

# **Teignmouth Town Council**

*Internal Audit Report: Final 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, together with our final remote review undertaken on 29<sup>th</sup> April 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 the position 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. 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 next review visit.

## **Overall Conclusion**

We are pleased to note the action being taken to steadily improve controls as detailed in the following report and will continue to monitor progress at future review visits.

Based on the improved position and controls implemented in 2022-23, compared with the previous year, we have duly signed of the IA Certificate in the year's AGAR assigning positive assurances in each relevant area.

We take this opportunity to remind the Clerk of the requirements of the disclosure requirements of the Accounts and Audit Regulations 2015, as also set out in the preface to the AGAR in relation to the documentation that should be displayed on the Council's website, together with the need to ensure compliance with the timing requirements for publication of the Notice of Public Rights to examine the Council's documentation for the financial year.

# 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 only a minimal amount of interest £0.03 has occurred on this account during the year.

We have noted previously that, following our previous recommendation, a significant balance (£0.5 million) was transferred to a CCLA Deposit Fund with transactions duly recorded in a further Omega cashbook.

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 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 at the financial year-end;
- Verified the combined Current and Business Savings Account transactions in the cashbook for April and September 2022, plus January and March 2023 by reference to supporting bank statements, also verifying detail of inter-account transfers between the two accounts for those months;
- Noted that interest received monthly on the CCLA account is automatically paid into the Barclays account leaving the deposited balance in the cashbook unaltered throughout the year: we have confirmed detail of the interest earned in 2022-23 to the CCLA supporting statements;
- Verified the accuracy of bank reconciliations on all accounts at 30<sup>th</sup> April and September 2022, plus 31<sup>st</sup> January and March 2023; and
- Ensured the accurate recording of the combined account balances in the year's AGAR at Section 2, Box 8.

### *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 during the year: neither have the bank statements been signed-off, as is also required by the adopted 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 for the year, 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 still remain to be actioned at the financial year-end and urge that they be cleared as soon as possible.*

*In examining the March 2023 cashbooks and bank statements we noted that 11 transactions appearing on the March bank statements were actually recorded in the February cashbook as processed on 1<sup>st</sup> March 2023. Care should be taken to ensure that all transactions are recorded in the cashbook in the right month and on the appropriate date: online payments, etc should be recorded in the appropriate month’s cashbook and on the date the transaction is actually recorded on the bank statement.*

- 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.*
- R4. Online payments should be recorded in the cashbook in the appropriate month and on the date the transaction appears on the bank statements.*

## **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 for 2022-23 and to date in 2023-24, as posted on the Council’s website, 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 now stipulates the need to publicise contracts in excess of £30,000 (including VAT).

We note that the external auditors 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. We are also pleased to note that the Notice of Public Rights to examine the Council’s 2022-23 financial records was appropriately published for the legally required 30 working days.

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

***We are pleased to record that no residual issues of concern arise in this review area 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.***

***R5. 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 their payment by email. However, 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 and approved for payment.

In order to confirm the effectiveness of the control and governance arrangements over payments, we have selected a sample of payments processed for the financial year. 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 75 individual payments and totals £290,515 equating to 60% by value of non-pay related expenditure in the financial year 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.*

*R6. 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 are pleased to note that the risk register has been reviewed and re-adopted at the full Council meeting held in March 2023. We have reviewed the resultant document and consider that it remains appropriate for the Council’s present requirements.

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 residual issues arise in this area re risk register having been reviewed and re-adopted prior to the financial year-end.*

*R7. The Council should undertake a review and formally re-adopt the financial risk register / assessment prior to 31<sup>st</sup> March 2023. The risk register was reviewed and re-adopted at the Council meeting on 14<sup>th</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 also 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> March 2023 with no significant or unexplained / un-anticipated variances existing. At the financial year-end, income stood at 102% of the year’s approved budget whilst expenditure stood at 90%.

## **Conclusions**

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

## **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> March 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 still 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 significant issues arise in this area, although we remind officers that, in future, a more routine and rigorous approach should be taken to the pursuance of long-standing debts, we shall re-examine the position at our first interim review for 2023-24 and hope to see a significant improvement in the position as it stands currently.

### **Conclusions and recommendation**

*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 2023-24 first interim review and trust that positive progress will have been made to recover all long overdue amounts.*

*R8. 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 staff 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 for the year, we

checked to ensure that all staff monthly gross salaries, as paid in October 2022, corresponded to the Council agreed salary rates for each with no issues arising. We also ensured that the tax, NI and pension contributions had 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.***

*R9. 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.*

## **Fixed Asset Registers and Inventories**

The Practitioner's Guide requires councils to maintain a formal register of their assets with the nominal (i.e., purchase costs net of VAT) reported in the year's AGAR. This value should only be amended year-on-year to reflect the purchase cost of any new acquisitions or, again at nominal value, the reduction in value following disposal of any assets.

We noted last year that the Council had purchased the RBS asset management software, which was duly implemented with the asset cost price now automatically fed into the Omega AGAR detail, which value is entered on the year's AGAR at Section 2, Box 9.

We also note that the register records detail of a plethora of low value purchases during the year, many with a value of less than £50. Whilst the maintenance of an inventory for such items is commendable, normal practice is for councils to determine a formal value below which new acquisitions are regarded as inventory items rather than "fixed assets" with those recorded separately and omitted from the AGAR asset value.



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

***As indicated above, consideration should be given to determining a formal value, of say £500, at which assets are recorded in the asset register and the AGAR at Section 2 Box 9. Items valued below that should, ideally, be recorded in a separate inventory record.***

*R10. Consideration should be given to establishing a formal value above which new and existing acquisitions are regarded as “fixed assets”, with those below that value recorded in a separate “inventory” register.*

## **Investments and Loans**

We noted last year that an updated Investment Strategy document had been prepared and adopted: we considered the resultant document 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 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.***

## **Statement of Accounts and AGAR**

The AGAR now serves as the Council’s statutory Accounts subject to external audit review and certification. The Omega accounting system in use automatically generates a Balance Sheet, Income and Expenditure Account and detail for inclusion at Section 2 of the year’s AGAR. We have, consequently verified the detail to be disclosed in Section 2 of the AGAR for the year.

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

***Consequent on the conclusion of our programme of work 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 of the need to ensure that all required disclosures, as set out in the preface to the year’s AGAR, are posted on the Council’s website, including the Notice of Public Rights to examine the Council’s financial records, also ensuring that the timing requirements are also observed appropriately.***

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.	
R4	Online payments should be recorded in the cashbook in the appropriate month and on the date the transaction appears on the bank statements.	
<b>Review of Corporate Governance</b>		
R5	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>		
R6	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>		
R7	The Council should undertake a review and formally re-adopt the financial risk register / assessment prior to 31 <sup>st</sup> March 2023.	<i>The risk register was reviewed and re-adopted at the Council meeting on 14<sup>th</sup> March 2023.</i>
<b>Review of Income</b>		
R8	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.	

Rec. No	Recommendation	Response
<b>Review of Staff Salaries</b>		
R9	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.	
<b>Fixed Asset Registers and Inventories</b>		
R10	Consideration should be given to establishing a formal value above which new and existing acquisitions are regarded as “fixed assets”, with those below that value recorded in a separate “inventory” register.	