

Ivybridge Town Council

Internal Audit Report: Final update 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 Annual Governance and Accountability Return (AGAR).

This report sets out the work undertaken in relation to our three review visits for 2021-22, which were undertaken on site on 21st October 2021, 10th February and 27th May 2022, together with preliminary work undertaken at our offices in advance of each visit. We thank the Council's staff for assisting the process, providing all necessary documentation in either hard copy or electronic format to facilitate completion of our review for the year.

Internal Audit Approach

In undertaking our review and in accordance with the requirements of the IA Certificate in the AGAR and the latest edition of the JPAG Practitioner's Guide we have again paid due regard to the materiality of transactions and their susceptibility to potential misrepresentation in the Accounts / AGAR, together with examining the overall governance framework. Our aim is to ensure that the Council continues to operate robust control systems and that transactions are, as far as we are reasonably able to ascertain, processed in accordance with national and locally approved legislation.

Overall Conclusion

We again wish to commend both the Senior Finance Officer (SFO) and Finance Officer (FO) on the way their financial records are maintained, with clear evidence of independent review by Councillors. Consequently, we are pleased to again report that we have no recommendations to make this year.

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 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 in due course.

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 prepared and maintained in house by the SFO & FO. The Rialtas Omega accounting software continues in use to record detail of financial transactions on the three bank accounts in place with Lloyds, for which separate cashbooks are maintained (Current, Erme Projects and Allotments Accounts). Further cashbooks are also in use to control Watermark cash, cardnet and online sales.

To assess the adequacy, accuracy and appropriateness of transactions in 2021-22, we have:

- Agreed the opening Trial Balance in Omega for 2021-22 to the 2020-21 closing Omega Trial Balance for the year and certified AGAR;
- Ensured that the accounts remain “in balance” at the financial year-end;
- Agreed Current Account transactions for four months (April, September and December 2021, plus March 2022) by reference to supporting bank statements;
- Verified the limited transactions in the year on the other bank accounts;
- Checked the accuracy of the month-end bank reconciliations on the Current Account as at 30th April and September, plus 31st December 2021 and 31st March 2022 with no issues arising; and
- Ensured the accurate disclosure of the combined cash and bank balances in the year’s AGAR at Section 2, Box 8.

Conclusions

We are pleased to note that bank reconciliations continue to be scrutinised and signed off by a councillor each month and are, consequently, again pleased to record that no issues arise in this area this year.

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 as 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 and Committee minutes (excluding those relating to planning issues) examining those for the financial year and to date in 2022-23 as posted on the Council’s website, to determine 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 have been identified.

We noted last year that the Council reviewed and adopted revised Standing Orders (SOs) in 2020-21 also now noting that it has recently (September 2021) reviewed and adopted further revised Financial Regulations (FRs): both SOs & FRs are based on the latest NALC models.

We are pleased to note that the 2020-21 AGAR has been signed-off by the external auditors without comment or any issues raised: we also note that the Council has, as required by the 2015 Account and Audit Regulations, published an appropriate formal “Notice of Public Rights” to examine the Council’s records for 2020-21.

Conclusions

No issues arise in this area at present warranting formal comment or recommendation. We shall continue to monitor the Council’s governance arrangements during future reviews.

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;
- The correct expense codes have been applied to invoices when processed; and
- VAT has been appropriately identified and coded to the control account for monthly recovery or repayment.

We are pleased to record that sound internal controls continue to be operated in in this area, with members examining and initialling each payment slip attached to the invoices and the invoices themselves. Detailed scrutiny in this area is also effectively managed by the Policy and Resources Committee on behalf of the Council.

We have, as in previous years, selected a sample of transactions in the year including those in excess of £2,500 plus every 35th as recorded in the Omega cashbook with no anomalies found. Our test sample includes 55 individual payments including 6 NNDR invoices from South Hams DC paid over 10 months of the year. The test sample totals £198,280 equating to 48% by value of non-pay related payments in the year.

We note that VAT payments continue to be prepared and submitted to HMRC monthly and have reviewed and agreed the detail to the underlying Omega control account.

Conclusions

We are pleased to record that no issues have been identified 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 risk register is subject to routine annual review and adoption, initially by the Policy and Resources Committee (P&RC) and then by full Council, the last formal review occurring in March 2022.

We note that the Council is insured with WPS and have reviewed the current policy documents, noting that Employer's and Public Liability cover stand at £10 million and £15 million respectively, together with Fidelity Guarantee cover of £785,000 and Business Interruption – "Loss of Revenue" cover in place at £600,000 all of which we consider appropriate for the Council's present requirements.

Conclusions

No issues have arisen in this area this year warranting formal comment or recommendation: we shall continue to monitor the Council's approach to risk management at future visits.

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 sound monitoring procedures to highlight any potential overspending as soon as it may become apparent.

We are pleased to note that members continue to be provided with budget performance reports during the year and have reviewed the year-end outturn, as set out in the Omega accounts, seeking and obtaining appropriate explanations for the few areas where any significant variances exist by reference to the underlying Omega detailed transaction reports.

We are pleased to note that, after due deliberation, the Council agreed its budget for 2022-23, setting the Precept at £530,215.

We have reviewed the level of retained reserves as at 31st March 2022, noting that they stand at £676,347 (£627,631 as at 31st March 2021), comprising Earmarked reserves (EMRs) of £316,803 (£271,650 at the prior year-end) leaving a General Reserve balance of £359,545 (£355,981 as at 31st March 2021): this equates to approximately five months' revenue spending at the 2021-22 level and is considered appropriate for the Council's ongoing revenue spending requirements.

Conclusions

We are again pleased to record that there are no issues arising in this area of our review warranting formal comment or recommendation, although we suggest that consideration be given to the identification of the individual EMRs with separate codes allocated to each in Omega.

Review of Income

The Council receives income by way of the annual Precept, together with a wide variety of income from rents, fees and charges generated at the Watermark and other sources such as the cemetery.

At our first visit for 2021-22 we examined the burial registers for the two cemeteries managed by the Council noting that 13 interments had occurred to that date in the financial year: we examined the comprehensive file of retained documentation kept by the SFO checking to ensure that the

legally required burial /cremation certificates were held for each and that appropriate invoices had been raised with fees levied in accordance with the approved scales of fees and charges for the year. We were pleased to record that no issues have arisen in this area.

We also examined the spreadsheet register of office tenants at the Watermark, selecting a sample of 5 tenants' records for further examination to ensure that the tenancy agreements in place were current, in accordance with the terms of each lease, and that appropriately priced invoices were being raised and paid routinely and were pleased to record that no issues were identified.

We visited the Watermark at our interim update visit and discussed the operative controls over various aspects of the venue's financial management with the Town Clerk. Specifically, we selected a sample of bookings in the week commencing 8th November 2021 at both the Watermark and Town Hall obtaining detail from the Rialtas Bookings software and checking to ensure that all hirers were invoiced in a timely manner and in accordance with the approved fees and charges. We also checked to ensure that the invoices have been settled noting that one, in relation to Devon CC remained unpaid as at 31st January 2022: this has now been paid.

Whilst noting that the Town Hall schedule of fees and charges is posted on the Council's website, we noted that the Watermark's detail is not posted and suggest that this is addressed accordingly: we understood that the Watermark Manager was intending to upgrade the dedicated website and will include such detail: this does not appear to have been completed at the time of this final review and we will, consequently, revisit this area at our first 2022-23 review visit.

We note that cash floats in respect of the "sales desk", bar and cafeteria are in existence with £100 in place for each: due to the timing of our review, the floats for the cafeteria and "sales desk" were in active use: consequently, we only checked and agreed that for the bar which was held in the Watermark office safe.

We note and have briefly examined the quarterly stock takes of the bar and catering stocks undertaken by an external agent on behalf of the Council with no obvious concerns or issues identified with regard to their profitability.

We have also examined the "Sales Ledger – Unpaid invoices by date" report at the year-end and are pleased to note that only one account older than 3 months at the year-end remained unpaid.

Conclusions

We are pleased to record that no issues arise in this area currently warranting formal comment: we shall undertake further work on the Council's income streams at our 2022-23 first interim review.

Petty Cash Account

We are required, as part of the AGAR reporting process, to review and verify the soundness of controls over the operation of councils' petty cash accounts. Two separate petty cash accounts are in existence, one in the Council's office (for £100) and the other at the Watermark Centre (for £250, plus a further £350 at the latter in change floats).

Additionally, two Lloyds Bank Business Charge Cards are in use, one in the Council's office (for £500) and the other at the Watermark Centre (for £1,500).

We have examined a sample of four months' transactions on the Town Hall petty cash account at our first visit (mid-June to mid-September 2021) ensuring that each payment was supported by an appropriate trade invoice / till receipt and that, where appropriate, any VAT expended has been identified and coded for recovery from HMRC with no issues arising. We have, at this final visit also examined a sample of three months petty cash transactions at the Watermark with no issues arising.

We also checked the Town Hall physical cash held at our first visit for the year, which, together with till receipts, etc supporting expenditure since the last "top-up" equated to the £100 imprest holding.

Conclusions

We are pleased to record that no issues have arisen from work undertaken in this area.

Review of Staff Salaries

In examining the Council's payroll function, we aim to confirm that salary payments are 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, together with pension contributions.

Preparation of the Council's monthly payroll is outsourced to South Hams DC (SHDC) who generate the relevant payroll documentation and make the physical payments to staff, recovering the gross cost of staff salaries together with the cost of employer's NI and pension contributions, from the Council each month.

We have reviewed the payroll documentation provided by South Hams through the SFO checking the September 2021 detail, ensuring that the individual gross salary payments for each employee are in accordance with their approved basic weekly hours on the approved NJC scale point, together with any enhanced hours advised to South Hams on the basis of individual staff overtime records, etc. We have also ensured that the appropriate pension contribution percentage has been applied by reference to the national banding detail. Also ensuring that tax and NI deductions have been calculated appropriately by reference to the HMRC tables.

Conclusions

We are pleased to record that no issues have been identified from the work undertaken in this area and wish to express our appreciation to both the Council's SFO and South Hams Payroll officers for providing the documentation for us to complete our review programme in this area.

Fixed Asset Registers

All councils are required to maintain a Register of Fixed Assets, which we are specifically required to review as part of the AGAR.

We note that the Council maintains a detailed Fixed Asset Register in spreadsheet format with separate worksheets for the individual categories of assets owned by the Council. As well as Land & Buildings, Equipment, and other assets such as Civic Regalia, this also properly includes a long-term investment (i.e., greater than 1 year) with CCLA for £70,000.

We are pleased to note that the majority of assets are recorded with their initial purchase value and where known, the date of acquisition. We have examined the content of the register and consider it appropriate for the Council's present requirements.

A number of our clients have also started to develop photographic registers of their assets where they are considered to be either at risk of theft or damage, be it wilful or accidental. Such records have proved of assistance to councils when pursuing insurance reclaims, as they are able to demonstrate / confirm the existence and condition of the damaged (or stolen) articles: they have also been of assistance in the event of any police enquiry or investigation.

Conclusions

Whilst no issues or concerns arise in this area, we commend the principle of developing and maintaining photographic records of potentially at risk Council property.

Investments and Loans

We have previously expressed concern at the high level of funds held with Lloyds Bank (in excess of £700,000 at the year-end), and made recommendations to reduce the apparent risk by diversifying these funds across a range of independent financial institutions.

We noted in last year's report that, at the P&R meeting on 17th August 2020, this concern was considered, but that the Committee wished to support 'the last bank in town', and regarded the risk of total loss as very low due to the part ownership of Lloyds Bank by HM Government. In light of this, we will continue to monitor the position but again make no formal recommendations unless the risk position radically changes. We note that the Investment Strategy has been reviewed and re-adopted by Council in May 2022.

The Council has three loans in place with the Public Works Loans Board (PWLB). We have checked the two half-yearly repayments by reference to the PWLB demands as part of our aforementioned sample payment testing, also, at this final visit ensuring the accuracy of disclosure of the residual year-end loan liability in the AGAR Section 2, Box 10 by reference to the UK Debt Agency confirmatory advice of that balance.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation.

Statement of Account and AGAR

The AGAR now serves as the Council's formal Statement of Accounts subject to external audit scrutiny and verification. Detail of the financial information to be reported therein is, in the main, generated automatically by the Omega accounting software (excluding detail of year-end asset values and the residual loan liability).

Conclusions

There are no matters arising in this area of our review process and we have duly signed off the IA Certificate in the year's the AGAR assigning positive assurances in all relevant categories.