

Margate Charter Trustees

Internal Audit Report 2019-20 (Final)

John Watson

*For and on behalf of
Auditing Solutions Ltd*

Background

Statute requires all town and parish councils and similar bodies to arrange 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 Governance and Accountability Return (AGAR).

Due to the impact of the Covid-19 pandemic, we have undertaken our second review for the year remotely: we wish to thank the Clerk for assisting in the process, providing all necessary documentation in electronic format to facilitate completion of our review for the year and sign off of the Internal Audit Certificate in the year's AGAR. We may have, obviously in the circumstances, reduced the volume of transactions examined, whilst still ensuring governance and financial controls remain effective.

This report sets out the work undertaken in relation to the 2019-20 financial year, during our interim review which took place in our office on 10th December 2019 and our final review which took place in our office on 20th April 2020.

Internal Audit Approach

In continuing our review for 2019-20, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts/AGAR. Our programme of cover has again been designed to afford appropriate assurance that the Charter Trustees' financial systems remain 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 Charter Trustees' own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Internal Audit Report' in the Charter Trustees' AGAR, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

We have concluded that, based on the programme of work undertaken during the year to date, the Charter Trustees have continued to maintain more than adequate and effective internal control arrangements. We are pleased to again acknowledge the quality of records maintained by the Clerk and thank her for her continued assistance, which has ensured the smooth progress of our review process.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Clerk to the Trustees continues to keep the accounting records on excel spreadsheets with one operational bank account currently maintained at HSBC Bank Plc. We consider this to be more than adequate for the needs of the Charter Trustees.

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: -

- Checked to ensure that the opening balance detail as entered on the 2019-20 Excel spreadsheet agrees with that in the 2018-19 Statement of Accounts and certified AGAR;
- Ensured that the accounts are balanced and reconciled to the bank account at the close of each month;
- Checked to ensure that an appropriate expenditure analysis remains in place;
- Checked and agreed detail of all transactions in the spreadsheet to the relevant HSBC bank statements for the months of June and September 2019 and for the months of January and March 2020;
- Checked and agreed detail on the bank reconciliations prepared as at 30th June and 30th September 2019 and as at 31st January and 31st March 2020;
- Noted that the IT systems are all backed-up daily to an external server, provided by the Trustees' IT provider; and
- Further noted that e-mails are now also backed up on a regular basis.

Conclusions.

We are pleased to report that no issues arise in this area of our review process warranting formal comment or recommendation. We have ensured the accurate disclosure of the year-end cash balances in the year's AGAR.

Review of Corporate Governance

Our objective is to ensure that the Trustees have a robust regulatory framework in place; that Charter Trustee meetings are conducted in accordance with the adopted Standing Orders and that, as far as we are able to ascertain (as we do not attend Charter Trustee meetings), no actions of a potentially unlawful nature have been or are being considered for implementation. We have:

- Reviewed the minutes of the Trustee meetings for the year to identify whether any issues exist that may have an adverse effect on the Trustees' future financial stability, either in the short, medium or longer term; we do note that only four meetings of the Trustees were held in the year under review. We are pleased to note that the dispute with a previous member of staff has now been resolved;
- Noted that revised Financial Regulations were last reviewed and adopted at the meeting of the Charter Trustees held on 14th May 2018; we remind the Clerk and Trustees that NALC have recently issued new model Financial Regulations and recommend that the Trustees

formally review their current Financial Regulations to ensure that they incorporate any requirements of the newly issued documents; this should be done on an annual basis;

- Further noted that revised Standing Orders were reviewed by the Executive on 25th April 2019 and subsequently ratified by the Trustees at their meeting on 15th May 2019 (minute 24 refers): and
- Finally noted that the Trustees correctly provided the proper opportunity for the exercise of public rights at the appropriate time in accordance with the requirements of the Accounts and Audit regulations; we do note, however, that the one public notice board owned by the Trustees has been stolen and recommend that, to enable the Trustees to comply with the requirements of advertising meetings, this be replaced without delay.

We have previously noted that receipts for expenditure incurred against the Mayor and Deputy Mayor's allowances are not routinely provided. We again stress that, as these funds are provided from public sources (the precept), they are subject to the same level of public scrutiny under the Transparency Code and should be provided to and retained in the Trustees' office in the event that any member of the public wishes to examine them.

We have also previously referred to the fact that best practice suggests that all public bodies should develop detailed financial procedures. Whilst we realise that the Charter Trustee accounts and procedures are relatively simple, these would then assist in the event that the Clerk was unavailable for any lengthy period of time.

Conclusions and recommendations.

We are pleased to report that, other than the recommendation that Standing Orders and Financial Regulations be reviewed on an annual basis, no issues arise in this area of our review process warranting formal comment or recommendation. We shall continue to monitor the Trustees approach to Governance in future years.

R1. The Trustees should review both Standing Orders and Financial Regulations at least annually.

R2. The Trustees should replace the missing notice board without delay.

Review of Expenditure & VAT

Our aim here is to ensure that: -

- Trustee resources are released in accordance with the Trustee approved procedures and relevant statutory powers;
- Funds are expended in accordance with approved 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; and
- VAT has been appropriately identified for periodic recovery.

We have examined the procedures in place for the control of expenditure, noting that payments are made “on-line” and have been actioned by the Clerk to the Trustees. We note that payments are signed off by the Mayor and one other Trustee and that the payment authorisation forms attached to the invoices are initialled when paid. We further note that listings of payments are provided to Trustee meetings.

In testing the effectiveness of controls and for compliance with the above criteria, we have examined all payments for the months of June and August 2019 and for the months of February and March 2020. We have previously raised two queries regarding VAT with the Clerk and understand that she has resolved these.

We are pleased to note that a VAT reclaim for 2018-19 was prepared and submitted to HMRC with repayment being duly received in April 2019. We have further noted that a VAT reclaim for 2019-20 has been prepared and submitted to HMRC after the year end.

Conclusions

We are pleased to report that no issues arise in this area of our review process warranting formal comment or recommendation.

Assessment and Management of Risk

Our aim here is to ensure that the Trustees have 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 identified and to minimise the opportunity for their coming to fruition.

We have, at our first visit, examined the Trustees’ insurance policy for the current year, noting that cover continues with Zurich Insurance to 28th September 2020 with Employer’s Liability and Public Liability cover in place at £10m and £15m respectively. Fidelity Guarantee cover is in place at £250,000.

We are pleased to note that the Trustees’ Risk Assessment was approved at their meeting on 15th May 2019 (minute 25 refers).

Conclusions

We are pleased to report that no issues arise in this area of our review process warranting formal comment or recommendation. We shall continue to monitor the Trustees approach to risk management in future years.

Budgetary Control & Reserves

Our objective here is to ensure that the Trustees have a robust process in place for identifying and approving its future budgetary requirements and level of precept to be drawn down from the District Council: also, that an effective reporting and monitoring process is in place; We also aim to ensure that appropriate funds are retained in reserves to finance the Trustees’ ongoing spending

plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise. To meet this objective, we have:

- Noted from our review of the minutes that members were presented with a budget variance report for their September meeting but that this meeting was not quorate. We note that a further report was presented to the December meeting:
- Noted that a budget exercise was undertaken and approved by the Trustees at their meeting on 20th January 2020 (minute 46 refers);
- Considered the appropriateness of the level of general reserves to meet the Trustees' ongoing revenue spending requirements noting that reserves at the year-end total £101,859 of which £3,402 relates to earmarked reserves; the balance of £98,457 equates to nearly eight months' average revenue expenditure which is above the generally accepted guideline of between three and six months' average revenue expenditure; and
- Reviewed the year-end budget outturn for any significant unexplained variances with none in evidence.

Conclusions

We are pleased to report that no issues arise in this area of our review process warranting formal comment or recommendation.

Review of Income

The Trustees receive income from a very limited number of sources, primarily the annual precept; occasional grants and contributions towards Trustees' sponsored events and reclaimable VAT. The Trustees also receive income from the "Blessing of the Seas" although this is normally a net expense to the Trustees.

We have checked detail of income received in the year to available supporting documentation with no issues arising.

Conclusions

We are pleased to report that no issues arise in this area of our review process warranting formal comment or recommendation.

Petty Cash Account

No formal petty cash account is in operation, any expenses incurred by the employee being reimbursed directly through the usual payment channel generally each month.

Review of Salaries

We aim, in this area of our review process, to ensure that staff are paid in accordance with rates approved by the Trustees and in line with the terms of their employment contracts, that tax/NI and any pension contributions payable are calculated in accordance with current legislation and appropriate deduction rates and that they are paid over to the relevant agencies accurately and in a timely manner. To achieve this objective, we have: -

- Reviewed the Trustees' payroll preparation procedures, noting that the payroll is processed "in house" using bespoke Sage payroll software;
- Confirmed, by reference to the March 2020 payslips, that the Clerk, the Mayor and the Deputy Mayor have received the correct gross salary in line with the Trustees' approved rates;
- Checked to ensure that, where appropriate, any enhanced overtime hours are paid in accordance with appropriately prepared and certified time records;
- Checked to ensure that Income Tax and NIC deductions have been made applying the appropriate PAYE codes and NIC Tables;
- Ensured that the appropriate deductions and contributions have been paid over to HMRC in a timely manner;
- Checked to ensure that the appropriate percentage deduction rate has been applied in respect of pension contributions; and
- Verified that the appropriate net pay has been paid to each person for the month in accord with the summary payments listing and relevant cashbook and bank statement entries.

As previously mentioned in this report, we again note that the dispute with the previous member of staff has been resolved.

Conclusions

We are pleased to report that no issues arise in this area of our review process warranting formal comment or recommendation.

Fixed Assets

The Governance and Accountability Manual requires all local government bodies to maintain a detailed register of their assets. We aim therefore, in examining this aspect of the Trustees' documentation, to ensure that the Trustees have complied with that legislation; that an appropriate and comprehensive register is being maintained and that it is subject to periodic review and update.

We have previously noted that the current valuation continues to be in relation to the civic regalia only and is based on a professional valuation provided by B.N. Carthew on 19th July 2016. We understand that several items on that valuation are not the property of the Trustees and the value of assets for declaration on the Annual Return for 2018-2019 has been amended accordingly. We further understand that the External Auditors have accepted that this basis of valuation is acceptable.

This professional valuation does not include all assets and a "side" schedule has been prepared to identify other items that belong to the Trustees. The Clerk continues to work on populating the values on this schedule which will be used to show both cost and insurance values where applicable. We understand that this schedule will be extended to include assets in the Town Hall.

Conclusions

We are pleased to report that no issues arise in this area of our review process warranting formal comment or recommendation; we have ensured that the correct figure of Fixed Assets has been reported in the AGAR.

Investments and Loans

Our objectives here are to ensure that the Council is “investing” surplus funds, be they held temporarily or on a longer term basis in appropriate banking and investment accounts; that an appropriate investment policy is in place; that the Council is obtaining the best rate of return on any such investments made; that interest earned is brought to account correctly and appropriately in the accounting records and that any loan repayments due to or payable by the Trustees are transacted in accordance with appropriate loan agreements.

We have confirmed that the Trustees hold no long-term investments requiring disclosure in the Statement of Accounts, nor are there any loans with external bodies in existence repayable by or to it.

We have noted that the Clerk has received a bank statement from HSBC showing a small balance purportedly belonging to the Trustees. We understand that this account has previously been reported as being closed and, pending further investigation by the Clerk, we have agreed that this small balance be excluded from the Trustees’ financial reporting for the current year. We will address this issue again in future years.

Finally, we note that the year end bank balance is in excess of £100,000 and remind the Trustees that, where “investments” are held in excess of £100,000 a formal Investment Policy must be in place. We recommend that this be done.

Conclusions and recommendations

We are pleased to report that, other than our recommendation that the Trustees adopt an investment policy, no issues arise in this area of our review process warranting formal comment or recommendation.

R3. *The Trustees should adopt an investment policy.*

Statement of Account and AGAR

The 1996 Accounts and Audit Regulations required all Councils to prepare annually a detailed Statement of Accounts, together with supporting statements identifying other aspects of the Council’s financial affairs.

We have reviewed the AGAR detail prepared by the Clerk, as generated from the Excel spreadsheets with no obvious errors or anomalies in the detailed content

Conclusions

No issues have been identified in relation to the verification of detail in the Statement of Accounts and AGAR this year.

On the basis of our detailed work during the course of the year on the Council's systems of financial control and content of the detailed Statement of Accounts and that summarised detail set out in the AGAR, we have signed off the Internal Audit Report of the AGAR assigning positive assurances in each relevant area.

Action List

Rec. No.	Recommendation	Response
Review of Corporate Governance		
R1	The Trustees should review both Standing Orders and Financial Regulations at least annually.	
R2	The Trustees should replace the missing notice board without delay.	
Investments and Loans		
R3	The Trustees should adopt an investment policy.	