO will initiate the payments to be processed electronically and each such payment will require the electronic approval of two authorised Town Councillors. Financial Regulations have been up-dated by the Town Council to accommodate this revision in payment and banking procedures.

The Minutes of each Council meeting continue to provide a clear record of the payments made.

The VAT element within payments is identified, recorded within the Scribe accounting system and reports are available to assist with eventual re-claim to HMRC. The Town Clerk/RFO advised the Internal Auditor that the Town Council's claim of £3,799.97 VAT paid during the period 1 April 2017 to 30 June 2017 was reimbursed by HMRC on 18 August 2017. The Town Clerk/RFO submitted a claim to HMRC of £1,585.42 for Quarter 2 (the 3-month period 1 July 2017 to 30 September 2017) on 26 October 2017 and re-imbusement is currently awaited.

Local Government Act 1972 (Section 137) will continue to be listed in the Minutes of the Council. A Budget of £500 has been set for such payments, an amount which is within the statutory limit.

The donation of £100 to the Citizens Advice Bureau agreed by the Town Council on 20 September 2017 (Minute 10.10) can be made under Section 142 of the Local Government Act 1972. Details of any future application of the General Power of Competence, both in terms of eligibility and criteria, were provided to the Town Clerk/RFO by the Internal Auditor.

5. Risk Management arrangements.

The Council's strategic Risk Management Policy, the Risk Register, the Asset Management Risk Assessment and the Internal Control Statement were last considered by the Council at its meeting on 15 March 2017.

The next overall review of this documentation is programmed to take place at the March 2018 meeting of the Town Council. This will ensure compliance with the Accounts and Audit Regulations 2015 which require a review by the full Council at least once a year of the effectiveness of the Council's system of internal control, including the arrangements for management of risk, with the review suitably Minuted.

Individual Risk Assessments have recently been considered by Committees and these are due to be presented to Council for approval later this year. The Internal Auditor was advised that the review of the Risk Assessments under the control of the Environment Committee have been completed and any necessary action points have been identified (e.g. necessary re-painting of the surface of the Skate Park).

The Town Hall Renovation work is now underway and the related Risk Assessments, both financial and operational, should be carefully monitored and reviewed as the scheme progresses to ensure that all significant risks are identified and all necessary actions are in place to mitigate the risks identified. This should include any matters arising from the use of scaffolding and building operations undertaken at the exterior of the building that may impact upon the public or those patrons who have previously made bookings for use of the building.

Recommendation 1: The Town Council should continue to regularly review the detailed Risk Assessments in respect of the Town Hall Renovations, both in respect of the Roof and the Interior improvements. The Assessments should include all risks associated with the financial, operational and management

activities conducted by the Town Council and highlight the actions in place to mitigate the risks identified.

As a result of significant additional grant income being received during 2017/18 relating to the Town Hall Renovations, the level of Fidelity Guarantee insurance cover is being carefully monitored by the Town Council in order to ensure that all sums in the Council's bank accounts have appropriate insurance cover. In this respect, it is noted that the Fidelity Guarantee cover was increased to £250,000 as from 27 July 2017 to reflect the level of bank/cash sums currently being held by the Town Council and to meet current guidelines.

The previous Quarterly Review Internal Audit Report (dated 26 July 2017) was presented to the Finance & Governance Committee at its meeting on 13 September 2017 and confirmed by the Town Council at its meeting on 20 September 2017 (Minute 10 refers).

The External Audit Report for the year 2016/17 was formally reported to the Town Council at its meeting on 20 September 2017 (Minute 11.5 refers) The External Audit report raised no matters of concern and no qualifications were issued to the audit opinion.

6. Budgetary controls.

The previous Quarterly Internal Audit Review noted that whilst Cost Centre reports had been submitted to the individual Chairs of Committees, the full Town Council had yet to receive in 2017/18 a report which lists actual income and expenditure against the Budget.

In accordance with the recommendation made in the previous Internal Audit Quarterly Review, details of Actual Expenditure and Actual Income in 2017/18 compared to the 2017/18 Budget were reported to full Council at the meeting held on 20 September 2017 (Minute 11.4 'Half-year Accounts Cost Centre Report' refers).

This issue is of particular importance as the Town Council is receiving substantial grant income and will incur significant costs relating to the Town Hall Renovations. It is good financial practice for the Town Council to receive regular reports of the income and expenditure in the year compared against the budget. In this way, all Councillors will have the opportunity to receive sufficient information to make informed decisions and, specifically, the Town Council will be in a position to identify any significant variations from budget and take any remedial action as necessary.

The Town Clerk/RFO has confirmed that comparison between Budget and Actual Expenditure and Income will take place when the Council considers the Budget for 2018/19 to ensure Town Councillors are suitably informed to reach a decision regarding the precept to be applied for the year 2018/19. In this respect the Town Clerk/RFO has constructed a comprehensive draft Budget for 2018/19 which includes:

- a) 2016/17 Budget amount
- b) Expenditure/Income 2016/17
- c) The 2017/18 Budget amount
- d) Expenditure/Income to 6 October 2017
- e) Projected Expenditure/Income as at 31 March 2018

- f) A Proposed Budget for 2018/19
- g) A Commentary against each heading, as necessary.

The Draft Budget is due to be considered by the Finance & Governance Committee in November 2017 prior to its presentation to the Town Council. The Town Clerk/RFO is to be commended for constructing a detailed and informative Budget document which provides an excellent platform from which Town Councillors can review and agree requirements for the forthcoming financial year.

7. Income controls.

The Town Clerk/RFO advised Internal Audit that the charges applicable to the Environment Committee have been reviewed during the current financial year and are due to continue to apply until March 2018. The charges relating to the hiring of the Town Hall etc. are to be reviewed following completion of the Town Hall refurbishment.

The Town Clerk/RFO has previously detailed to the Internal Auditor the procedures in place for the receipt and recording of income. There is a clear audit trail from the income recorded in the bank paying-in book to the Scribe accounting system. The Town Clerk/RFO is aware of the importance of income being banked promptly and being fully recorded in the Scribe system as well as the need for adequate and effective security over cash and cheques received.

The Audit Plan for the Third Quarterly Internal Audit Review to take place in January 2018 provides for detailed testing of a range of income items received over the first 9 months of the financial year.

8. Payroll controls.

Payroll Services continue to be operated by Anglia Book-Keeping on behalf of the Town Council. The Town Clerk/RFO confirmed to the Internal Auditor the details of the procedure for calculating salaries and wages. A document detailing the contractual employment arrangements in place is maintained and acts as the basis for a Spreadsheet which calculates basic monthly salary payments and any overtime payments.

The Spreadsheet data is submitted to Anglia Book-Keeping which undertakes all necessary calculations for PAYE, NI contributions and pension contributions. Anglia Book-keeping, in turn, submits to the Council a copy of all pay-slips and details of payments to be made (viz. net salary payments and the amounts due to HMRC) from which the Draft Payments List is prepared and cheques signed or electronic payments will be made in accordance with the approved procedure for accounts payable.

Since the previous Quarterly Internal Audit Review, the following salary issues have been determined by the Town Council:

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- a) Project Manager (Andy Robinson) has advanced to the top of his salary scale (LC2- 29); approved by the Town Council at its meeting on 15 August 2017 (Minute 9 refers);
- b) The Town Council increased the working hours of the Town Clerk/RFO Wendy Alcock to 30 hours per week (the meeting on 15 August 2017, Minute 10 refers);
- c) A Temporary Part-Time Administrative Assistant has been appointed for a period of 6 months @ £7.50 per hour (the Town Council meeting on 20 September 2017, Minute 10.1, refers).

The details of payments to Staff are approved at each meeting of the Town Council.

9. Assets controls.

A detailed Asset Register is in place (a total value of £126,136 was recorded as at 31 March 2017). For the purposes of the End-of-Year Annual Return, the Register complied with requirements which provide that each asset should be recorded at its original purchase cost or where the original purchase price is unknown at the time of first recording on the asset register, a current value is recorded, which acts as a proxy for the original cost and will remain unchanged until disposal.

The Internal Auditor discussed with the Town Clerk/RFO the issue of additions and deletions from the Asset Register in the 2017/18 year. It was confirmed that the Scribe system currently does not support the Register. The Town Clerk/RFO intends to arrange for each asset to be input into the Scribe 2017/18 accounting year.

Recommendation 2: Internal Audit supports the proposal that the Asset Register should be entered into the Scribe accounting system during 2017/18. Whilst undertaking this task, it would be opportune to ensure that all items listed in the Register are up-to-date (possibly through a review by Committee Chairs) and all assets listed in the Register are compared with the insurance schedules to ensure that assets have appropriate insurance cover.

10. Town Hall Re-roofing and contractual issues.

The Town Council discussed the award of a contract for works to the Town Hall to Paul Durrant Ltd at the meeting held on 15 August 2017 (Minute 11 refers). The Council was advised of the requirements of the Public Contract Regulations 2015, as outlined in the Council's Financial Regulations viz. that the proposed contract should be advertised on the Contract Finder website as specified in the 2015 Regulations. The Town Council discussed the issues involved in detail and agreed to proceed to award the contract for the re-roofing of the Town Hall to Paul Durrant Ltd without first advertising on the Contract Finder website. Whilst the Internal Auditor notes and understands the reasons for the Town Council's decision in this instance, it should be reported that the Town Council may be placed in a potentially vulnerable position in the event of a legal challenge regarding the award of this contract.

In this respect, Section 1 of the Annual Return (the Annual Governance Statement) for the 2017/18 year will require the Town Council to confirm that 'all reasonable steps were taken to assure ourselves that no matters of actual or potential non-compliance with laws, regulations and proper practices that could have a significant financial effect on the ability of the authority to conduct its business or on its

finances'. In the interest of clarity, the Town Council may care to consider providing an attachment to the 2017/18 Annual Return detailing the circumstances surrounding the awarding of the re-roofing contract, including a copy of the Minutes of the meeting of 15 August 2017, in order to mitigate the risk of the External Auditors issuing a Qualified Audit Opinion for the year 2017/18.

The Town Council agreed at its meeting on 15 August 2017 (Minute 3) to apply for a £110,000 loan from the PWLB for the Town Hall re-roofing (in part), ground floor disabled access and toilets. The Town Clerk/RFO advised the Internal Auditor that the loan amount has since been received by the Town Council and that payment of the first half-yearly loan repayment will be met from Reserves in accordance to the decision taken at the meeting on 15 August 2017 (Minute 6 refers).

The Town Council agreed on 18 September 2017 (Minutes 4.1 and 4.2) to exercise the option of paying VAT on the Town Hall building (pursuant to Schedule 10 of the Value Added Tax Act 1994) and to instruct Elysian Associates to present the necessary paperwork to HMRC to exercise this option and to register the Town Council for VAT in respect of the Eye Town Hall building. Only income relating to the Town Hall is to be registered, the allotments and cemetery income being outside the scope. The Town Clerk/RFO has confirmed that the Scribe accounting system is now ready to accommodate this change and a VAT Registration number is currently awaited from HMRC.

11. Additional Comments.

The Town Council noted at the meeting on 15 August 2017 that the Town Clerk/RFO is a reliable and effective member of staff. The Internal Auditor is pleased to endorse those comments and would like to commend the Town Clerk/RFO on the progress she has achieved over the last three months, a period of time that has been a challenging one for the Town Clerk/RFO and Town Councillors alike, particularly in terms of the Town Hall renovation work.

The Council's Minutes continue to be very well presented and provide clear evidence of the decisions taken by the Council in the year.

Looking ahead, the application of the General Data Protection Regulations (GDPR) is due to take effect from May 2018. The GDPR replaces the Data Protection Act 1998 and will place additional responsibilities upon local councils in terms of protection of personal data. The Regulations are due to require each local council to make an appointment/designation of a Data Protection Officer.

Recommendation 3: The Town Council should arrange for the Town Clerk/RFO to receive all necessary training regarding the impact of the General Data Protection Regulations to ensure that the Town Council is well placed to meet the requirements by the May 2018 deadline.

The next Internal Audit Quarterly Review has been programmed to commence on 24 January 2018. The review will include coverage of the actions listed in the agreed Quarterly Review Audit Plan (including detailed testing of a random sample of

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receipts and payments in the 9 months ending 31 December 2017) together with the identification of any actions still required to be taken to meet relevant regulations prior to the end-of-year date, 31 March 2018.

I would like to record my appreciation to Mrs Wendy Alcock, the Town Clerk/RFO, for her assistance during the course of this Quarterly Internal Audit Review work.

Trevor Brown, CPFA

Internal Auditor

3 November 2017