

# **Newton Abbot 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 the 2021-22 financial year, during our interim review of the Council's records for the year, which has been undertaken on site on 20<sup>th</sup> October 2021. We wish to thank the Deputy Clerk / RFO (DC / 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 2021-22.

## **Overall Conclusions**

We are pleased to advise that, based on the work undertaken to date, the Council and its officers continue to maintain adequate and generally effective internal control arrangements with only a few issues identified requiring attention as detailed in the following report with 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 prepared. The Rialtas Omega software continues in use with two Lloyds bank accounts in day-to-day use (Current and Instant Access Account), these being operated in a single cashbook (number 1) with daily, as required, inter-account transfers effected by the bank to retain the Current account with a balance of approximately £100. Surplus funds have been deposited in the CCLA Deposit Fund with, as there are only limited transactions annually, a separate nominal control account set up in Omega.

Consequently, we have to date: -

- Ensured the accurate roll forward of the 2020-21 closing balances as opening balances in the 2021-22 Omega accounts;
- Ensured that the accounts remain “in balance” on 31<sup>st</sup> August 2021;
- Checked two months’ transactions on the combined Current and Instant Accounts cashbook (April and August 2021) by reference to supporting bank statements; and
- Checked the accuracy of the bank reconciliations on the same two accounts on 30<sup>th</sup> April and 31<sup>st</sup> August 2021 with no uncleared payments or other unresolved anomalies existing at the end of August 2021.

### *Conclusions and recommendation*

*We note that members are periodically provided with copies of month-end bank reconciliations, budget reports and other financial documentation for scrutiny and sign-off. The NALC model Financial Regulations (FRs) set out at para 2.2 that bank reconciliations should be the subject of independent review (i.e., neither by the Chairman or a bank signatory) at least quarterly. In order that this check may be more effective, we suggest that the checking councillor should also be provided with and formally sign-off the supporting month-end bank statements and cashbooks where reconciliations are reviewed as evidence that the respective balances are accurately recorded in the reconciliation statement.*

*We will undertake further work in this area at our final review checking at least one further month’s transactions to bank statements and ensuring the accuracy of the year-end bank reconciliations on the two cashbooks in use, also ensuring the accurate disclosure of the combined cash and bank balances in the year’s AGAR at Section 2, Box 8.*

*RI. A nominated councillor should, in line with best practice and as detailed in the NALC model Financial Regulations, review bank reconciliations, together with supporting bank statements and Omega cashbook detail quarterly, indicating completion of the review by signing / initialling and dating all three documents.*

## 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 reviewing those 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 and are pleased to record that no concerns have been identified.

We note that the Council's SOs & FRs were reviewed and readopted by the Council in February and March 2021 respectively. We have examined the content of both documents in some detail noting that neither are wholly in line with the NALC model documents: specifically, the SOs include no reference to tendering / contract procedures, although we acknowledge the existence of a separate Procurement Policy. As indicated in the first section of this report, the FRs make no reference to independent scrutiny and "sign-off" of bank reconciliations and include reference to the procedures in place for the release of payments which are no longer in line with actual working practice: they also refer to a petty cash holding of £500 compared with the actual intended value of £200.

We are pleased to note that the external auditors have issued the certificate on the 2020-21 AGAR with only minor concern expressed relating to publication of the 2019-20 Notice of Public Rights and the related responses given in the 2020-21 Governance Statement (Section 1): we are pleased to note that the Council has acted in accordance with the requirements of the 2015 Accounts and Audit Regulations in that respect in relation to publication of the 2020-21 detail.

### ***Conclusions and recommendation***

***As indicated above, the SOs and FRs require review, update and amendment to reflect the actual approved working practices that are now in place. We have provided the DC / RFO with electronic copies of the latest NALC model documents and urge that the existing documentation be brought more into line with the best practice eschewed in the NALC model documents.***

***We will continue to monitor the Council's approach to governance at future reviews reporting our conclusions accordingly.***

***R2. The Council's Standing Orders and Financial Regulations should both be reviewed and brought into line with best practice as set out in the NALC model documents, being tailored appropriately to meet the Council's specific requirements and reflect actual approved working practices.***

## **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 discussed the payment approval and release process with the DC / RFO during this interim review and consider the controls in place generally effective with effective segregation of duties in place between setting up payments for release and their physical release. We also note that a certification stamp is generally affixed to each invoice, although examination of the files of processed invoices indicates that not all documents have the stamp affixed to them.

To confirm the effectiveness of the controls over the processing of payments, we have selected a test sample of 38 individual payments, including 2 Non-Domestic Rate bills, processed in the financial year to September 2021 including all those individually in excess of £3,000, together with a more random sample of every 40<sup>th</sup> payment, as listed in the Omega cashbooks. Our test sample totals £222,955 equating to 61% by value of the non-pay related payments processed to date with all the above criteria met.

We have reviewed detail of the nominal ledger VAT control account for the financial year noting submission and recovery of the final 2020-21 reclaim and first reclaim for 2021-22.

### ***Conclusions and recommendation***

***We are pleased to record that the controls in place over the payment of traders' invoices continue to operate generally effectively, although, as indicated in the previous section of this report, working practice differs from that set out in the adopted FRs. To further strengthen controls and afford all officers a greater degree of protection should any fraudulent or other inappropriate payments occur, we suggest that a more robustly designed in rubber stamp to that currently in use be acquire, incorporating space for the following detail / certification: -***

- ***Signature / initials of the officer confirming receipt of goods / services and arithmetic accuracy oof the invoice for payment;***
- ***Signature / initials of the officer / councillor approving the payment for release;***
- ***Signature / initials of the officer physically releasing the payment confirming agreement with the invoice;***
- ***Cheque number or if paid by Bacs, Direct Debit or Standing Order, a unique sequentially numbered payment reference number to ease identification in the Omega cashbooks;***
- ***Date of physical payment'***
- ***Cost Centre and account code; and***
- ***Date of data entry to Omega.***

***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 at the final review.***

- R3. *To further strengthen and formally demonstrate the effectiveness of controls over the approval and release of payments, the existing certification stamp should be replaced with one affording greater indication of the various stages of payment review and approval as set out in the body of the report.*

## **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 Risk Management Plan / Register has been reviewed and adopted by the Council at the July 2021 meeting and have reviewed the content and are pleased to note that the Register includes detail of both financial and physical risks also detailing the controls in place to mitigate them.

We have examined the Council's current year insurance policy arranged through WPS, to ensure that appropriate cover remains in place, noting that Employer's and Public Liability cover stand at £10 and £15 million respectively, together with Fidelity Guarantee cover at £1 million and Business Interruption – Loss of Revenue cover at £20,000, 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.***

## **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 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 2022-23: 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 budget position (i.e., as of 31<sup>st</sup> August 2021) seeking and obtaining explanations for any existing variations by reference to the detailed nominal account transactions recorded in the Omega accounting software with no one requiring further enquiry or investigation

### ***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 2022-23 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 further development aspirations.***

## **Review of Income**

The Council receives income primarily by way of the annual precept, together with limited room hire fees and from a plethora of relatively small miscellaneous sources.

Due to the ongoing Covid19 situation during the early stages of the year, only limited variable income has been received: we note that room bookings at the Museum are beginning to increase, detail now being managed through the RCA Rialtas Booking software. We have acquired detail of

the few chargeable “hirings” that occurred in the last two weeks of August and first two in September 2021 ensuring that appropriate fees have been invoiced in accordance with the approved scales of fees and charges: due to their current limited number we will revisit this area at our final review.

We have examined the nominal account detail in Omega to date for all income headings ensuring as far as is reasonably possible, that all income due has been recovered, again with no issues arising.

### **Conclusions**

*No issues arise in this area currently: we shall undertake further work in this area at our final review visit.*

## **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 again recorded against the code in the current or previous financial year: we are, however, pleased to note that the Omega account now also records the holding as £200.00.

The account is operated on an “imprest” basis with an intended total cash holding of £200, with monthly reimbursement of each month’s expenditure. We have examined three months’ transactions (June to August 2021) checking detail as recorded on the spreadsheet control records to the supporting documentation. We are also pleased to note the implementation of the spreadsheet format we provided at our final 2020-21 visit, although it is not being used as intended with a single line used for each individual voucher and appropriate analysis of the expenses incurred under each nominal ledger code: detail of the purpose of the expenditure, rather than its value is being recorded in the columns. We have discussed this with the Deputy Clerk / RFO who will ensure the more appropriate recording of individual net and VAT payments in the analysis on the spreadsheet to avoid the need for a separate analysing spreadsheet being prepared each month to generate the journal input to Omega.

We have also checked the physical petty cash holding on the day of our visit noting that the combined value of the cash held and, as yet, “un-reimbursed” vouchers, reflects a surplus holding of £30.04 against the £200 imprest. £43.75 is held in physical cash with vouchers totalling £186.29.

### **Conclusions and recommendations**

*Whilst no material matters have been identified in this area, we note the apparent excess holding of £30.04 and suggest that the previously in place independent review / check of the cash and voucher holding be reintroduced to afford a regular check on the accuracy of transaction recoding in the account.*

*We will undertake further work in this area at our final review, physically rechecking and verifying the cash holding to the underlying records at that time.*

*R4. The source of the apparent £30.04 cash surplus should be investigated and appropriate action taken to bring the balance back to the intended £200.00 holding.*

R5. *The previously provided spreadsheet record should be used appropriately to provide an accurate analysis of the monthly spending for creation of a posting journal in Omega when reimbursement is made.*

## **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.

The Council employs a number of staff: the Deputy Clerk / RFO has, as in previous years, provided detail of the NJC spinal point (or hourly rate) and basic weekly hours payable to each employee. We understand that no agreement has yet been reached on a national pay award for 2021-22 and will examine the appropriate application of any such award if it occurs, at our final review.

Consequent on the above, we have checked and agreed the monthly gross salaries paid in September 2021 to virtually all employees who have kindly provided their supporting payslips, due to the ongoing reluctance of the Payroll Manager at Teignbridge to provide the information. We note that the two Facilities Maintenance Officers work overtime and are paid accordingly based on the weekly timesheet detail of total hours worked. Examination of the time sheets supporting the overtime paid with their September salaries reveals that the timesheets do not identify the actual overtime worked and consequently paid and suggest that the documents be amended accordingly to provide for that information's appropriate identification. We also note that the timesheets are not being signed either by the employees themselves or by their supervisor confirming that the overtime was necessarily worked and is appropriate for payment.

Finally, in this area, we have checked detail of the tax, NI and pension (where applicable) deductions for the same month for each employee to ensure that they have been correctly calculated in accordance with the HMRC PAYE and NI tables and appropriate pension scheme deduction percentages with no issues arising.

### ***Conclusions and recommendations***

***As indicated in previous year's reports, we remain concerned that, as the employer of staff, the Council is not being provided routinely with copies of payslips providing full detail of the basis of individual staff pay for retention and internal audit examination (Regulation 5 of the 2015 Accounts and Audit Regulations refers – Statutory Instrument No 234), which states that: -***

***“Internal audit 5.— (1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. (2) Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit— (a) make available such documents and records; and (b) supply such information and explanations; as are considered necessary by those conducting the internal audit. (3) In this regulation “documents and records” includes information recorded in an electronic form.”***

***As advised previously, the responsible officer at TDC should be reminded of this statutory requirement, which overrides GDPR considerations to ensure that all necessary supporting documents (i.e., pay slips, actual documentation supporting HMRC & pension fund administrator's payment detail) is available for our examination – not just a TDC generated spreadsheet record summarising the information) to facilitate verification of the Council's payroll costs.***

*R6. The Facilities Maintenance Officers' timesheets should be amended to make provision for identification of the overtime hours payable, together with provision for the officers to sign the timesheets and for their counter-signature by their supervisor confirming the overtime as necessarily worked and payable.*

## **Investments and Loans**

The council has placed surplus funds amounting to £374,000 in a deposit account with CCLA, which is earning interest monthly, albeit at relatively low rates due to the current financial situation resulting from Covid.

We have checked and agreed the first two 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 31<sup>st</sup> March 2022 in the year's AGAR at Section 2, Box 10.*

| Rec. No   | Recommendation   | Response |
|---|--|----------|
| <b>Maintenance of Accounting Records &amp; Bank Reconciliations</b> |  |          |
| R1  | A nominated councillor should, in line with best practice and as detailed in the NALC model Financial Regulations, review bank reconciliations, together with supporting bank statements and Omega cashbook detail quarterly, indicating completion of the review by signing / initialling and dating all three documents. |          |
| <b>Review of Corporate Governance</b>                               |  |          |
| R2  | The Council's Standing Orders and Financial Regulations should both be reviewed and brought into line with best practice as set out in the NALC model documents, being tailored appropriately to meet the Council's specific requirements and reflect actual approved working practices.                                   |          |
| <b>Review of Expenditure &amp; VAT</b>                              |  |          |
| R3  | To further strengthen and formally demonstrate the effectiveness of controls over the approval and release of payments, the existing certification stamp should be replaced with one affording greater indication of the various stages of payment review and approval as set out in the body of the report.               |          |
| <b>Petty Cash Account</b>   |  |          |
| R4  | The source of the apparent £30.04 cash surplus should be investigated and appropriate action taken to bring the balance back to the intended £200.00 holding.  |          |
| R5  | The previously provided spreadsheet record should be used appropriately to provide an accurate analysis of the monthly spending for creation of a posting journal in Omega when reimbursement is made.   |          |
| <b>Review of Staff Salaries</b>                                     |  |          |
| R6  | The Facilities Maintenance Officers' timesheets should be amended to make provision for identification of the overtime hours payable, together with provision for the officers to sign the timesheets and for their counter-signature by their supervisor confirming the overtime as necessarily worked and payable.       |          |