

# **Ivybridge Town Council**

*Internal Audit Report: Interim update 2022-23*

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*Director  
Auditing Solutions Ltd*

## **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 remotely at our offices and during our onsite visits on 26<sup>th</sup> October 2022 and 23<sup>rd</sup> February 2023. We thank the Clerk and his 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 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 will update this report following our final review, which we intend to undertake remotely as only one and a half 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 significant issues arise currently, although we urge that action be taken to follow up on the five long-standing unpaid cheques and six long-standing unsettled debtor accounts.

# 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 the various Watermark areas where cash, cardnet and online sales occur.

To assess the adequacy, accuracy and appropriateness of transactions to date in 2022-23, we have:-

- Agreed the opening Trial Balance in Omega for 2022-23 to the 2021-22 certified AGAR detail;
- Ensured that the accounts remain “in balance” at 31<sup>st</sup> January 2023;
- Agreed Current Account transactions for three months (April and September 2022, plus January 2023) by reference to supporting bank statements;
- Noted that no transactions have occurred in the year to date on the other bank accounts, apart from the transfer of £200,000 to a 6-month term deposit account with Lloyds in January 2023;
- Checked the accuracy of the month-end bank reconciliations on the Current Account as at 30<sup>th</sup> April and September 2022, plus 31<sup>st</sup> January 2023 noting that five long-standing (i.e., issued prior to 31<sup>st</sup> August 2022 addressed to two payees) cheques remain unpaid at 31<sup>st</sup> January 2023 (one dating from December 2021): the payees should be contacted to determine whether they intend to bank the cheques or not and / or require replacements.

### *Conclusions and recommendation*

*We are pleased to note that bank reconciliations are prepared monthly and continue to be scrutinised and signed off by a councillor in accordance with the Council’s adopted Financial Regulations (FRs). As indicated above, the two recipients of the five long-standing uncleared cheques should be contacted to establish whether they still hold the cheques and intend to bank them or require replacements.*

*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.*

*R1. Where cheques remain uncleared at the bank for an undue length of time (6 months or more), the payee(s) should be contacted to establish whether they intend to bank the cheques or have misplaced them and require replacements. Dependent on the outcome appropriate adjustments should be made to the Omega cashbooks to clear the entries.*

## 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 have previously recorded that the Council reviewed and adopted revised Standing Orders (SOs) and FRs in September 2021 with both documents based on the extant NALC models. We also note a further planned revision to the SOs and will continue to review detail in any future updated versions of SOs and / or FRs.

We are pleased to note that the 2021-22 AGAR was 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 2021-22.

### **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 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, together with the Omega generated schedules of payments for release. Detailed scrutiny in this area is also effectively managed by the Policy and Resources Committee on behalf of the Council. We note a probable move towards a reduction in the volume of paperwork retained in this area and have agreed with the Clerk we will review and comment on the efficacy of any proposed changes in working practice in this respect.

We have selected an extended sample of transactions in the year to 31<sup>st</sup> January 2023 including all those in excess of £2,500, plus every 35<sup>th</sup> as recorded sequentially in the Omega cashbook to mid-February 2023 with no anomalies found. Our test sample to date comprises 73 individual payments including 6 NNDR invoices from South Hams DC paid over 10 months of the year. The test sample totals £312,300 equating to 50% by value of non-pay related payments in the year to the above date.

We note that VAT reclaims / payments continue to be submitted based on monthly transactions based on the Omega nominal control account throughout the year.

### **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 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 2023 full Council meeting. The Clerk has provided a copy of the updated document, which we have reviewed. We commend the Council on the quality and comprehensive nature of the document, which we consider remains appropriate for the Council's ongoing requirements.

We note that the Council is insured with Aviva and have reviewed the current 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 2023-24 were formally approved, adopted and minuted as such at the January 2023 full Council meeting, the latter being set at £563,696.

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 97% of the approved budget and expenditure at 66%.

<p>Note from RFO &amp; Senior Finance Officer: Due to the method used to account for reserves, this has skewed the percentages quoted. Excluding the reserves, at Month 10 when the visit was carried out, the percentages would have been income at 93% of budget and expenditure at 80.6% which better reflects the phased nature of the Council's income and expenditure.</p>
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## ***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.

The Council uses the Rialtas Bookings package to manage the hire of rooms at the Watermark and Council admin offices. At our first visit for 2022-23, we examined a sample of two weeks hires in July 2022 ensuring that appropriately priced, in accordance with the agreed scale of fees and charges for both venues, invoices have been raised and that payment has 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, per the current Omega Sales Ledger one of the invoices in our test sample (Barclays Bank) remains unpaid at 31<sup>st</sup> January 2023.

We have, at this interim update visit examined the burial register for the two cemeteries managed by the Council noting that 13 interments have occurred since 1<sup>st</sup> October 2022: 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 fees and charges for the year and are pleased to record that no issues have arisen in this area.

We note from the FO's control record of room leases at the Watermark that three leases fell due for renegotiation during 2022-23. We have reviewed the three individual files and are pleased to note that new leases have been signed appropriately with the revised monthly rents being duly invoiced at the correct rate, noting a very small error in one case of which the FO was aware and has made appropriate adjustments to subsequent invoices.

We have also examined the Watermark café and bar sales daily records, together with till "Z" totals for January 2023: 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 only one significant variance occurring to date in the year (coffee shop in April 2022 – "under" of £26.65): the others give no cause for concern.

We have also examined the "Sales Ledger – Unpaid invoices by date" report as at 31<sup>st</sup> January 2023, noting that 6 invoices issued before 30<sup>th</sup> September 2022 (including that for Barclays referred to above and one other issued in February 2022) remain unpaid at 31<sup>st</sup> January 2023. We also note that regular reports on the debtors position are provided to members of the P&R Committee and will revisit this area at our final review to ensure that appropriate action has / is being taken to ensure recovery of these few long-standing debts.

## ***Conclusions***

***Whilst no significant concerns arise in this area, we urge that appropriate and further detailed action is taken to pursue the few long-standing debts evident in the Sales Ledger as at 31<sup>st</sup>***

***January 2023: we will revisit this area at our final review ensuring that appropriate action is in hand to recover any long-standing debts.***

## **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.

At our first review for the year, we checked the physical cash holding and un-reimbursed till receipts in both petty cash accounts ensuring that the sum of the two at each venue agree to the anticipated values of £100 and £350, with no issues arising.

We have now examined transactions on these accounts for December and January 2023 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***

***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 October 2022 detail, ensuring that the individual gross salary payments for each employee are in accordance with their approved national NJC scale point and contracted basic weekly hours. The SFO provides SHDC with a memo each month advising the NJC scale point for each employee, together with any enhanced / overtime hours to be paid. SHDC payroll have kindly provided us with copies of individual staff payslips for October 2022. Consequently, we have: -

- Verified the basic gross salary paid to each employee for that month;
- Checked and agreed the detail in SFO's schedule of overtime, etc., hours to be paid to each individual in October to the supporting time sheet records, which we are pleased to note are signed by both the employees and their supervising officer(s);
- 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 note that the 2022-23 nationally agreed pay award was applied with the November 2022 salaries, together with arrears backdated to 1<sup>st</sup> April 2022.

### **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 (31<sup>st</sup> 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 but again will make no formal recommendation unless the risk position radically changes.

We note that the Investment Strategy has again been 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 warranting formal comment or recommendation at this time. We shall undertake further work at our final review ensuring the accurate disclosure of the residual loan liability at 31<sup>st</sup> 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.*



Rec. No	Recommendation	Response
<b>Review of Accounting Arrangements and Bank Reconciliations</b>		
R1	Where cheques remain uncleared at the bank for an undue length of time (6 months or more), the payee(s) should be contacted to establish whether they intend to bank the cheques or have misplaced them and require replacements. Dependent on the outcome appropriate adjustments should be made to the Omega cashbooks to clear the entries.	

## **Notes re Internal Audit meeting held at Town Hall, Ivybridge 11.30am on 23 February 2023.**

Present:

S Pollard – Auditing Solutions  
Cllr Dredge  
Cllr Pringle  
Mr J Parsons – Town Clerk  
Mrs P Cleal – Senior Finance Officer

**Policy updates** - Cllr Dredge informed the Internal Auditor that the policies had been completed for this year and the Internal Auditor said he had seen the very comprehensive Risk Assessment on the website. There was a discussion with regard to changes to the procurement procedure and the proposed amendment to Standing Orders was agreed.

**Reduction in print outs noting effect on audit trail** - The group discussed how the reduction in paper print outs could be achieved and as from 1<sup>st</sup> April 2023 sales invoices and purchase ledger reports to be printed. The Town Clerk informed the group he had been in discussion with other Town Clerks and he felt that the need for councillors to sign off the invoices was not required and that this should be undertaken by Officers with the councillors initialling invoices after payment has been made. The Senior Finance Officer expressed her concerns as to why this level of approval should be removed. The Internal Auditor suggested that the Town Clerk let him know the system he wants to introduce and can give a view with regard to the audit trail. It was agreed this is a work in progress to achieve the best solution ensuring a clear audit trail and approval of payments with clear distinction regarding Officer responsibilities and authorisation.

**Introduction of Faster Payments** - It was noted that using the already existing system for cheque payments, faster one off payments has been introduced.

**Any other matters to be raised by Officers / Members of the group** - The Town Clerk raised a matter regarding a local club's proposal to improve their facilities in partnership with the Town Council. The Internal Auditor felt the action the Town Clerk has taken so far is correct.

**Update by the Internal Auditor** - The Internal Auditor mentioned there were no issues from the previous report and so far during this visit he had no issues. He also mentioned for the Year End visit this may be undertaken remotely if that was acceptable, all agreed.

**Any Other Business** - There was no other business discussed.

Meeting concluded 12.20pm