

# **Totnes Town Council**

*Internal Audit Report: 2022-23*

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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 2022-23 financial year with work undertaken initially at our offices, together with our on-site visit on 11<sup>th</sup> May 2023 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 the conduct and 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 2022-23 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. Separate cashbooks are also now in place to record transaction on the Charity Bank and Nationwide Building Society with funds transferred to each during the year to diversify the fund holding in the main HSBC account. A separate petty cash account is also in use to record transactions through that medium.

We note that all financial management issues, including checking bank reconciliations, etc. are delegated to the “Council Matters Committee” for detailed scrutiny, with the minutes of that Committee subsequently approved by Full Council. We are pleased to also note that, in accordance with best practice and the requirements of the adopted Financial Regulations (FRs - Para 2.2 refers) independent checks continue to operate over the review of monthly bank reconciliations, with the Clerk also evidencing their review by signing and dating the reconciliations and bank statements. We note that a councillor also reviews and signs-off the documentation periodically during the year, although the bank statements bore no indication of the latter’s review, contrary to the above referenced requirement of the Council’s FRs.

Consequently, we have: -

- Agreed the opening account balances for 2022-23 with those in the 2021-22 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 2022, plus January and March 2023) 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 at Section 2, Box 8.

### *Conclusions and recommendation*

***Whilst no significant concerns exist in this area, we suggest that, in accordance with the adopted FRs, when the nominated councillor checking and signing-off the bank reconciliations, they also sign-off the month’s final bank statement.***

*R1. The councillor periodically agreeing and signing-off the bank reconciliations should also sign-off the month-end bank statements confirming their agreement of their detail in the bank reconciliations in accordance with the adopted Financial Regulations (Para 2.2 refers).*

## 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 again reviewed and re-adopted its SOs and FRs 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. In that respect, we advise the Clerk and Council of a recent revision to those Regulations clarifying the value at which contracts must be published on the Government's Contract Finder website: the value should now be recorded as £30,000 including VAT with the SOs and FRs amended to reflect that value.

We have reviewed the minutes of the Full Council and its Standing Committees for the financial year and to date in 2023-24 as posted on the website 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 and that the Council complied with extant legislation publishing the notice of Public Rights for 30 working days over the appropriate period.

### *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 councillors' examination and approval for payment recorded on the invoices. Our test sample includes 69 individual payments including all those individually in excess of £2,000 plus every 20<sup>th</sup> as recorded in the year's cashbooks and totals £267,350

equating to 61% by value of non-pay related payments during the financial year with all the above criteria appropriately met.

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 Matters Committee formally approved its Risk Management document at the full Council meeting in April 2022 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 and which were further reviewed by the Council Matters Committee in January 2023.

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 suggested last year that, with a year-end balance in excess of £650,000, the level of FG cover was potentially low. 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. However, we acknowledge the financial controls in place and do not, therefore, consider this to be a significant point of concern.

### *Conclusions*

*We are pleased to record that no significant or serious concerns exist in this review area, although, as last year, we suggest that the level of FG cover be kept under 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 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 2023-24 budget and precept adopting the latter at £610,253 at the Full Council meeting in January 2023.

Total reserves at 31<sup>st</sup> March 2023 stand at £614,781 (£705,310 at the prior year-end): we note that the Council has determined not to set aside funds in specific earmarked reserves at the present time.

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 90% of the planned budget whilst expenditure stood at 68%.

### ***Conclusions***

***Whilst no concerns arise in this area with significant funds held currently, largely as a result of the "decision" to not proceed with the Town Hall development and creation of office accommodation therein the council should carefully consider its future budgetary and resultant precept requirements.***

## **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.

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. Due to their low number, we have examined the full year's transactions ensuring that for each transaction 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 uses the SAGE payroll software to generate payslips, etc and have been provided with detail of staff in post and checked to ensure that staff gross salaries, paid in December 2022, correspond to the Council agreed salary rates for each, noting that all staff pay has been uplifted in line with the 2022-23 nationally agreed NJC pay award and spinal points applicable from 1<sup>st</sup> April 2022.

We have also checked to ensure that tax, NI and pension (where applicable) deductions / contributions in December 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 are pleased to note that an appropriate register is maintained in spreadsheet format, with detail of new acquisitions recorded at cost price net of VAT with the total value as recorded therein being accurately reported in the year’s AGAR at Section 2, Box 9 including .

### *Conclusions*

*We are pleased to record that no issues or concerns arise in this area this year.*

## 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”. We are pleased to note that, following our previous recommendation, the Council has now placed a proportion of its surplus funds in two separate banks as recorded in the first section of this report, with improved interest also now being received.

We noted last year that the Clerk had complied with the requirements of the revised Statutory Guidance on Local Government Investments (3<sup>rd</sup> edition) issued under Section 15(1)(a) of the Local Government Act 2003, adopting an appropriate formal Policy. We note that this has been reviewed and re-adopted in May 2022 and consider that the content remains appropriate for the Council’s present requirements.

The Council had one UK Debt Management Agency loan in place which was being repaid half-yearly: we note that the loan has been repaid in full during the course of 2022-23 with a residual NIL balance reported at Box 10 of the year’s AGAR. We have verified the first instalment repayment and the final settlement payment to the UK Debt Management Agency during the year as part of our aforementioned expenditure testing.

### *Conclusions*

*We are pleased to record that no residual issues remain in this area this year warranting formal comment or recommendation.*

## 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 any residual loan liability at the financial year-



end. We have accordingly ensured the accurate reporting of all detail in the 2022-23 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
<b>Review of Accounting Arrangements and Bank Reconciliations</b>			
R1	The councillor periodically agreeing and signing-off the bank reconciliations should also sign-off the month-end bank statements confirming their agreement of their detail in the bank reconciliations in accordance with the adopted Financial Regulations (Para 2.2 refers).	Medium	