

Teignmouth Town Council

Internal Audit Report: First interim 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 Annual Governance and Accountability Return (AGAR).

This report sets out the work undertaken in relation to the 2022-23 financial year, during our first interim review, which took place both remotely at our offices and during our onsite visit on 25th October 2022. We thank the Clerk and his staff in assisting the process, providing all requested documentation to facilitate the conduct of this first review for the year in either hard copy or electronic format.

Internal Audit Approach

In commencing our review, we have again had regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts / AGAR. Our programme of cover, as applied to all clients, is designed to afford appropriate assurance that the Council's financial systems are robust and operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'IA Certificate' in the Council's AGAR, which requires independent assurance over a selection of internal control objectives.

We have also reviewed progress on implementation of our previous report recommendations and are pleased to acknowledge the progress being made to address them. As previously, we ask that the report be presented to members with responses / detail of action taken to the recommendations duly advised to us in advance of our final review.

We will update this report following our future review visits, the dates of which have yet to be agreed, although the next is currently anticipated to take place in February 2023.

Overall Conclusion

We note that action is being taken to steadily improve controls as detailed in the following report and will continue to monitor progress at future review visits. In order that certain issues are not overlooked, we have reiterated detail, with resultant recommendations in the body of this report with those recommendations further summarised in the appended Action Plan for ease of officers' and members' reference.

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 the cashbooks and financial ledgers maintained in-house by the Locum Responsible Financial Officer (RFO). The Council uses the Rialtas Omega accounting software to maintain its financial records with three bank accounts in use at Barclays, the Current and Business Savings Accounts being combined in a single Omega cash book, whilst a further account is operated in a separate cashbook. We noted previously that, following our recommendation, a significant balance (£0.5 million) was transferred to the CCLA Deposit Fund with transactions duly recorded in a further Omega cashbook.

To assess the adequacy, accuracy and appropriateness of transactions to date in 2022-23, we have:

- Ensured the accurate carry forward of the prior year closing balances, as reported in the year's AGAR, as opening balances in the accounting software for 2022-23;
- Ensured that an appropriate coding structure remains in place to facilitate reporting of budgetary performance throughout the year;
- Ensured that the Omega ledgers remain in balance as at 30th September 2022;
- Verified the combined Current and Business Savings Account transactions in the cashbook for April and September 2022 by reference to supporting bank statements, also verifying detail of inter-account transfers between the two accounts for those months;
- Noted that interest is received monthly on the CCLA account and is automatically paid into the Barclays account leaving the deposited balance in the cashbook unaltered to date this year: we have confirmed detail of the interest earned to date in 2022-23 to the CCLA supporting statements;
- Noted that no transactions have occurred on the third Barclays account for the year to date; and
- Verified the accuracy of bank reconciliations on all accounts as of 30th April and September 2022.

Conclusions and recommendations

We are pleased to note that bank reconciliations are prepared routinely at each month-end, although they have not, contrary to the requirements of the adopted Financial Regulations (FRs - Para 2.2 refers), been subjected to routine scrutiny and sign-off by a non-signatory: neither have the bank statements been signed-off as is also required by the FRs.

In examining the bank reconciliations, we noted two recorded "adjustments to the reconciliation" of £0.02 and £0.80. Given the low volume of these "balancing" transactions, we suggest that they be cleared with appropriate adjusting entries in the cashbook.

We will, at our future reviews, check two further months' transactions, including those for March 2023, together with relevant bank reconciliation detail on each account, also ensuring the accurate disclosure of the combined cash and bank balances in the Accounts and AGAR at Section 2, Box 8 at our final review visit.

- R1. *In accordance with the requirements of the adopted Financial Regulations (Para 2,2 refers), bank reconciliations should be subjected to at least quarterly scrutiny and sign-off by a non-cheque signing councillor.*
- R2. *Similarly, the supporting bank statements should be signed-off / initialled, together with the cashbooks' final pages as evidence of completion of the review and agreement of the statements and closing cashbook balance to that on the reconciliation.*
- R3. *The two "balancing" entries in the reconciliation as at 30th September 2022 should be cleared with appropriate entries in the cashbook.*

Review of Corporate Governance

Our objective here is to ensure that the Council has a robust regulatory framework 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, given that we do not attend meetings, no actions of a potentially unlawful nature have been or are being considered for implementation. We also aim to ensure that appropriate policies, procedures and protocols are in place to prevent and provide a reasonable assurance of the detection of any fraudulent or corrupt activity.

We have commenced our review of the Council's minutes examining those to date in 2022-23 to establish whether or not any issues exist that may have an adverse effect, through litigation or other causes, on the Council's future financial stability and are pleased to record that no such concerns appear to exist currently.

We have recorded previously that the Council's SOs and FRs were reviewed and re-adopted in May 2020 to reflect the necessary changes in Council working arrangements in the light of the Covid situation, both also now being in line with the latest published NALC model documents: we suggest that, in line with best practice, they should be subjected as a minimum to alternate year scrutiny and formal re-adoption.

We note that the external auditors have completed their review of the 2021-22 AGAR signing it off with no significant adverse comments reported.

Conclusions and recommendation

We are pleased to record that no issues of concern arise in this review area currently, although, as above, we suggest that SOs and FRs are reviewed and formally re-adopted every other year: we shall continue to monitor the Council's approach to governance issues at future reviews, also reviewing future meeting minutes.

- R4. *The Council's Standing Orders and Financial Regulations should, as a minimum and in line with best practice, be subjected to review every other year to ensure that remain appropriate to the Council's requirements any changes in legislation.*

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; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have again reviewed the procedures in place for the approval of payments and their release with the Locum RFO and are pleased to record that we consider them generally appropriate for purpose with a schedule of monthly payments for release generated through the Omega cashbook suite of programmes. This, together with scanned copies of the purchase invoices are then issued by email to a reviewing councillor who acknowledges and approves payment by email. We consider that a slightly more formalised approach should be taken with a hard copy of the payment schedule produced and annotated with a statement confirming review and agreement of the invoices for payment, which should be duly signed-off and dated. Hard copies of these signed documents should be retained on file for audit inspection.

In order to confirm the effectiveness of the control and governance arrangements over payments, we have selected a sample of individual payments processed for the year to 30th September 2022. As in prior years, our test sample includes all individual payments in excess of £2,500 plus a more random sample of every 40th payment listed in the cashbook in the year to the above date. The test sample includes 40 individual payments and totals £176,000 equating to 63% by value of non-pay related expenditure in the financial year to date with all the above criteria duly met.

Conclusions and recommendation

Whilst we have no significant concerns with the controls in place over the approval and release of funds, we consider that improved evidencing of the process should be implemented as indicated above with hard copy documentation retained on file confirming members scrutiny and approval of invoices for release.

R5. The evidencing of purchase invoice scrutiny and approval for payment should be improved, ideally with the Omega generated schedule of payments for release annotated with an appropriately worded and signed / dated certificate confirming satisfactory scrutiny and agreement of individual invoices to the schedule and their approval for release: the certified copy should be retained in hard copy format for audit scrutiny.

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 noted in our final report for 2021-22 that the Council reviewed and re-adopted the formal risk register at its meeting in January 2022 and considered the document appropriate for the Council's present requirements. We take this opportunity to remind the Clerk and members of the Governance and Accountability Manual – "The Practitioner's Guide" requirement that risk assessments are reviewed and formally re-adopted at least once annually and will check for appropriate action at a future visit.

We have examined the Council's 2022-23 insurance policy schedule, noting that Employer's and Public Liability cover in place at £10 million and £15 million respectively, together with Fidelity Guarantee (FG) cover at £500,000 and Business Interruption – Loss of Revenue at £225,000, all of which we consider appropriate for the Council's present requirements.

Conclusions

We are pleased to report that no issues arise in this area currently: we will continue to monitor the Council's approach to risk management at future visits also ensuring compliance with the requirements of the Practitioner's Guide.

Precept Determination and Budgetary Control

We aim in this area to ensure that the Council has sound procedures in place for determining its annual budgetary and precept requirements, together with appropriate monitoring procedures to highlight any potential overspending or other significant variance as soon as it may become apparent.

This review took place in advance of any formal consideration and approval of the Council's budgetary and precept requirements for 2023-24: consequently, we shall review the outcome of Council's deliberations at our next review visit.

We note that progress is being made on the amendments to budgets for 2022-23 with retrospective amendments to the recording of expenditure in various areas to more appropriate nominal codes for 2021-22 to afford a meaningful comparison of spending between the two years. Consequently, we have not undertaken any detailed work in this area at this review visit but will do so at our next review, when, hopefully, all the necessary adjustments will have been actioned.

Conclusions

In line with the above, no work has been undertaken in this area as yet for 2022-23 but will be built into our programme of cover for the next review visit.

Review of Income

The Council receives income primarily by way of the annual precept, together with office rentals & room hire fees at Bitton House, toilet income collected on behalf of the Council and paid over as a standard contract sum each month, CIL moneys, grants, donations and VAT reclaims.

We have examined the Rialtas records controlling the hire of rooms at Bitton House in July 2022 by reference to the booking software ensuring that appropriately priced invoices have been raised and that they have been settled in a timely manner with no issues arising in that respect.

We have also examined the status of unpaid debts as at 30th September 2022 by reference to the "Sales Ledger – Unpaid invoices by date" report noting a number of uncleared debts dating back as far as January 2021: the report also reflects a number of "unmatched receipts". We have provided the Locum RFO with a copy of the report noting that she was aware of the position and is planning to actively pursue all long-standing debts and to also ensure that appropriate invoices are raised to cover the unmatched receipts. Consequently, no issues arise in this area currently, other than a

general recommendation to the effect that, in future, a more routine approach should be taken to the pursuance of long-standing debts, we shall revisit this area at our next review visit.

Conclusions and recommendations

As above, we consider a system of regular and routine follow up of all outstanding debts should be implemented. We will undertake further work in this area at our next review visit.

R6. *Action should be taken to actively pursue all longstanding debts with a routine system for their pursuance being implemented going forward. The existing “unmatched” receipts should be examined with appropriate corrective action take to clear them from the Sales Ledger unpaid invoices schedule.*

Petty Cash Account

The Council does not operate a petty cash account.

Review of Staff Salaries

In examining the Council’s payroll function, we aim to confirm that salaries are paid in line with the Council approved pay rates and that extant legislation is being appropriately observed as regards adherence to the requirements of HMRC legislation in relation to the deduction and payment over of income tax and NI contributions.

We have been provided with detail of the staff in post, together with their spinal point on the National NJC scale and contracted basic weekly working hours. Consequently, we have checked to ensure that all staff monthly gross salaries paid in October 2022 correspond to the Council agreed salary rates for each with no issues arising. We have also ensured that the tax, NI and pension contributions have been deducted at the appropriate percentages.

The Council continues to use the services of Teignbridge District Council (TDC) to prepare the monthly payroll and physically pay staff their salaries, together with payments to HMRC and the Pension Fund Administrators, recharging the Council each month with the total gross cost to the Council with a standing order of £11,000 and the balance invoiced separately by TDC. TDC have again provided us with detail of each staff member’s Tax Code to facilitate our verification of the tax deductions applied in the October 2022 payroll.

We note that the Clerk is considering use of an alternative payroll provider following a number of recent difficulties and have made one or two suggestions for possible suppliers.

Conclusions and recommendation

As previously, we still consider that, as the employer of the staff, the Council should be provided routinely with copies of payslips and all other relevant documentation supporting the payments made to staff, HMRC and the Pension Fund Administrators, as without that documentation, the Council cannot effectively verify the amounts paid to TDC each month.

R7. *As the employer of staff and in order that the Council may effectively verify the charges made by TDC for staff pay, tax, NI and pension contributions, appropriate supporting documentation should be provided routinely to the Town Council.*

Investments and Loans

We are pleased to note that an updated Investment Strategy document has been drafted and will be presented to a Finance Committee meeting in the near future for formal consideration and adoption. Once adopted, we will review the finished document and assess its appropriateness for the Council's ongoing requirements reporting our conclusions accordingly.

The Council has no loans in place either repayable by itself or to it from external bodies: consequently, zero values will again be required to be recorded in the relevant boxes of Section 2 of the year's AGAR.

Conclusions

We are pleased to record that no issues arise in this area currently.

Rec. No	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	In accordance with the requirements of the adopted Financial Regulations (Para 2,2 refers), bank reconciliations should be subjected to at least quarterly scrutiny and sign-off by a non-cheque signing councillor.	
R2	Similarly, the supporting bank statements should be signed-off / initialled, together with the cashbooks' final pages as evidence of completion of the review and agreement of the statements and closing cashbook balance to that on the reconciliation.	
R3	The two "balancing" entries in the reconciliation as at 30 th September 2022 should be cleared with appropriate entries in the cashbook.	
Review of Corporate Governance		
R4	The Council's Standing Orders and Financial Regulations should, as a minimum and in line with best practice, be subjected to review every other year to ensure that remain appropriate to the Council's requirements any changes in legislation.	
Review of Expenditure		
R5	The evidencing of purchase invoice scrutiny and approval for payment should be improved, ideally with the Omega generated schedule of payments for release annotated with an appropriately worded and signed / dated certificate confirming satisfactory scrutiny and agreement of individual invoices to the schedule and their approval for release: the certified copy should be retained in hard copy format for audit scrutiny.	
Review of Income		
R6	Action should be taken to actively pursue all longstanding debts with a routine system for their pursuance being implemented going forward. The existing "unmatched" receipts should be examined with appropriate corrective action take to clear them from the Sales Ledger unpaid invoices schedule.	
Review of Staff Salaries		
R7	As the employer of staff and in order that the Council may effectively verify the charges made by TDC for staff pay, tax, NI and pension contributions, appropriate supporting documentation should be provided routinely to the Town Council.	