



Assurance through excellence
and innovation

Ringwood Town Council

Internal Audit Report

Supplementary Paper to Annual Governance and Accountability Return 2021/22 Part 3

13 June 2022

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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 2021/22 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; process 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 authority has demonstrated that during summer 2021 it correctly provided for the exercise of public rights as required by the Accounts and Audit regulations;
- The authority has complied with publication requirements for 2020/21 AGAR and
- The Town Council has met its responsibilities as a trustee.

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		
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.

Management Action(s)	
High	4
Medium	0
Low	0
Total	4

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). Financial Regulations were updated in September 2021. Testing of eighteen points within the Financial Regulations found sixteen fully compliant; two were covered by other areas of testing and found to be satisfactory. 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 full financial risk review was presented to the Policy and Finance Committee in February 2022. Risk assessments for new projects and activities are conducted and presented to the Policy and Finance Committee as necessary. Due to the scale and complexity of a project to improve football facilities a special scrutiny panel was formed to oversee it and a risk register for the project created.
- Draft budgets setting out 2021/22 and 2022/23 precepts were presented to the Policy & Finance Committee and then Full Council by January 2021 and January 2022 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, although an issue relating to holiday pay is outlined below. 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. At the time of the audit annual inspections had not taken place having been postponed due to staff absence.
- Bank statements are reconciled by the RFO on a monthly basis and testing of all reconciliations for October 2021 and March 2022 agreed to 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 the year-end cash-book. An arrangement is in place for a Councillor to review reconciliations and statements following each Policy and Finance Committee meeting although at the time of audit the March reconciliation had not been signed off.
- 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 complied with point M of Part 3 of the AGAR which relates to providing for the exercise of public rights as required by the Accounts and Audit Regulations.
- The Council acts as trustee for two charities and filed the relevant Charity Commission returns in a timely manner.

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

- The basis of calculation for holiday entitlement for staff on variable hours contracts has not been revised in line with current Gov.UK requirements that for workers with no fixed hours (casual work, including zero-hours contracts), a worker's average pay from the previous 52 weeks (only counting weeks in which they were paid) should be used to calculate holiday pay.
- Although there was evidence that the Council complied with point N of Part 3 of the AGAR which relates to the publication requirements of the 2020/21 AGAR as per related guidance notes by the dates specified, due to a subsequent change in website provider not all relevant documentation is published on the current website.

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

- Hire agreements for Council facilities do not currently state that the hirer must have suitable public indemnity insurance, therefore the Council may wish to review whether their own current insurance covers hirers' liability insurance, and to potentially adjust the hire agreements if needed.
- No VAT was coded in the petty cash account. There was a total £669.31 expenditure for the year and a number of larger transactions e.g. leaf grabbers, bulbs, car lights etc should have a VAT receipt. While it is understood that a cautious approach is taken in relation to claiming VAT use of other purchasing mechanisms could be encouraged to maximise reclaiming of VAT. Hourly rates of pay are calculated on the basis of an annual salary divided by 52 divided by 37. Use of published NJC hourly rates based on 365 days/7 (52.14

weeks) could be considered.

- The Joint Panel on Accountability and Governance (JPAG) Practitioners' Guide March 2022 states: *Parish and town councils with annual turnover in excess of £200,000 should as best practice comply with the Local Government Transparency Code 2015.* As the wording of the internal control objective L of the AGAR has changed this year to state: *The authority publishes information on a free to access website/webpage up to date at the time of the internal audit in accordance with any relevant transparency code requirements*, the Council may wish to review website content periodically for compliance with the [Local Government Transparency Code](#).

Observation – 1 – Holiday Pay	Risk	Management Response			
		Action	Priority	Responsible Officer	Target Date
<p>In payroll testing one officer on a variable hours contract had worked 56.75 hours in August (including 6.5 hours holiday). We were advised that the holiday entitlement was calculated based on the average number of hours worked during the preceding 3 months, as follows:</p> <ul style="list-style-type: none"> • Dec 51.75 • Jan 60.9 • Feb 55 <p>Total $167.65 \div 3 \text{ months} \times 12 \text{ months} \div 52 \text{ weeks} \div 2$ (days worked per week) = 6.44, so 6.5 hours paid for 1 day holiday.</p> <p>Current Gov.UK guidance states that for workers with no fixed hours (casual work, including zero-hours contracts), a worker's average pay from the previous 52 weeks (only counting weeks in which they were paid) should be used to calculate holiday pay.</p> <p>For another an enhanced rate was paid. We were advised that the holiday enhancement rate is used for staff who regularly work overtime and reflects the fact that holiday pay should be the same as</p>	Staff do not receive correct holiday entitlement/pay.	1.1 The payroll provider has been instructed to calculate holiday pay based on the average of the pay for the previous 52 weeks in accordance with the guidance	High	Jo Hurd	Implemented from May 2022 payroll
		1.2 Advice is being sought from our HR consultants (Worknest) on the subject of the holiday enhancement rate and the fact that it may be seen as 'rolled up holiday pay'.	High	Jo Hurd	30 th June 2022

<p>what an employee would normally earn including any regular overtime. The payroll system was set up to calculate an enhancement rate based on overtime worked during the preceding 52 weeks. That rate is then applied to the number of hours holiday taken during the month previous to each payroll date.</p> <p>The above guidance also states: <i>Holiday pay should be paid for the time when annual leave is taken. An employer cannot include an amount for holiday pay in the hourly rate (known as 'rolled-up holiday pay').</i></p> <p>An enhancement rate may be seen as 'rolled up holiday pay'.</p>					
Auditors assessment of managements response					
Management actions, once implemented, should assist in the mitigation of future risk.					

Observation – 2 – Point N of Part 3 of the AGAR	Risk	Management Response			
		Action	Priority	Responsible Officer	Target Date
<p>Point N of the AGAR requires that the Council has complied with the publication requirements for 2020/21 AGAR namely:</p> <p><i>Before 1 July 2021 authorities must publish:</i></p> <ul style="list-style-type: none"> • Notice of the period for the exercise of public rights and a declaration that the accounting statements are as yet unaudited; • Section 1 - Annual Governance Statement 2020/21, approved and signed, page 4 • Section 2 - Accounting Statements 2020/21, approved and signed, page 5 <p><i>Not later than 30 September 2021 authorities must publish:</i></p> <ul style="list-style-type: none"> • Notice of conclusion of audit • Section 3 - External Auditor Report and Certificate • Sections 1 and 2 of AGAR including any amendments as a result of the limited assurance review. <p>Our review of the Council website at the time of audit found:</p> <ul style="list-style-type: none"> • there was no declaration that the accounting 		2.1 All of the previously posted documents, which were originally published in accordance with the legislation, have now been re-uploaded to the new website.	High	Rory Fitzgerald	May 2022 - complete
		2.2 RFO will ensure that all necessary documents are published in accordance with the legislation and will ensure that the documents remain visible on	High	Rory Fitzgerald	July 2022 and September 2022

<p>statements were unaudited.</p> <ul style="list-style-type: none"> • The versions of Section 1 and Section 2 published were not approved and signed. • The Notice of conclusion of audit and the Section 3 External Auditor Report and Certificate were not published. <p>The RFO advised that there was a change in website provider in December 2021 and some documents were not transferred from the previous website. Evidence was provided to demonstrate that the required documents were posted on the previous Council website by the relevant dates.</p>		<p>the website for at least 6 years</p>			
Auditors assessment of managements response					
Management actions, once implemented, should assist in the mitigation of 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	29/03/2022	Agreed	20/04/2022	
Fieldwork commenced	Target	18/04/2022	Actual	20/04/2022	
Fieldwork completed	Target	13/05/2022	Actual	13/05/2022	
Close of audit meeting	Target	13/05/2022	Actual	17/05/2022	
Draft Report Issued	Target ¹	31/05/2022	Actual	31/05/2022	
Factual accuracy agreed and management response provided	Requested ²	16/06/2022	Provided	07/06/2022	
Draft final report issued	Target ³	N/A	Actual	N/A	
Senior management sign-off	Requested ⁴	N/A	Provided	N/A	
Final report issued	Target ⁵	09/06/2022	Actual	13/06/2022	

¹ Within 10 working days of close of audit meeting

² Within 10 working days of draft report issued

³ Within 5 working days of receipt of management response

⁴ Within 5 working days of draft final report issued

⁵ Within 2 working days of senior management sign-off