

Totnes Town Council

Internal Audit Report: 2021-22

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Background

Statute requires all town and parish councils to arrange for an independent Internal Audit (IA) examination of their accounting records and systems of internal control and for the conclusions to be reported each year in the Accountability and Governance Return (AGAR).

This report sets out the work undertaken in relation to the 2021-22 financial year with work undertaken initially at our offices, together with our on-site visit on 26th May 2022 following closure of the year's accounts. We wish to thank the Finance, HR & Lettings Manager for assisting the process, providing all necessary documentation in either hard copy or electronic format to facilitate completion of our review for the year and sign off of the IA Certificate in the year's AGAR.

Internal Audit Approach

In undertaking the year's review, 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, based on the work undertaken this year and the inherent assurance drawn from previous years, no significant areas of concern have been identified.

Based on the satisfactory conclusions drawn from our work programme for the year, we have duly signed off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area.

We take this opportunity to remind the Clerk and Council of the statutory disclosure requirements of the Accounts and Audit Regulations 2015, as are also summarised in the preface to the year's AGAR and ask that we be provided with scanned signed copies of the AGAR Governance and Finance Statements, together with a copy of the Notice of Public Rights to examine the 2021-22 records.

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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 Rialtas Omega accounting software to maintain its financial and management accounting records with a single bank account in place with HSBC and an appropriate cashbook operated in the accounting software. A separate cashbook is also in place to record petty cash transactions (see subsequent section of this report).

We note that all financial management issues, including checking bank reconciliations, etc. are delegated to the Council's "Matters Committee" for detailed scrutiny, with the minutes of that Committee subsequently approved by Full Council. We are pleased to note that, in accordance with best practice and the requirements of the adopted Financial Regulations (Para 2.2 refers) independent checks continue to operate over the review of monthly bank reconciliations, with the Finance, HR & Lettings Manager and Clerk, together with a nominated Councillor, also evidencing their review by signing and dating the reconciliations. However, we note that neither the underlying month-end bank statements nor cashbooks are being signed-off evidencing their examination and agreement to the bank reconciliation statements generated by the Omega accounts software.

We note the holding of in excess of £700,000 funds in the single bank account in use and understand that this high level of retained funds arises pending expected capital expenditure on refurbishment of the Town Hall for occupation by the Council.

Consequently, we have: -

- Agreed the opening account balances for 2021-22 with those in the 2020-21 detailed Omega accounts and AGAR;
- Ensured that the accounts remain "in balance" at the financial year-end;
- Examined and verified four months' account transactions as recorded in the Omega cashbook (April and September 2021, plus January and March 2022) by reference to the supporting bank statements;
- Verified the accuracy of month-end reconciliations on the HSBC account for the same four months; and
- Ensured the accurate disclosure of the current year's combined cash and bank balances in the year's AGAR.

Conclusions and recommendation

Whilst no significant concerns exist in this area, we suggest that, when the nominated councillor is checking and signing-off the bank reconciliations, they also sign-off the month's final bank statement and cashbook thereby evidencing their agreement of those two values to the bank reconciliation detail.

R1. The councillor agreeing and signing-off the monthly bank reconciliations should also sign-off the month-end cashbook and bank statements confirming their agreement of their detail in the bank reconciliations.

Review of Corporate Governance

Our objective here 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 as we do not attend meetings, no actions of a potentially unlawful nature have been or are being considered for implementation.

We note that the Council has re-adopted its SOs and Financial Regulations (FRs) in the past twelve months with minor changes agreed to the detailed content with both documents in line with the extant NALC model documents, tailored to the Council's specific requirements with a value of £25,000 for formal tender action and appropriate reference to the requirements of the Public Contracts Regulations 2015 relating to the need to publicise tenders over the above financial limit on the Government's Contract Finder website.

We have continued our review of the minutes of the Full Council and its Standing Committees for the financial year and to date in 2022-23 to determine 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 and are pleased to record that no such issues have been identified.

We are also pleased to note that the external auditors issued a clean certificate on the 2020-21 AGAR.

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, as in prior years, selected a sample of payments for review to ensure compliance with the above test criteria and are again pleased to note clear evidence of the Clerk, Finance, HR & Lettings Manager and two Councillors' examination and approval for payment recorded on the invoices. Our test sample includes 71 individual payments including all those individually in excess of £2,000 plus every 20th as recorded in the year's cashbooks and totals £204,760

equating to 57% by value of non-pay related payments during the financial year with all the above criteria met.

We have, during the course of our visit, discussed with the Finance, HR & Lettings Manager the need for two members to physically sign-off every payment document and suggested that, due to the difficulties in arranging for two councillors to attend the office, review and sign-off the increasing volume of invoices, arrangements could be made for one councillor's review and sign-off, together with a schedule of payments to be processed and issued duly signed-off with an appropriately worded certificate confirming their review of the underlying payment documentation and approval of the release of the payments.

We have also reviewed the VAT nominal ledger account in the Omega software, noting that reclaims are made quarterly and have ensured the accuracy of the reclaims prepared for the year to the control account quarter-end balances.

Conclusions

We are again pleased to report that 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 to minimise the opportunity for their coming to fruition.

We note that the Council formally approved its Risk Management document at the full Council meeting in May 2021 and have examined its content and consider that it remains appropriate for purpose. We also note the existence of a large raft of risk assessments on specific issues such as premises, office workstations, etc all of which we consider represent best practice.

We note that the Council's insurance cover continues to be provided by Aviva (via WPS Councilguard) noting that Public and Employer's Liability cover remain in place at £15 million and £10 million respectively, together with Fidelity Guarantee (FG) cover at £500,000. Whilst we consider cover to be generally adequate, as last year, we suggest that, with a year-end balance in excess of £730,000, the level of FG cover is inadequate. The former Audit Commission recommended that this cover be set in line with the annual opening balance plus 50% of the year's precept value, which would indicate a required level of approximately £1 million cover in this respect.

Conclusions and recommendation

We are pleased to record that no significant or serious concerns exist in this review area, although, as last year, we urge that the level of FG cover be increased to a more appropriate level in line with the former Audit Commission guideline.

R2. The level of Fidelity Guarantee insurance cover should be revised and increased ensuring that the potential maximum cash at bank holding during the year is covered.

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 the 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, as previously, been delegated to the Council “Matters Committee”, with clear evidence in the Committee’s minutes of appropriate review throughout the financial year.

We are pleased to note that, following due deliberation, the Council approved the 2022-23 budget and precept adopting the latter at £545,986 at the Council meeting in December 2021.

Total reserves at 31st March 2022 stand at £705,310: we note that the Council has determined not to set aside funds in specific earmarked reserves at the present time: we also note a predicted overspend against the approved budgets for 2022-23 of some £75,000.

We have examined the year-end budget report generated by the Omega accounts software, seeking and obtaining appropriate explanations for the few significant variances arising also noting that, overall, income stood at 93% of the planned budget whilst expenditure stood at 61%.

Conclusions and recommendation

Whilst no concerns arise in this area with significant funds held currently, we consider that, as recommended previously and in line with best practice and to ensure the potential development cost of the Council’s contribution to the Town Hall and other future development aspirations, the Council should establish formally each year the amounts to be “set aside” in specific earmarked reserves (EMRs) to fund any such projects: once established, each individual EMR should be identified individually in the Omega accounts.

R3. The Council should consider the establishment of specific individual earmarked reserves for planned projects and / or equipment replacement.

Review of Income

The Council receives income primarily by way of the annual precept, together with burial and associated fees, letting of Council owned properties, plus advertising income in the Town Guide / Website and on planters in the Town, together with that arising from a number of other relatively minor miscellaneous sources.

We have discussed the controls in place over several of these sources with the Finance, HR & Lettings Manager, examining the interments recorded in the burial register, plus memorials, ensuring that all legally required documentation (burial & cremation certificates) is held for each and that the appropriate fees have been levied in accordance with the approved scale of fees and charges and also been recovered within an appropriate time frame.

We have also ensured that income arising from the letting of Council properties has been received appropriately during the year also noting that the monthly rents for each were reviewed and increased during the year.

We have examined income arising from the sale of advertising space in the above mentioned two areas, noting one or two potential anomalies that we have discussed with the Finance, HR & Lettings Manager and have received appropriate explanations.

We have also examined the detailed transaction reports in Omega for each income head ensuring that, as far as we are reasonably able to establish, appropriate entries appear in each and that no significant miscodings have occurred, also ensuring as far as possible that all income due to the Council has been received and accounted for appropriately.

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. We have examined a sample of the year's transactions in July and October 2021 ensuring that for each an appropriate trade invoice or supporting till receipt is held and that, where expended, VAT has been identified for recovery with the quarterly VAT reclaim submissions to HMRC.

We have also verified the physical cash holding on the date of this review visit to the underlying control record.

Conclusions

We are pleased to record that 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 approved a variation in the nationally agreed basic working week, setting it at 35 hours for all staff in 2020: consequently, staff monthly salaries are calculated as the contracted working weekly hours divided by 35 and multiplied by the nationally agreed salary for each employee in accordance with their point on the national spinal column scale.

We note that the Council continues to run its own payroll system, using SAGE and have been provided with detail of staff in post and checked to ensure that staff gross salaries, paid in March 2022, correspond to the Council agreed salary rates for each, noting that all staff pay has been uplifted in line with the revised nationally agreed NJC pay award and spinal points applicable from 1st April 2021. The uplifted salary award was actually applied in advance in September 2021 in accordance with the anticipated 1.75% increase, together with arrears backdated to 1st April 2021: the national pay award was actually only settled and adopted in March 2022.

We have also checked to ensure that tax, NI and pension (where applicable) deductions / contributions in March 2022 from each employee were correctly calculated and are pleased to record that no issues or concerns arise in this respect.

Conclusions

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

Fixed Asset Registers

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 to reflect any changes in asset stock arising from new purchases and / or disposals.

We note that a register is maintained in spreadsheet format, the total value as recorded therein being accurately reported in the year’s AGAR at Section 2, Box 9.

Several of our clients have also developed photographic records of items such as street furniture, etc., which have proven of benefit in the event of damage to Council property be it accidental or wilful in progressing insurance claims or, in more serious situations progressing a potential police enquiry.

Conclusions and recommendation

Whilst no issues or concerns have been identified in this review area, we commend the principle of developing a photographic register of assets to the Council as an area of best working practice.

R4. Consideration should be given to the development of a photographic register of the Council’s assets where they may be at risk of theft or physical damage, be it occurring accidentally or wilfully.

Investments and Loans

As indicated earlier in this report, the Council holds all funds in a single Current Account with HSBC. We have previously expressed concerns that the Council is potentially at risk of loss of a high proportion of these funds were, albeit improbable, the HSBC bank to “fail”. Whilst we also appreciate that the Covid pandemic has had a significant adverse effect on available interest rates, until recently, the Council should make every effort to ensure that the available funds are

made to work for the Council with an appropriate rate of interest return obtained wherever possible. With that in mind, we have drawn the Finance, HR & Lettings Manager's attention to possible sources for placement of surplus funds to achieve a reasonable level of earned interest.

We are pleased to note that the Clerk has complied with the requirements of the revised Statutory Guidance on Local Government Investments (3rd edition) issued under Section 15(1)(a) of the Local Government Act 2003, adopting a formal Policy the content of which we have reviewed and consider appropriate for the Council's present requirements.

The Council has one UK Debt Agency loan in place which is being repaid half-yearly: we have verified the two repayments made in 2021-22 as part of our above expenditure review by reference to the relevant repayment demands. We have also verified the accurate disclosure of the residual year-end loan liability in the AGAR by reference to the UK Debt Agency website where detail of all local government balances as at 31st March 2022 are recorded.

Conclusions and recommendations

As indicated in prior year reports, we consider that the Council should endeavour to diversify the placement of surplus funds to afford a degree of protection should HSBC ever "fail" and to also maximise interest earning potential.

R5. The Council should consider a degree of diversity in the placement of funds in various banking institutions, both to protect against potential loss should HSBC ever "fail", but to also ensure safe interest earning opportunities are maximised.

Statement of Accounts and AGAR

The AGAR now forms the Council's statutory Accounts subject to external audit scrutiny and certification. The appropriate detail for disclosure of financial values in Section 2 of the AGAR is automatically generated each year by the Omega accounting software, together with independently confirmed values for assets and residual loan liability at the financial year-end. We have accordingly ensured the accurate reporting of that detail in the 2021-22 AGAR at Section 2.

Conclusions

We are pleased to record that there are no matters arising in this review area warranting formal comment or recommendation and we have duly signed off the IA Certificate in the year's AGAR, assigning positive assurances in all relevant categories.

Rec No.	Recommendation	Risk level	Response
Review of Accounting Arrangements and Bank Reconciliations			
R1	The councillor agreeing and signing-off the monthly bank reconciliations should also sign-off the month-end cashbook and bank statements confirming their agreement of their detail in the bank reconciliations.	Low	
Assessment and Management of Risk			
R2	The level of Fidelity Guarantee insurance cover should be revised and increased ensuring that the potential maximum cash at bank holding during the year is covered.	Medium	
Budgetary Control & Reserves			
R3	The Council should consider the establishment of specific individual earmarked reserves for planned projects and / or equipment replacement.	Low	
Fixed Asset Registers			
R4	Consideration should be given to the development of a photographic register of the Council's assets where they may be at risk of theft or physical damage, be it occurring accidentally or wilfully	Medium	
Investments and Loans			
R5	The Council should consider a degree of diversity in the placement of funds in various banking institutions, both to protect against potential loss should HSBC ever "fail", but to also ensure safe interest earning opportunities are maximised.	Medium	