

# **Teignmouth Town Council**

*Internal Audit Report: Interim update 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 two interim reviews, which took place both remotely at our offices and during our onsite visits on 25<sup>th</sup> October 2022 and 22<sup>nd</sup> February 2023. We thank the Clerk and his staff in assisting the process, providing all requested documentation to facilitate the conduct of this year's review in either hard copy or electronic format.

## **Internal Audit Approach**

In conducting 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 previous report recommendations and are pleased to acknowledge the progress being made to address them, although certain areas still remain to be fully and finally addressed: we have reflected the current status of action on those in the following detailed report with the resultant recommendations recorded as "live" items in order that they are not overlooked. 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 due course and in advance of our final review.

We will update this report following our final review, which we intend to undertake remotely as only two further month's transactions will require examination, together with the review of a few other governance and financial areas such as the year's updated asset register.

## **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.

# 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, although no transactions, other than two mis-postings and their correction, have occurred on that account in the year to date. We noted previously that, following our recommendation, a significant balance (£0.5 million) was transferred to a CCLA Deposit Fund with transactions duly recorded in a further Omega cashbook: the monthly interest on that account is paid directly into the current account with the result that no movement appears on the CCLA Omega account detail in the year to date.

We note the actions being taken to move the Council's main banking arrangements to the Unity Bank, which it is intended will become functional from 1<sup>st</sup> April 2023.

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 that 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 31<sup>st</sup> January 2023;
- Verified the combined Current and Business Savings Account transactions in the cashbook for April and September 2022 and January 2023 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; and
- Verified the accuracy of bank reconciliations on all accounts as of 30<sup>th</sup> April and September 2022, plus 31<sup>st</sup> January 2023.

### **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 councillor: neither have the bank statements been signed-off as is also required by the FRs. We understand that appropriate action will be taken in 2023-24 once the Unity Bank account(s) is / are in use and will review the process as part of our 2023-24 first interim review. We do, however, suggest that once in operation, either hard or scanned and electronically saved copies of the signed documents are retained for audit inspection.*

*In examining the bank reconciliations at our first review visit, we noted two recorded "adjustments to the reconciliation" of £0.02 and £0.80. Given the low value of these "balancing" transactions, we suggested that they be cleared with appropriate adjusting entries in the*

*cashbook: we note that the suggested adjustments remain to be actioned and urge that the entries are amended prior to the financial year-end closedown.*

*We will, at our final review, check March 2023 transactions, 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.*

- 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 still apparent on the reconciliation at 31<sup>st</sup> January 2023 should be cleared appropriately prior to the financial year-end closedown of the accounts.*

## **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 continued 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 are pleased to note that the Council's SOs and FRs have been reviewed and re-adopted in February 2023, the latter with a 10% uplift in financial values also taking account of the recent clarification on the value for tender action in relation to the Public Contracts Regulations which require publication of contracts in excess of £30,000 (including VAT).

We note that the external auditors have completed their review of the 2021-22 AGAR signing it off with no significant adverse comments reported affecting certification of the 2022-23 AGAR Governance Statement.

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

*We are pleased to record that no residual issues of concern arise in this review area currently following review and re-adoption of both SOs and FRs in February 2023. 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. **Appropriate action has been taken to review, update and re-adopt both documents.***

## **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.

At our first visit for the year, we reviewed the procedures in place for the approval of payments and their release with the 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 either a hard or electronic copy of the payment schedule produced and signed by two councillors ideally with a statement confirming review and agreement of the invoices listed on the schedule as due for payment.

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 31<sup>st</sup> January 2023. As in prior years, our test sample includes all individual payments in excess of £2,500 plus a more random sample of every 40<sup>th</sup> payment listed in the cashbook in the year to the above date. The test sample includes 62 individual payments and totals £247,000 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 suggested in our first report for the year that improved evidencing of the process should be implemented as indicated above with signed (by members) hard or electronic copy documentation retained on file confirming members scrutiny and approval of invoices for release. We also understand that improved recording of members review will be implemented following the move to Unity Bank with two members having to go "on-line" to physically release the payments. We will check on progress in this respect at our first review for 2023-24.***

***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 requirements. We note that the document has, as yet, not been subjected to further review and formal re-adoption and 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: we will, consequently, check for appropriate action at our final review.

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 and recommendation*

*We are pleased to report that no issues arise in this area currently other than to remind officers and members of the requirement for the risk registers to be reviewed and updated at least once annually to ensure compliance with the requirements of the Practitioner's Guide.*

*R6. The Council should undertake a review and formally re-adopt the financial risk register / assessment prior to 31<sup>st</sup> March 2023.*

## 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.

We are pleased to note that the budget and precept for 2023-24 were formally approved, adopted and minuted as such at the December 2022 full Council meeting, the latter being set at £870,803.

We are again pleased to note that members continue to be provided with periodic financial performance reports during the year based on the Omega accounting software and have reviewed the position as at 31<sup>st</sup> January 2023 with no significant or unexplained / un-anticipated variances existing. We also note that, at that date, income stood at 97% of the year's approved budget whilst expenditure stood at 55%.

### *Conclusions*

*We are pleased to record that no issues arise in this area currently: we will undertake further work at our final review, examining the year-end budget outturn and assessing the ongoing appropriateness of retained reserves to finance the Council's ongoing commitments and development aspirations.*

## 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 again examined the status of unpaid debts as at 31<sup>st</sup> January 2023 by reference to the “Sales Ledger – Unpaid invoices by date” report noting that a number of uncleared debts dating back as far as January 2021 remain on the accounts: the report also reflects a number of “unmatched receipts”. We have provided the Town Clerk with a copy of the report and understand that the RFO is aware of the position and is in the process of pursuing the long-standing debts and unmatched receipts. Consequently, no issues arise in this area currently, other than reminding the Town Clerk and RFO that, in future, a more routine approach should be taken to the pursuance of long-standing debts, we shall re-examine the position at our final review.

### *Conclusions and recommendations*

***As above, we consider a system of regular and routine follow up of all outstanding debts should be implemented. We will recheck progress in pursuing the above mentioned (and attached) outstanding debts at our final review.***

*R7. Urgent action should be taken to actively pursue all longstanding debts with a routine system for their follow-up 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. At our first visit, we checked to ensure that all staff monthly gross salaries paid in October 2022 corresponded 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 rates.

The nationally agreed pay award for 2022-23 was implemented with the November 2022 salaries including arrears due from 1<sup>st</sup> April 2022. We have, consequently, checked the December 2022 payroll ensuring that the pay award has been accurately applied (due to the incidence of monthly

overtime for a number of employees we have been unable to readily verify the gross salaries paid in November 2022 to certain staff).

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 or accurately verify the amounts paid to TDC each month.***

*R8. 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 prepared and approved for adoption and have reviewed the resultant document which we consider appropriate for the Council's ongoing requirements.

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
<b>Review of Accounting Arrangements and Bank Reconciliations</b>		
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 still apparent on the reconciliation at 31 <sup>st</sup> January 2023 should be cleared appropriately prior to the financial year-end closedown of the accounts.	
<b>Review of Corporate Governance</b>		
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.	<i>Appropriate action has been taken to review, update and re-adopt both documents.</i>
<b>Review of Expenditure</b>		
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.	
<b>Assessment and Management of Risk</b>		
R6	The Council should undertake a review and formally re-adopt the financial risk register / assessment prior to 31 <sup>st</sup> March 2023.	
<b>Review of Income</b>		
R7	Urgent action should be taken to actively pursue all longstanding debts with a routine system for their follow-up 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.	
<b>Review of Staff Salaries</b>		
R8	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.	