

Ivybridge Town Council

Internal Audit Report: Interim update 2023-24

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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 2023-24 financial year, during our two interim reviews, which took place both in part remotely at our offices and during our onsite visits on 20th September 2023 and 15th February 2024. We thank the Clerk and her staff in assisting the process, providing all requested documentation to facilitate the conduct of our review for the year to date in either hard copy or electronic format.

Internal Audit Approach

In undertaking 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 will update this report following our final review, which we have agreed with the Clerk we will undertake remotely as only two further month's transactions will require examination, together with the review of other governance and financial areas such as the asset register.

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 no issues arise currently.

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). A further cashbook is also in use to control the various Watermark income streams where cash, cardnet and online sales occur.

To assess the adequacy, accuracy and appropriateness of transactions in 2023-24, we have to date:-

- Agreed the opening Trial Balance in Omega for 2023-24 to the 2022-23 certified AGAR and omega accounts detail;
- Ensured that the accounts remain “in balance” at 31st January 2024;
- Agreed Current Account transactions for three months (April and August 2023, plus January 2024) by reference to supporting bank statements;
- Agreed the year to 31st January 2024 transactions on the other two accounts; and
- Checked the accuracy of the month-end bank reconciliations on the Current Account as at 30th April and 31st August 2023 and January 2024.

Conclusions

We are pleased to note that bank reconciliations continue to be prepared monthly and are scrutinised and signed-off by a councillor in accordance with the Council’s adopted Financial Regulations (FRs). No issues arise currently warranting formal comment or recommendation.

We shall undertake further testing in this area at our final review including verifying the accurate disclosure of the combined cash and bank account balances in the AGAR at Section 2, Box 8.

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 to date 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 exist currently.

We note that the Council has reviewed and re-adopted its Standing Orders (SOs), also reviewing and adopting a revised version of the Financial Regulations (FRs) at the May 2023 full Council meeting: both documents are based on the latest NALC model documents. We understand that the NALC model FRs are being reviewed by NALC currently and will, once available, advise the Council accordingly suggesting that they be adopted subject to any necessary tailoring to meet local circumstances.

We are pleased to note that the 2022-23 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 Accounts and Audit Regulations, published an appropriate formal “Notice of Public Rights” to examine the Council’s records for 2022-23 for the requisite 30 working days.

Conclusions

We are pleased to report that no issues arise in this area warranting formal comment or recommendation. We shall continue to monitor the Council’s governance arrangements during future reviews also extending our review of minutes for the remainder of this financial year.

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 a suitably designed certification stamp placed on each invoice and initialled by members when examining each invoice, together with the Omega generated payment schedules. Detailed scrutiny in this area is also effectively managed by the Policy and Resources Committee on behalf of the Council.

We have selected an extended sample of transactions in the year to 31st January 2024 including all those in excess of £2,500, plus every 35th as recorded sequentially in the Omega cashbook to mid-February 2023 with no anomalies found. Our test sample to date comprises 71 individual payments including 5 NNDR invoices from South Hams DC paid over 10 months of the year. The test sample totals £299,040 equating to 52% by value of non-pay related payments in the year to that date.

We note that VAT reclaims / payments continue to be generally prepared and submitted to HMRC monthly based on transactions in the Omega control account throughout the year. We have reviewed the content of the year-to-date reclaims with no issues arising.

Conclusions

We are pleased to record that no issues have been identified in this area warranting formal comment or recommendation: we will select a small sample of further payments over the remainder of the year for our final review at our final review also ensuring the accuracy of the year's final VAT return.

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 is due to re-adopt its formal Risk Register at the March 2024 full Council meeting and have agreed with the SFO that a copy of the final adopted document will be provided for our review at the year-end. We have, however, been provided with a copy of the draft document, which we have reviewed and consider that it remains appropriate for the Council's present requirements. We also commend the Council on the quality and comprehensive nature of the document.

The Council is insured by Aviva: we have reviewed the current year's policy documents, noting that Employer's and Public Liability cover both stand at £10 million, 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

We shall continue to monitor the Council's approach to risk management at future reviews.

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 they may become apparent.

We are pleased to note that, following due deliberation, the budget and precept for 2024-25 were formally approved, adopted and minuted as such at the January 2024 full Council meeting, the latter being set at £588,773.

We have examined the latest Omega budget performance report and are pleased to record that no significant unanticipated variances exist currently with total income standing at 106% of the approved budget and expenditure at 64%.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation currently. We shall undertake further work at our final review for the year, examining the year-end budget outturn report and considering the continued appropriateness of

the level of retained reserves to meet the Council’s ongoing revenue spending requirements and any development aspirations.

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 and allotments.

The Council uses the Rialtas Bookings package to manage the hire of rooms at the Watermark and main Council offices. We have at this update visit, examined a sample of two weeks hires in January 2024 ensuring that appropriately priced, in accordance with the Council approved scale of fees and charges for both venues, invoices have been raised and that payment have been made in a timely manner by the hirers. We are pleased to record that no issues or concerns arise currently, although we note that, probably not surprisingly, one or two remain to be settled at the present date.

At our first visit for 2023-24, we examined interments recorded in the Burial Registers for the current financial year, noting that 12 interments had occurred to that date: we also examined the comprehensive file of retained documentation kept by the SFO checking to ensure that the legally required appropriate burial / cremation certificates were held for each and that an appropriate invoice had been raised with the fees levied in accordance with the approved fees and charges for the year and are pleased to record that no issues arose in that respect.

We have also examined the Watermark café and bar sales daily records, together with till “Z” totals for January 2024: we have also examined the nominal control records maintained for the year to date to record “over” and “under” receipts against the “Z” readings with no significant variances occurring to date in the year.

We have also examined the “Sales Ledger – Unpaid invoices by date” report as at 31st January 2024, noting that 3 invoices issued at the start of the financial year remain unpaid and have discussed the position with the SFO and FO noting that positive action is again being undertaken currently to chase recovery of these debts. We shall reexamine the position at our final review and hope to see that these debts will have been settled by then.

Conclusions

We are pleased to record that no significant concerns arise in this area and will, as indicated above, review the status of long-standing debts at the financial year-end at our final 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 a 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 £350).

Additionally, two Lloyds Bank Business Charge Cards are in use, one in the name of the Assistant Town Clerk with a limit of £500 and the other in the name of the Town Clerk with a limit of £1,500.

We have, at this interim update review, checked the physical cash holding and un-reimbursed till receipts in both the Council offices and Watermark petty cash accounts ensuring that the sum of the two at each venue agree to the anticipated values of £100 and £350 including any, as yet, un-reimbursed expenses, with no issues arising.

We have also examined a small sample of transactions on these accounts ensuring that each transaction is accurately recorded and appropriately supported by either a trade invoice or appropriate till receipt and that, where applicable, VAT has been identified for recovery.

Conclusions

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.

The SFO kindly provided, in advance of our first visit, electronic copies of the August 2023 payslips together with detail of staff in post, their point on the national pay scale or, if not on those scales, their hourly pay rate. Consequently, we reviewed the payslips prior to our visit undertaking the following work: -

- Verified the basic gross salary paid to each employee for that month;
- Ensured the application of the appropriate employee pension contribution percentages; and
- Verified the tax and NI (employee and employer) deductions / contributions applied to each employee for the month under review by reference to the relevant HMRC tables.

We also, during the course of our first visit for the year, checked and agreed the detail on payslips to the SFO's schedule of overtime, etc hours to be paid to each individual for the month to the supporting time sheet records, which we are pleased to note are signed by both the employees and their supervising officer(s);

We note that the 2023-24 nationally agreed pay award was applied with the November 2023 salaries, together with arrears backdated to 1st April 2023 and have, at this update visit ensured the accurate calculation of the revised monthly salary and basic pay arrears for the year by reference to the payslips, also again ensuring the accurate calculation of tax, NI and pension deductions / contributions from the gross salaries..

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 necessary documentation for us to undertake our review in this area.

Investments and Loans

We have previously expressed concern at the high level of funds held with Lloyds Bank (currently in excess of £850,000) and are pleased to note the recent (31st January 2023) transfer of £200,000 to a 6-month term deposit also with Lloyds.

We have recorded previously report that, at the P&R meeting in August 2020, this concern was considered, with the Committee wishing to continue 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, will but again make no formal recommendation unless the risk position radically changes.

We note that the Investment Strategy was reviewed and re-adopted by Council in May 2022.

The Council has loans in place with the Public Works Loans Board (PWLB). We have checked the year's two half-yearly repayments by reference to the PWLB demands as part of our aforementioned sample payment testing. with no issues arising

Conclusions

There are no issues arising in this area of our review currently warranting formal comment or recommendation. We shall undertake further work at our final review ensuring the accurate disclosure of the residual loan liability at 31st March 2023 in the AGAR at Section 2, Box 10 by reference to the UK Debt Agency website where all local government loan balances are recorded.