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# **Totnes Town Council**

*Internal Audit Report: 2018-19*

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## **Background and Scope**

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 Annual Governance and Accountability Return (AGAR). The Council has complied with the requirements in terms of independence from the Council decision making process re-appointing us, at Auditing Solutions Ltd, to undertake the review for 2018-19.

The following report provides detail of the areas examined during our single visit to the Council for 2018-19, which took place on 14<sup>th</sup> May 2019.

## **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, we are able to conclude that the Clerk and her Deputy continue 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.

This report has been prepared for the sole use of Totnes Town Council. To the fullest extent permitted by law, no responsibility or liability is accepted by Auditing Solutions Ltd to any third party who purports to use or rely on, for any reason whatsoever, this report, its content or conclusions.

# 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 with a single bank account now in use with HSBA. To meet that objective, we have: -

- Agreed the opening trial balance detail for 2018-19 with the closing balances in the 2017-18 Statement of Accounts and AGAR;
- Ensured that the cost centre and income & expenditure ledger coding structure remains appropriate for purpose;
- Checked detail in the cashbooks, examining three sample months' transactions (April & October 2018 plus March 2019) agreeing detail to the supporting bank statements;
- Checked and agreed detail on the bank reconciliations for all accounts as at 30<sup>th</sup> April; 31<sup>st</sup> October 2018 and March 2019 with no long standing, unrepresented items or any other anomalous entries existing; and
- Ensured the accurate disclosure of the combined year-end cash and bank account balances in the year's AGAR.

### Conclusions

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

## 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 (SOs) 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 having re-affirmed its extant Standing Orders and Financial Regulations (FRs) in May 2017 has subsequently restructured committees during 2018-19 with resultant changes in the SOs, also noting that the FRs are to be reviewed and re-adopted in the near future;
- Noted that both the SOs and FRs reflect a tender limit of £25,000 with the latter making reference to the 2015 legislative changes in contracting (EU & Public Contracts Regulations 2015): however, whilst we note that the FRs refer to these latest Regulations, the recently re-adopt SOs still refer to the 2006 Regulations; and

- We note that the Precept for 2019-20 was formally approved and minuted at the Full Council meeting in January 2019 with a value of £494,000.

### ***Conclusions and recommendation***

***Whilst no significant issues have been identified in this area, as indicated above, the Standing Orders should be amended to include reference to the 2015 Public Contracts Regulations, not this dated 2006.***

***R1. The Standing Orders should be further amended to record the requirements of the 2015 Public Contracts Regulations not the 2006 detail.***

## **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;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- 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.

In order to ensure compliance with the above criteria we have selected a sample of payments including all those individually in excess of £1,500, together with a more random sample of every 30<sup>th</sup> cashbook transaction (irrespective of value), for the financial year. Our test sample includes 52 individual payments totalling £201,785 and representing 63% of all non-pay costs for the year.

We have also reviewed the VAT nominal ledger account in the Omega software ensuring that the quarterly reclaims prepared are in accordance with each quarter's closing balance: we note that due to an admin error the year-end position was confused with a few April payments inadvertently recorded and included in the March cashbook and then reversed but subsequent to the quarter's VAT reclaim being prepared: in closing down the accounts for 2018-19 this mistake has been corrected with a resultant adjustment being required to the June 2019 quarter's reclaim.

Finally, in this area, we have updated our year-on-year analysis of expenditure incurred across the range of Council activities with no significant, unidentified variances warranting further enquiry or explanation by officers.

## **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 are pleased to note the existence of 2 lever arch files containing both financial and management risk assessments together with those affecting specific services: in examining the Council's minutes for the year, we have seen no indication that the financial risk assessment was formally presented to Council for adoption, but are pleased to note that it has been updated by the Clerk and Deputy Clerk in September 2018.

We note that the Council's insurance cover continues to be provided by Aviva (via brokers, WPS) and have examined the policy schedule (to May 2019) checking to ensure that appropriate cover remains in place: we note that both Public and Employer's Liability cover stand at £10 million, with Fidelity Guarantee cover retained at £393,000 and Loss of Revenue cover in place at £208,000, all of which we consider meets the needs of the Council at present.

## **Conclusions and recommendation**

*Whilst the minutes contain evidence of certain specific service-based risk assessments being reviewed and adopted during the year, we remind both officers and members that the Governance and Accountability Manual requires financial risk assessments to be subjected to both review and formal adoption by the Council at least once annually.*

*R2. The Clerk should ensure that financial risk assessments are not only reviewed at least once annually but are also submitted to Council for formal adoption in accordance with the requirements of the Governance and Accountability Manual.*

## **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.

We are pleased to note that members are provided with regular budget monitoring reports and have visually examined the year-end position as recorded on the Omega accounting software ensuring that no unexplained or unanticipated significant variances exist requiring further enquiry or explanation by officers;

We are also pleased to note that due and appropriate consideration has been given to the budgetary and precept requirements for 2019- resulting in the formal adoption of the year's budget and precept at the Full Council meeting in January 2019.

Finally in this area, we note that total reserves at 31<sup>st</sup> March 2019 have increased marginally to £353,100 (£345,000 as at 31<sup>st</sup> March 2018), comprising specific earmarked items of £16,300 leaving the residual General Fund balance at £336,100, which represents approximately nine months' expenditure at current levels and is considered appropriate for the Councils ongoing requirements.

### ***Conclusions***

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

## **Review of Income**

In addition to the precept, the Council's principal sources of income includes Guide and Website advertising, property rentals, cemetery activities, grants and donations, VAT recoveries and several other variable smaller income streams.

We are pleased to note that members reviewed and approved the scales of fees and charges for 2018-19;

We have examined income arising at the cemetery in the year to September 2018 (eight interments) ensuring that the appropriate fees have been charged and recovered and that all legally required documentation is held in support of the interments.

We have also reviewed the February 2019 Civic Hall booking diary ensuring that appropriate fees have been charged and recovered with appropriately signed hire agreement forms in place: we acknowledge that this income is attributable to the Paige Adams Charitable Trust, but considered it appropriate to examine a sample of transactions given the close working relationship between the Trust and Council.

We are again pleased to note the independent control / cross checking of the Guildhall's public donation bankings (generally weekly).

We have examined the Omega nominal ledger income code transaction reports for the full financial year ensuring, as far as we are reasonably able to, that all income due to the Council has been received and accounted for appropriately.

Finally, in this area, we have updated our year-on-year analysis of income arising across the range of Council activities with no significant, unidentified variances warranting further enquiry or explanation by officers.

### ***Conclusions***

***No significant matters have been identified in this area this year.***

## 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. We have examined transactions in May 2018 ensuring that each payment is appropriately supported by supplier invoices / till receipts, also ensuring that any VAT (albeit completely immaterial) is separately identified for periodic recovery.

We have also verified the physical petty cash holding to the underlying records, also noting that effective management controls are in place with a physical check of the account undertaken routinely by an independent officer.

### *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, as most recently further updated with effect from 1<sup>st</sup> April 2018 in relation to salary bandings. To meet that objective, we have: -

- Ensured that the Council has again reviewed and approved pay scales for staff for 2018-19;
- Noted that the payroll service continues to be operated by the Deputy Clerk "in house", utilising bespoke SAGE software;
- Confirmed, by reference to the March 2019 payslips, that each member of staff has received the correct gross salary in line with the Council's approved scales;
- Checked to ensure that any enhanced overtime or other variable 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 percentage deduction rate has been applied in respect of pension contributions; and
- Verified that the appropriate net pay has been paid to each employee for the month by reference to cashbook and bank statement transactions.

### *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 are again pleased to note the existence of sound documentation in this area and that the detailed values disclosed at Section 2, Box 9 of the year’s AGAR reflect the asset register’s total value, also noting that no assets were acquired or disposed of during 2018-19.

### ***Conclusions***

*We are pleased to record that no matters arise in this area this year.*

## **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 institutions; 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.

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 2019.

### ***Conclusions***

*No matters have been identified in this area.*

## **Statement of Account and AGAR**

The AGAR now incorporates the Council’s Annual Accounts subject to external audit scrutiny and verification. We note that the Omega accounts were closed down by the Deputy Clerk in conjunction with RBS Rialtas, the software supplier. The software not only generates the detail required for inclusion at Section 2 of the AGAR, but also generates a year-end Balance Sheet and Income / Expenditure Account. We have reviewed the content of the AGAR agreeing detail to the Omega generated information with no issues arising.

### ***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	Priority	Response
<b>Review of Corporate Governance</b>			
R1	The Standing Orders should be further amended to record the requirements of the 2015 Public Contracts Regulations not the 2006 detail.	Medium	
<b>Assessment and Management of Risk</b>			
R2	The Clerk should ensure that financial risk assessments are not only reviewed at least once annually but are also submitted to Council for formal adoption in accordance with the requirements of the Governance and Accountability Manual.	High	

#### Key to priority ratings

- High:** Indicates that the Council is either in breach of statutory regulations or guidance, or that there s a potential risk to the security of its resources. *Urgent action is required to address the issues or, as a minimum, consider the risks to the Council.*
- Medium:** Indicates that action is required in the near future to ensure that the Council does not disregard relevant legislation or be considering actions that may result in the loss or misuse of public funds. *Action is not urgent, but should be considered as part of the Council's approach to governance.*
- Low:** Indicates that the Council should consider its position and aim to observe best practice in managing resources: *This is again not an area for urgent action, but requires longer-term consideration.*
- N/a:** Indicates that action has already been taken to address previously raised issues.