



Ivybridge Town Council

Internal Audit Report: interim 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 initial review for 2021-22, which was undertaken on site on 21st October 2021. We wish to thank the Senior Finance Officer (SFO) and Finance Officer (FO) for assisting the process, providing all necessary documentation in either hard copy or electronic format to facilitate commencement 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.

We will update this report following our interim update review visit, which we hope to undertake in early 2022 and will liaise with the Town Clerk and SFO to agree a mutually convenient date for that review which we hope to again be able to undertake on site.

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 at the present time.

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 to date in 2021-22, we have:

- Agreed the opening Trial Balance in Omega for 2021-22 to the 2020-21 certified AGAR;
- Ensured that the accounts remain “in balance” at the present date (i.e., 30th September 2021);
- Agreed Current Account transactions for two months (April and September 2021) by reference to supporting bank statements;
- Noted that no transactions have occurred in the year to date on the other bank accounts;
- Checked the accuracy of the month-end bank reconciliations on the Current Account as at 30th April and September 2021, noting that one long-standing uncleared cheque payment from 2020-21 was reversed in the accounts in September with a replacement cheque issued.

Conclusions

We note that the bank reconciliations continue to be scrutinised and signed off by a councillor each month and are, consequently, pleased to record that no issues arise in this area currently: we shall undertake further testing in this area during future reviews 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 commenced 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 are again pleased to note that the Council reviewed and adopted revised Standing Orders (SOs) in 2020-21 and 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 also extending our review of minutes for the remainder of the 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 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 to September 2021 including those in excess of £2,500 plus every 35th as recorded in the Omega cashbook with no anomalies found. Our test sample to date includes 23 individual payments including 6 NNDR invoices from South Hams DC paid over 10 months of the year. The test sample totals £101,655 equating to 52% by value of non-pay related payments in the year to the above date.

Conclusions

We are pleased to record that no issues have been identified in this area warranting formal comment or recommendation: we will extend testing in this area during future reviews applying the same criteria and also ensuring the accuracy of VAT returns.

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 2021.

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

We shall continue to monitor the Council's approach to risk management at future reviews and take this opportunity to remind officers and the Council that The Practitioner's Guide requires that risk assessments be reviewed and re-adopted formally at least once annually.

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.

As the process for determining a budget and Precept for 2022-23 has yet to be undertaken, we will review this area in depth during our interim update review the date of which has to be determined but will take place in early 2022.

We have, however, examined the latest Omega budget performance report and are pleased to record that no significant unanticipated variances exist currently with income standing at 69% of budget and expenditure at 28%.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation currently. We shall undertake further work during future reviews, ensuring that the 2022-23 budget setting and precept determination process has been completed appropriately and that the Council has formally adopted the precept for that year. We shall also examine the year-end outturn report and consider the appropriateness of the level of retained reserves to meet the Council's ongoing revenue spending requirements and any development aspirations at our final review visit.

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.

We have, at this first visit for 2021-22 examined the burial registers for the two cemeteries managed by the Council noting that 13 interments have occurred to date in the current financial year: we have examined the comprehensive file of retained documentation kept by the SFO checking to ensure that the legally required appropriate burial /cremation certificates are held for each and that an appropriate invoice has been raised with the fees levied in accordance with the approved scales of fees and charges for the year. We are pleased to record that no issues have arisen in this area.

We have 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 are current, in accordance with the terms of each lease, and that appropriately priced invoices are raised and paid routinely. We are again pleased to report that no concerns have been identified in this review area.

We have also examined the “Sales Ledger – Unpaid invoices by date” report at the present date and are pleased to note that no long-standing debts remain unpaid for more than 4 months at 30th September 2021. We do, however, note that one invoice raised in September 2020 (Ivybridge RFC) has been effectively cancelled in April 2021 with a corresponding credit note issued: as they counter-balance each other, we suggest that they be “matched” in the accounting software and effectively cleared.

Conclusions

We shall undertake further work on the Council’s income streams at our interim update review, visiting the Watermark and reviewing, inter alia, income arising from room hire, cinema ticket and other performance sales, etc. The outcome of that review work will be reported accordingly.

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 this first interim visit (mid-June to mid-September 2021) ensuring that each payment is 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 also checked the physical cash held on the date of this first review visit, 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 at this first visit: we shall, as indicated above, visit the Watermark during our next review visit, also checking the operation of their petty cash account and checking the physical cash (and invoices / till receipts) ensuring agreement to the petty cash imprest holding and other cash floats.

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 necessary documentation for us to complete our review programme 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 as at 30th September 2021), 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 was again reviewed and re-adopted by Council in May 2021.

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

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation at this time. We shall undertake further work during future reviews, with particular regard to PWLB transactions.