

# **Totnes Town Council**

*Internal Audit Report: 2019-20*

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*For and on behalf of  
Auditing Solutions Ltd*

## Background

**Statute requires all town and parish councils 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 AGAR.**

This report sets out the work undertaken in relation to the 2019-20 financial year. Due to the impact of the Covid-19 pandemic, we have undertaken our review for the year remotely: we wish to thank the Clerk and Deputy Clerk for assisting 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 have, obviously in the circumstances, reduced the volume of transactions examined, whilst still ensuring governance and financial controls remain effective.

## Internal Audit Approach

In conducting our review for the year, 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.

## Overall Conclusion

We are again pleased to report that, on the basis of the work undertaken this year and the inherent assurance drawn from previous years, we can give a reasonable assurance to the Council that it continues to operate generally effective financial control systems, with our testing and examination of the controls in place identifying no significant areas of specific concern.

Consequently, we have signed off the Internal Audit Certificate in the AGAR assigning positive assurances in all relevant categories.

We have, however, made a number of recommendations in this report, which we would ask Council to consider to further strengthen internal control and public reporting. A risk score has been placed against each recommendation, based on the following assessment:

- **Low** as representing Best Practice, or minor infringements of legislation;
- **Medium** as representing a small but easily manageable risk with minimal changes to procedures;
- **High** as serious issues requiring immediate action.

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# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

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. The Council uses the RBS Rialtas Omega accounting software to maintain its financial and management accounting records, and we have analysed that system to agree the totals reported on the 2019/20 AGAR.

We note that all financial management issues, including checking bank reconciliations, are delegated to the Council Matters Committee for detailed scrutiny, with the Minutes of that Committee subsequently being approved by Full Council.

We are concerned to note that, apart from minor Petty Cash holdings, all of the Council's funds are currently held in a single Current Account with HSBC, on which no interest is earned. The closing balance at 31 March 2020 stands at £480,140, with a large receipt due in April for the first tranche of the 2020/21 Precept. The total, therefore, exceeds the €500,000 (approximately £446,000 at the time of writing) guaranteed by the Financial Services Compensation Scheme, which means that Public funds are being placed at unnecessary risk, albeit low with regard to the financial strength of HSBC.

We have queried this with the Clerk, and have been informed that these sums are being held with regard to significant capital expenditure (a property renovation) which has been delayed due to the Covid-19 pandemic. We have also been told that, once work on that project has been costed and commenced, surplus funds will be invested with CCLA.

Nevertheless we feel that, until this situation is resolved, balances should be invested in a suitable range of instant access deposit accounts with other High Street financial institutions, in order to spread the risk and obtain some level of interest earnings while not constraining the Council's desire to obtain funds quickly once construction work commences.

### *Conclusions and recommendation (Medium Risk)*

*R1. The Council should reconsider its current policy of holding large amounts in a single Current Account, in order to reduce risk and optimise interest earnings without curtailing its desire for quick access to funds for proposed capital expenditure.*

## Review of Corporate Governance

Our objective is to ensure that the Council has a robust series of corporate governance documentation in place; that Council and Committee meetings are conducted in accordance with the adopted Standing Orders and that, as far as we are reasonably able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation. We have:

- Reviewed the minutes of the Full Council and its Standing Committees for the financial year to identify whether any issues exist that may have an adverse effect on the Council's future financial stability, either in the short, medium or longer term;

- Noted that the Council re-affirmed its Standing Orders at the May 2019 meeting. Financial Regulations were reviewed and proposed at the September 2019 meeting of the Council Matters Committee, which takes account of the most recent Model Form issued by NALC, although it is not clear from publicly available records on the website that these were subsequently clearly adopted by Full Council.

We note a good level of compliance with the Transparency Code, which came into effect in 2015. The Statutory requirement is available on the Council's website under the 'Transparency Code' tab. However, the Council also publishes other important documents relating to the AGAR process under the 'Policies and Accounts' tab. It is felt that this information could usefully be filed together, or at least given a cross-link, in order that external reviewers can easily gain a complete picture of the Council's reporting strengths.

Finally, we note that some documents downloadable from the website are in Word format. This represents a small risk of fraudulent manipulation. Ensuring that all documents on the Council's website are in PDF format is far safer.

### ***Conclusions and recommendations (Low Risk)***

- R2. *The current and subsequent versions of the Council's Financial Regulations should be clearly adopted by the Full Council.*
- R3. *Consideration should be given to clearly linking Transparency Code information on the website, and ensuring that all downloads are in PDF format.*

## **Review of Expenditure**

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and 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;
- The correct expense codes have been applied to invoices when processed; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have undertaken a test-check of payments in order to ensure compliance with the above criteria, and are pleased to note evidence of clear coding and authorisation for payment by both Senior Officers and Councillors.

We have also reviewed the VAT nominal ledger account in the Omega software, noting that reclaim is made on a quarterly basis.

## *Conclusions*

*No issues have been identified in this area warranting formal comment or recommendation.*

## **Assessment and Management of Risk**

Our aim here is to ensure that the Council has 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 in order to minimise the opportunity for their coming to fruition.

We note the ongoing maintenance of two lever arch files containing both financial and management risk assessments together with those affecting specific services. We also note that these were reviewed by the Council Matters Committee in September 2019 but, again, there is not a clear reference to their subsequent adoption by Full Council in the published Minutes and supporting documents. The approval of risk is an issue for Full Council in accordance with Financial Regulation 16.

We note that the Council's insurance cover continues to be provided by Aviva (via brokers, WPS) and have examined the current policy schedule to ensure that appropriate cover remains in place: we note that Public Liability cover is set at £15 Million and Employer's Liability cover at £10 Million. Fidelity Guarantee cover has been increased to £500,000, but that level is likely to be exceeded with regard to both the current balances and the receipt of Precept tranches, as referred to above.

### *Conclusions and recommendations (Low Risk)*

- R4. *The Council should ensure that it formally and clearly adopts the risk assessments reviewed by the Council Matters Committee, to comply with Financial Regulations.*
- R5. *The level of Fidelity Guarantee insurance cover should be kept under appropriate review.*

## **Budgetary Control & Reserves**

Our objective here is to ensure that the Council has a robust procedure 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 the Council retains appropriate funds in general and earmarked reserves to finance its ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

The ongoing monitoring of budgets has been delegated to the Council Matters Committee, and there is clear evidence that this is regularly undertaken on behalf of the Council.

While we note that a robust budget setting exercise was undertaken by the Council Matters Committee in December 2019, subsequently amended and approved by Full Council in January 2020, we are unable to see a clear proposal for the 2020/21 Precept in numbers, but only as a percentage increase.

We note that total reserves at 31 March 2020 have increased marginally to £480,183, which includes earmarked reserves of £13,000 (reviewed in April 2019). The resulting General Reserve of £467,000 is only slightly less than the Annual Precept, and its appropriateness should be kept under review.

### *Conclusions*

*No issues have been identified to warrant formal recommendation in this area.*

## **Review of Income**

We note that the Council has a number of income streams in addition to the Precept, most notably Cemetery income. We have tested-checked a range of transactions within the Omega accounting software, and have found no anomalies.

### *Conclusions*

*No issues have been identified to warrant formal recommendation in this area.*

## **Petty Cash Account**

As part of the AGAR internal audit certification process, we are required to express a view on the operation of petty cash accounts.

A limited petty cash account is in use at the Council's Administrative Office with a holding of approximately £100 "topped up" with round sums of £100 as and when required. The balance at the year-end was £42.05.

### *Conclusions*

*No issues arise in this area warranting formal comment or recommendation.*

## **Review of Staff Salaries**

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HMRC legislation as regards the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme.

We note that the Council continues to run its own payroll system, using SAGE. We have test-checked the system, and found no anomalies.

### *Conclusions*

*No issues have been identified to warrant formal recommendation in this area.*

## **Asset Register / Inventory**

The “Governance and Accountability Manual – The Practitioner’s Guide”, requires all councils to maintain a detailed register of their assets. We aim in examining this aspect of the Council’s documentation to ensure that the Council has complied with that legislation; that an appropriate and comprehensive register is being maintained and that it is subject to periodic review and update.

We note that a clear register is kept using a spreadsheet, the total of which agrees to the AGAR. The recorded asset value has not changed in some years, and contains a number of potentially high value items, such as Buildings and Civic Regalia, recorded with a notional value of £1. While this is the correct treatment, assurance has been sought from the Clerk that the Council has been unable to determine an original purchase cost for these items, or that the item was originally a gift or donation.

### ***Conclusions***

*No issues have been identified to warrant formal recommendation in this area.*

## **Investments and Loans**

We note the existence of one PWLB loan which is being repaid half-yearly and have verified the repayments by reference to the PWLB demands as part of our aforementioned payment examination. We have also verified the accurate disclosure of the residual year-end loan liability in the AGAR by reference to the PWLB website detail of all council balances as at 31<sup>st</sup> March 2020.

We have already made comments above on the safe investment of, and the lack of interest earnings from, the Council’s funds.

### ***Conclusions***

*No issues have been identified to warrant formal recommendation in this area.*

## **Statement of Account and AGAR**

The AGAR now incorporates the Council’s Annual Accounts subject to external audit scrutiny and verification.

### ***Conclusions***

*There are no matters in this area of our review process and we have duly signed off the Internal Audit Certificate at Page 3 of the AGAR, assigning positive assurances in all relevant categories.*

Rec No.	Recommendation	Response
R1	<i>(Accounting Records and Bank Reconciliations)</i> The Council should reconsider its current policy of holding large amounts in a single Current Account, in order to reduce risk and optimise interest earnings without curtailing its desire for quick access to funds for proposed capital expenditure. <b>(Medium Risk)</b>	
R2	<i>(Corporate Governance)</i> The current and subsequent versions of the Council's Financial Regulations should be clearly adopted by the Full Council. <b>(Low Risk)</b>	
R3	<i>(Corporate Governance)</i> Consideration should be given to clearly linking Transparency Code information on the website, and ensuring that all downloads are in PDF format. <b>(Low Risk)</b>	
R4	<i>(Management of Risk)</i> The Council should ensure that it formally and clearly adopts the risk assessments reviewed by the Council Matters Committee, to comply with Financial Regulations. <b>(Low Risk)</b>	
R5	<i>(Management of Risk)</i> The level of Fidelity Guarantee insurance cover should be kept under appropriate review. <b>(Low Risk)</b>	