

Newton Abbot Town Council

Internal Audit Report: Interim 2023-24

Stuart J Pollard

*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 2023-24 financial year, during our initial review of the Council's records for the year, which has been undertaken partially in advance at our offices and also on site on 20th September 2023. We thank the Clerk and his Deputy / Responsible Finance Officer (RFO) 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, 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 is designed to afford assurance that the Council's financial systems remain 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 series of internal control objectives.

We will update this report following our final review visit, which will be timed to follow closedown of the Council's accounts for 2023-24, probably in May 2023.

Overall Conclusions

We are pleased to advise that, based on the work undertaken to date, the Council and its officers continue to maintain generally adequate and effective internal control arrangements with only one issue identified requiring attention as detailed in the following report with the resultant recommendations further summarised in the appended Action Plan. We ask that the report be presented to members and a formal response be provided in advance of our final visit to those recommendations indicating the actions taken and / or in hand at that 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 as maintained using the Rialtas Omega accounting software with two Lloyds bank accounts in day-to-day use (Current and Instant Access Account). These are being operated in a single cashbook with daily, or when required, automatic inter-account transfers effected by the bank to retain the Current account balance at approximately £100. Surplus funds have been deposited in the CCLA Deposit Fund: the only transactions on this account annually, other than the occasional deposits or withdrawals, are the application of monthly interest, which is paid directly into the Lloyds account by CCLA and recorded accordingly in the combined Lloyds cashbook account.

We have to date: -

- Ensured the accurate roll forward of the 2022-23 closing balances as opening balances in the 2023-24 Omega accounts;
- Ensured that the accounts remain “in balance” at 31st July 2023;
- Checked two months’ transactions on the combined Current and Instant Accounts cashbook (April and July 2023) by reference to supporting bank statements;
- Checked and agreed the accuracy of bank reconciliations on the accounts as at 30th April and 31st July 2023 noting the existence of one uncleared payment dating from 30th January 2023 appearing on the later reconciliation;
- Noted that, as above, monthly interest is received on the CCLA Deposit Fund account and is paid directly into the Lloyds account: consequently, we have agreed the monthly interest receipts as recorded in the Current account cashbook to the monthly CCLA statements.

Conclusions

We note that members are provided with copies of month-end bank reconciliations, budget reports and other financial documentation for scrutiny with reconciliations now bearing clear evidence of such scrutiny and sign-off.

We will undertake further work in this area at our final review visit checking two further months’ Lloyds’ account transactions, including March 2024, to bank statements and ensuring the accurate recording of the monthly receipts of CCLA Deposit Fund interest for the residual months of the financial year. We shall also ensure the accuracy of the year-end bank reconciliations and the appropriate disclosure of the combined cash and bank balances in the year’s 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 may reasonably be expected to ascertain, 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 examined Council and Standing Committee (excluding Planning) minutes for the financial year to date as posted on the Council's website, to identify whether or not any issues exist that may have an adverse effect, through litigation or other causes, on the Council's future financial stability.

We noted last year that the Council's SOs and FRs were reviewed with the Council opting to retain them in their existing format. We also understand that NALC is in the process of reviewing and updating its model Financial Regulations (FRs) and urge that, once published, the Council considers the status of its existing document and applies the content of the revised document once formally promulgated.

We are pleased to note that the external auditors have finalised their review of the 2022-23 AGAR and signed-off their Certificate with no significant issues of concern going forward raised. We are also pleased to note that the formal Notice of Public Rights for 2022-23 has been published appropriately as required by the 2015 Accounts and Audit Regulations.

Conclusions

We are pleased to record that no issues arise on this area currently: we will continue to monitor the Council's approach to governance at future reviews reporting our conclusions accordingly.

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 periodic recovery.

We have again discussed the payment approval and release process with the RFO during this interim review and consider the controls in place generally effective with an appropriate degree of segregation of duties in place between setting up payments online and their physical release. We also note that a certification stamp is being affixed to every invoice with appropriate initialling of the various stages of checking and data entry into the Omega accounts, a councillor also initialling and dating the invoices as evidence of their review and approval for payment.

To confirm the effectiveness of the controls over the processing of payments, we have selected a test sample of 42 individual payments, including the annual Newton's Place Non-Domestic Rate bill paid over 10 months of the year, processed in the financial year to 31st July 2023: our test sample includes all those payments individually in excess of £2,000, together with a more random sample of every 40th payment, as listed in the Omega cashbooks. The sample totals £195,750 equating to 63% by value of the non-pay related payments processed to date with, we are pleased to record, all the above criteria met.

VAT reclaims continue to be prepared and submitted to HMRC for recovery at the end of each quarter: consequently, we have ensured that the final 2022-23 quarter's reclaim and the first reclaim to 30th June 2023 have been prepared, submitted to and been repaid by HMRC, details of which we have agreed to the Omega nominal control account.

Conclusions

We are pleased to record that the controls in place over the payment of traders' invoices continue to operate effectively: consequently, no issues arise in this area currently warranting formal comment or recommendation.

We will extend our review of payments at our final visit to cover the remainder of the financial year applying the same test criteria as above: we will also examine the remaining VAT reclaims to be prepared and submitted to HMRC for the remainder of the year.

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 / or 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 are pleased to note that the Council's Business Continuity and Risk Management Plan was reviewed and adopted by the Council at the 6th June 2023 meeting and have reviewed the content which we consider remains appropriate for the Council's present requirements.

We have examined the Council's current year insurance policy arranged with Aviva to ensure that appropriate cover remains in place, noting that both Employer's and Public Liability cover stand at £10 million, together with Fidelity Guarantee cover at £1 million and Business Interruption – Loss of Revenue cover at £25,000, all of which we consider appropriate for the Council's present requirements.

Conclusions

We are pleased to record that no issues arise in this area currently warranting formal comment or recommendation. We shall, as indicated above, continue to review the Council's approach to risk management at future visits.

Budgetary Control & Reserves

We aim in this area of our work to ensure that the Council has appropriate procedures in place to determine its future financial requirements leading to the adoption of an approved budget and formal determination of the amount to be precepted on Teignbridge DC (TDC); that effective arrangements are in place to monitor budgetary performance throughout the financial year and that the Council has identified and retains appropriate reserve funds to meet future spending plans.

This review took place in advance of the Council's formal debate and determination of the budgetary and precept requirements for 2024-25: consequently, we shall review the outcome of members' deliberations at our final review ensuring the formal adoption and minuting of the value of the precept for that year.

We have reviewed the latest available budget position (i.e., as of 31st July 2023) as reported in the Omega detailed transaction reports with no unexplained or unanticipated significant variances arising requiring further examination or enquiry.

Conclusions

No issues arise currently warranting formal comment or recommendation. We shall undertake further work in this area at our final visit ensuring that the 2024-25 budget and precept have been the subject of formal debate and minuted approval, also examining the year-end budget outturn and assessing the ongoing appropriateness of the level of retained reserves to meet the Council's ongoing revenue spending requirements and any future development aspirations.

Review of Income

The Council receives income primarily by way of the annual precept, together with room hire fees at the Museum / Council offices and from a plethora of relatively small miscellaneous sources, generally in the latter stages of the year.

We have examined the manuscript Museum room booking diary identifying and examining detail of the fee paying and "free of charge (FOC)" hires during July 2023. The hire fees are detailed in the Council's website together with the Terms and Conditions of hire. We also understand that for some quasi-charitable bodies fees are charged at 50% of the full rate.

In endeavouring to review the relevant supporting documentation (hire agreement forms and invoices) that should be in place we have identified a number of potential concerns from the point of view of ensuring the existence of an appropriate audit trail and clarity in the determination of those instances where hires are regarded as "FOC".

Whilst we acknowledge that the booking diary identifies a number of the hires as FOC also referring to the payment of fees due to the Council, detail of the invoice reference number is not recorded nor is the settlement date. In examining the available file of unpaid and paid invoices, it is evidently incomplete as all paid invoices had been removed from the file. Additionally, in examining the Omega Sales Ledger detail, it is apparent that an impracticable and from an audit trail viewpoint, system of recording invoices is in existence without invoices being assigned sequential numbers during the year, with that field in Omega purely recording a date, month and year, presumably relating to the date either the hire occurred or when the invoice was raised.

To ensure that an appropriate and clear financial recording and audit trail is put in place, we consider that the following detail should be recorded in the booking diary and Omega accounts: -

- Invoices should be raised and issued with a unique sequential reference number rather than purely a date reference;
- Copies of all invoices raised should be retained on file in sequential number order;
- As and when payment is received, the date of payment should be recorded on the invoice, and in the booking diary, with the top (or bottom) right-hand corner cut off the invoice to afford a clear visual record of all paid and, at any point in time, unpaid invoices;
- To provide clear cross-referencing between the booking diary and financial records, the raised invoice reference numbers should be recorded in the booking diary, ideally together with the settlement date;
- Hire forms should be signed by the hirers confirming understanding and acceptance of the Terms and Conditions of hire;

- Copies of the signed hall booking agreement forms should be retained appropriately on file to provide confirmation of hirers' agreement to the terms and conditions of hire;
- A more transparent policy on "FOC" or reduced fee hires should be determined and published on the web site and in the "Premises use policy" to avoid any potential queries as to why certain hirers pay no fees and some are charged at 50%.

Conclusions and recommendation

As indicated above, controls over the recording of bookings of rooms at the Museum, should be strengthened to provide an appropriate and clear audit trail also affording the Council greater protection in the event of any damage occurring during a hire potentially resulting in a claim against the hirer for any necessary repairs that might arise be necessary to the premises.

- R1. An effective system of recording room bookings at the Museum should be implemented, together with more comprehensive records maintained affording a clear audit trail as detailed in the body of the report, should be implemented.*
- R2. An effective cross-referencing system should be introduced with sequentially numbered invoices raised, rather than the use of a date as the invoice reference number.*
- R3. Prepared invoices should be retained on file in sequential order for audit inspection, ideally with a corner of the invoice cut off on receipt of payment and the date of payment duly recorded.*
- R4. A more transparent and formally recorded policy on "free" hires and those to be charged at 50% should be determined and published to avoid any potential queries as to why certain hirers pay no fees and some are charged at 50%.*

Petty Cash Account

We are required, as part of the AGAR IA Certificate, to review and verify the soundness of controls over the operation of the Council's petty cash account. We have noted previously that a separate nominal account code (# 250) remains in place, with no transactions actually recorded against the code in the current or previous financial year with an "imprest" value of £200.00 recorded. As and when expenses are incurred, they are generally reimbursed monthly with full analysis of the expenditure codes being charged provided in the Omega payments cashbook.

We have examined one month's transactions (September 2023 to the date of our visit) checking detail as recorded on the control record to the supporting documentation.

We have also checked the physical petty cash holding on the day of this first visit for 2023-24 agreeing the cash holding, together with vouchers supporting payments made since the last "top-up" to the £200 imprest value.

Conclusions

We are pleased to record that no issues arise in this are this year warranting formal comment or recommendation.

Review of Staff Salaries

In examining the Council's payroll function, we aim to confirm that salary payments are made 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.

The Council employs a number of staff: the RFO has, as in previous years, provided detail of the NJC spinal point (or hourly rate) and contracted weekly hours payable to each employee. We understand that no agreement has yet been reached on a national pay award for 2023-24 and will examine the appropriate application of any such award at our final review visit assuming a settlement is reached.

We note the change of payroll provider from Teignbridge DC to DCK Accounting for 2023-24. Consequent on the above, we have checked and agreed one month's gross salaries for all employees to the RFO's schedule by reference to the underlying payslips and HMRC tax and NI tables together with the LG Pension Fund revised contribution bandings applying from 1st April 2023.

We note that certain officers work overtime and are paid accordingly based on the weekly timesheet detail of total hours worked: we have reviewed the relevant timesheet supporting the above month's salary payments and are also pleased to note that the supporting records are checked and certified accordingly confirming that the overtime was necessarily worked and is appropriate for payment.

Conclusions

We are pleased to record that no issues arise in this area this year warranting formal comment or recommendation.

Investments and Loans

As indicated earlier in this report, the council has placed surplus funds amounting to £418,263 in a deposit account with CCLA, which is earning interest monthly.

We have checked and agreed the first half-yearly UK Debt Agency repayments for the year to their demand invoices as part of our previously referenced expenditure review with no issues arising.

Conclusions

No issues arise in this area currently warranting formal comment or recommendation.

We will undertake further work in this area at our final review visit including ensuring the accurate disclosure of the residual loan liability on 31st March 2023 in the year's AGAR at Section 2, Box 10.

Rec. No	Recommendation	Response
Review of Income		
R1	An effective system of recording room bookings at the Museum should be implemented, together with more comprehensive records maintained affording a clear audit trail as detailed in the body of the report, should be implemented.	
R2	An effective cross-referencing system should be introduced with sequentially numbered invoices raised, rather than the use of a date as the invoice reference number.	
R3	Prepared invoices should be retained on file in sequential order for audit inspection, ideally with a corner of the invoice cut off on receipt of payment and the date of payment duly recorded.	
R4	A more transparent and formally recorded policy on “free” hires and those to be charged at 50% should be determined and published to avoid any potential queries as to why certain hirers pay no fees and some are charged at 50%.	