

# **Totnes Town Council**

*Internal Audit Report: 2020-21*

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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 2020-21 financial year. Due to the continuing impact of the Covid-19 pandemic, we have again 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.

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

We have, however, repeated two of our 2019-20 recommendations in this report, where we still have significant concerns which we would ask Council to reconsider. 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 (there are no recommendations in this category).

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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 2020-21 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. Independent checks by Councillors have been evidenced by emails given the current restrictions.

We again 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 2021 stands at £684,427.

We understand that funds are still being retained against expected capital payments on the New Town Hall, which has yet to be put out to competitive tender.

We still feel that the Council is facing an unnecessary risk in holding such a large amount in a single institution, as well as losing out on interest receipts. While recognising the policy of the Council, we would recommend that excess sums held with HSBC (ie. those not required for normal expenditure) are at least placed in an HSBC Deposit Account, allowing for instant access with at least some return on investment.

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

*R1. The Council should monitor its current policy of holding large amounts in a single Current Account, and make reasonable efforts to 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 January 2021 meeting. Financial Regulations were reviewed and proposed at the March 2021 meeting of the Council Matters Committee, and confirmed by Council in May 2021.

We note that a good level of compliance with the Transparency Code, which came into effect in 2015, has been maintained.

### ***Conclusions***

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

## **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 note evidence of clear coding and authorisation for payment by the Deputy Clerk, with evidence of Councillor approval via email.

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

### ***Conclusions***

*No issues arise 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 are pleased to note that the Council formally approves its Risk Assessments at each April meeting.

We note that the Council's insurance cover continues to be provided by Aviva (via WPS Councilguard) 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 is set at £500,000, but that level is exceeded by the current balance at bank, as referred to above.

***Conclusions and recommendation (Low Risk)***

*R2. 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.

A 2021-22 Budget and Precept totalling £545,986 was approved by the Council at its January 2021 meeting.

We note that total reserves at 31 March 2021 are the bank balance referred to above, plus a small Petty Cash holding (see below). No earmarked reserves have been set, such as the estimated build costs of the New Town Hall. Therefore the General Reserve, which should only be around 50% (6 months) of normal expenditure, has been significantly exceeded. This position needs to be reviewed once true build costs are known.

***Conclusions***

*Other than the above comments, 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. We note that cemetery fees were reviewed in February 2021, but will not be increased until 2022.

***Conclusions***

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

## **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 as and when required. The balance at the year-end was £50.75.

### *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 arise in this area warranting formal comment or recommendation.*

## **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, with some items correctly listed at a notional £1 where the original cost cannot be determined.

### *Conclusions*

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

## **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 arise in this area warranting formal comment or recommendation.*

## **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 monitor its current policy of holding large amounts in a single Current Account, and make reasonable efforts to optimise interest earnings without curtailing its desire for quick access to funds for proposed capital expenditure. ( <b>Medium Risk</b> )	
R2	<i>(Management of Risk)</i> The level of Fidelity Guarantee insurance cover should be kept under appropriate review. ( <b>Low Risk</b> )	