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# **Ivybridge Town Council**

*Internal Audit Report: Interim 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 the 2021-22 financial year, during our two interim review visits, which took place on site on 21<sup>st</sup> October 2021 and 10<sup>th</sup> February 2022. We thank the Council staff in assisting the process, providing all necessary documentation to facilitate the conduct of this year's review.

## **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.

## **Overall Conclusion**

The work undertaken to date on the Council's accounting and other records is set out in the following detailed report with only one minor recommendation arising as detailed in the body of the report and further summarised on the appended Action Plan. We again wish to express our appreciation to officers for the very tidy way the accounting records are being maintained and filed, subject to one or two minor observations in the body of the report.

We will update this report following conclusion of our review for the year when we next visit the Council in April / May at a date to be agreed once the accounts have been closed down for the year. We will also sign-off the IA Certificate in the AGAR at that final review visit

# 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., 31<sup>st</sup> December 2021);
- Agreed Current Account transactions for three months (April, September & December 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 30<sup>th</sup> April and September, plus 31<sup>st</sup> December 2021 with no residual issues arising.

### 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 work in this area at our final visit agreeing a further sample of transactions to bank statements and ensuring 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 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) with both documents based on the latest NALC models.

We are also 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 operate 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 31<sup>st</sup> January 2022 including those in excess of £2,500 plus every 35<sup>th</sup> as recorded in the Omega cashbook with no anomalies found. Our test sample to date includes 45 individual payments including 6 NNDR invoices from South Hams DC paid over 10 months of the year. The test sample totals £155,400 equating to 41% by value of non-pay related payments in the year to the above date.

We have also examined detail of VAT payments / reclaims processed during the year to 31<sup>st</sup> December 2021 by reference to the accounting software control account 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 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 again 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 and will ensure compliance at our final review for the year.*

## 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, following due deliberation, the Council approved and adopted the budget and precept for 2022-23, setting the latter at £530,215.

We have examined the latest Omega budget performance report and are pleased to record that no significant or unanticipated variances exist currently with income standing at 81% of budget and expenditure at 52%.

### *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 examining the year-end outturn report and considering 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.

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 have at this update review, visited the Watermark and discussed the operative controls over various aspects of the venue's financial management with the Clerk. Specifically, we have selected a sample of bookings in the week commencing 8<sup>th</sup> 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 have also checked to ensure that the invoices have been settled noting that one, in relation to Devon CC remained unpaid as at 31<sup>st</sup> January 2022.

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 do, however, understand that the Watermark Manager is intending to upgrade the dedicated website and will include such detail.

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 have 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 socks undertaken by an external agent on behalf of the Council with no obvious concerns or issue identified with regard to their profitability: we will undertake a more detailed examination of these records at our final visit, considering the profitability levels of each and also examining the miscellaneous sales stock control records again assessing their appropriateness for purpose and will report the outcome of that work in the final report.

We have also examined the "Sales Ledger – Unpaid invoices by date" report at the present date and are pleased to note that only one account older than 6 months at that date remains unpaid.

### ***Conclusions***

***We are pleased to record that no issues arise in this area currently warranting formal comment and, as indicated above, shall undertake further work on the Council's income streams 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 the Council's 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 examined a sample of four months' transactions on the Town Hall petty cash account at our first review visit for the year also verifying the physical cash held to the £100 "imprest" value. We have at this update visit, examined a sample of the Watermark petty cash account transactions also checking the physical cash and expended vouchers held in support of the £200 float. In checking the cash and vouchers held in the Watermark safe, we noted a surplus holding of £1.44, which should be adjusted appropriately when the account is next "topped-up".

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 and recommendation***

***We are pleased to record that no significant issues have arisen from work undertaken in this area to date this year, although we urge that the identified surplus cash holding in the Watermark account is adjusted appropriately when the account is next "Topped up".***

*R1. The identified surplus cash holding in the Watermark petty cash tin should be adjusted appropriately when the account is next "topped-up".*

## **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. No settlement has yet been reached on the national LG pay award for 2021-22: we will, as soon as we hear of any progress in its settlement, advise the Council accordingly.***

## **Investments and Loans**

We have previously expressed concern at the high level of funds held with Lloyds Bank (currently in excess of £780,000), 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 17<sup>th</sup> 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 and make no further formal recommendation currently, but urge the Council to continue monitoring the position appropriately.

We note that the Investment Strategy was 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.***



Rec. No	Recommendation	Response
<b>Watermark Petty Cash Account</b>		
R1	The identified surplus cash holding in the Watermark petty cash tin should be adjusted appropriately when the account is next “topped-up”.	