

# **Newton Abbot Town Council**

*Internal Audit Report: Interim 2022-23*

---

*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 2022-23 financial year, during our interim review of the Council's records for the year, which has been undertaken partially in advance at our offices and on site on 27<sup>th</sup> October 2022. 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 commencing 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 2022-23, 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 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 with daily, as required, automatic 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: the only transactions on this account annually, other than the occasional additional deposit or withdrawal, are the application of monthly interest, which is paid directly into the Lloyds account by CCLA.

We have to date: -

- Ensured the accurate roll forward of the 2021-22 closing balances as opening balances in the 2022-23 Omega accounts;
- Ensured that the accounts remain “in balance” on 30<sup>th</sup> September 2022;
- Checked two months’ transactions on the combined Current and Instant Accounts cashbook (April and September 2022) by reference to supporting bank statements;
- Checked the accuracy of bank reconciliations on the same two accounts on 30<sup>th</sup> April and September 2022 with no uncleared payments or other unresolved anomalies existing at 30<sup>th</sup> September 2022;
- 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 year-to-date receipt of interest to the monthly CCLA statements provided.

### ***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) sets out at para 2.2 that bank reconciliations should be the subject of independent review (i.e., neither by the Chairman nor a bank signatory) at least once quarterly. In order that an effective process is in place, we suggest that the checking councillor should also be provided with and formally sign-off the supporting month-end bank statements and cashbooks or a copy of the Trial Balance at each month-end, which will provide evidence of the cashbook month-end balances, 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 Lloyds’ account transactions to bank statements and the monthly receipt of CCLA Deposit Fund interest, also ensuring the accuracy of the year-end bank reconciliations on the cashbook and nominal account records respectively in use, also ensuring the accurate disclosure of the combined cash and bank balances in the year’s AGAR at Section 2, Box 8.***

***R1. A nominated councillor should, in line with best practice and as detailed in the NALC model Financial Regulations, review and sign-off bank reconciliations, together with supporting bank statements and Omega cashbook detail at least once quarterly, thereby effectively evidencing completion of the review.***

## 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. We are aware of the whistleblowing allegations raised during the summer and reiterate our previous statement that we have no concerns about the way the financial aspects of the Newton's Place project were managed with members kept aware of the schemes' progress throughout its duration also approving payments in accordance with the extant procedures.

We note that the Council's SOs have been reviewed recently and that members have opted to retain their existing format rather than switch to the NALC model document style. We also understand that the Financial Regulations (FRs) are similarly due for review in the near future and suggest that the existing document is brought more closely into line with the NALC model, particularly in relation to recommendation R1 above. We have provided an electronic copy of the NALC model document to assist the process.

We note that the external auditors have still to finalise their review of the 2021-22 AGAR and sign-off their Certificate: we have asked the RFO to keep us posted on the outcome of their review and to provide a copy of their certificate / report once received. We are pleased to note that a formal Notice of Public Rights for 2021-22 has been published as required by 2015 Accounts and Audit Regulations,

### *Conclusions and recommendation*

*As indicated above, the FRs are imminently due for review, update and adoption: we suggest that they are aligned more closely with the NALC model document and have provided the RFO with an electronic copy of the latest document to assist the review.*

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

*R2. The Council should, ideally in reviewing its extant Financial Regulations, align them more closely to the NALC model document (see also Recommendation R1).*

## 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 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 37 individual payments, including the Museum Non-Domestic Rate bill paid over 10 months of the year, processed in the financial year to 30<sup>th</sup> September 2022: our test sample includes all those payments 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 £197,000 equating to 52% by value of the non-pay related payments processed to date with all the above criteria met.

### **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 at the final review.*

## **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 June 2022 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 £15,000, 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 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 2023-24: 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 30<sup>th</sup> September 2022) and, where any significant variances exist, sought and obtained through discussion with the RFO and review of the Omega detailed transaction reports, appropriate explanations for their existence with none 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 2023-24 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 room hire fees at the Museum / Council offices and from a plethora of relatively small miscellaneous sources.

Due to the easing of Covid we note that room bookings at the Museum / Council offices have increased this year: consequently, we have examined the manuscript booking diary identifying fee paying (and other) hires during July 2022. The hire fees are detailed in the Council's website together with the Terms and Conditions of hire: examination of the latter and the file of completed forms affords no indication that hirers have or are required to sign the forms acknowledging acceptance of the hire Terms. Whilst unlikely to be an issue due to the general nature of the hirers, best practice suggests that in the, albeit unlikely, event of any damage occurring, hirers should be required to sign the document acknowledging acceptance of the Terms and Conditions of hire.

We have, subsequent to our visit, been provided with a further document – "Premises use policy" which goes into greater depth on several issues, including the type of organisation that may hire rooms and also identifying the various fees and charges applying dependent on the nature of the hirer. Contrasting that document with the fees published on the Council's website indicates a few disparities in the detail.

We note that the booking diary identifies the hire period and, where applicable (i.e., for charitable bodies) that the hire is "Free of charge – FOC". We also understand that for some quasi-charitable bodies fees are charged at 50% of the full rate. Invoices are raised periodically, dependent on whether the booking is one of a series of hire dates or a single hire, copies being retained on a separate file to the booking forms. Examination of that file indicates that invoices are not

necessarily annotated with either a “one-off” or sequential reference number and, consequently, those numbers are not recorded on the booking diary. We are, however, pleased to note that the invoices are annotated with the date of payment with those paid and unpaid held in separate sections of the file.

We suggest that the operative controls in this area be improved to afford a clear and comprehensive audit trail, ensuring consistency between the website published fees and those on the “Premises use Policy”, also implementing the following controls: -

- ✓ Hire forms should be signed by the hirers confirming understanding and acceptance of the Terms and Conditions of hire;
- ✓ Invoices should be raised with sequential numbers, with that number clearly recorded both on the invoice and in the booking diary;
- ✓ Copy invoices should be held on file in sequential number order and, when payment is received, the payment date, as currently, should be recorded on the invoice: to further help identification of unpaid amounts, we suggest that, once paid, the top right-hand corner of the invoice should be cut off;
- ✓ A more transparent and formally recorded policy on “free” hires and those to be charged at 50% 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%;
- ✓ As above the table of fees and charges in the “Premises use policy” and those published on the website should be examined/ revised to ensure consistency and clarity for potential hirers.

Other than in relation to strengthening controls and affording a more transparent audit trail, as above, no issues have arisen from our examination of this income stream.

We will examine further income streams at our final visit and report accordingly

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

***As indicated above, controls over the recording of bookings of rooms at the Museum, should be strengthened to afford the Council greater protection in the event of any damage occurring during a hire and to provide a more transparent and easily traceable audit trail.***

*R3. Controls and documentation relating to the hire of rooms at the Museum should be revised to ensure consistency and strengthened, as detailed in the body of the report, to provide a clear audit trail from booking to payment of fees due, etc.*

## **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. As and when expenses are incurred, they are reimbursed periodically (generally monthly) with full analysis of the expenditure codes being charged provided in the Omega payments cashbook.

We have examined three months' transactions (March & April, plus September 2022) checking detail as recorded on the spreadsheet control record to the supporting documentation.

We have also checked the physical petty cash holding on the day of this first visit for 2022-23 agreeing the cash holding, together with one voucher, 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 2022-23 and will examine the appropriate application of any such award at our final review visit assuming a settlement is reached.

Consequent on the above, we have checked and agreed the monthly gross salaries paid in October 2022 for all employees to the RFO's schedule having been provided with copies of staff payslips by the Payroll Department at TDC who provide the Council's payroll service. We note that the three Facilities Maintenance Officers (FMOs) work overtime and are paid accordingly based on their weekly timesheet detail of total hours worked, which we are also pleased to note are reviewed and signed-off by the FMOs and certified accordingly by the RFO confirming that the overtime was necessarily worked and is appropriate for payment.

Finally, in this area, we have also verified the accuracy of the tax, NI and pension deductions for October 2022 for each employee by reference to the HMRC PAYE and NI tables and appropriate pension scheme deduction percentages with no issues arising.

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

***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 31<sup>st</sup> March 2023 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 and sign-off bank reconciliations, together with supporting bank statements and Omega cashbook detail at least once quarterly, thereby effectively evidencing completion of the review.	Although the Council has resolved to retain NATC's current Financial Regulations, it has decided to introduce this additional recommended check, which has been carried out from November 2022.
<b>Review of Corporate Governance</b>		
R2	The Council should, ideally in reviewing its extant Financial Regulations, align them more closely to the NALC model document (see also Recommendation R1).	<p><b>A detailed comparison between the NATC and NALC model Financial Regulations was carried out on 2<sup>nd</sup> November 2022, and it was:</b></p> <p><b>RESOLVED</b> that the Council's current Financial Regulations, as adopted in March 2022 be hereby, approved and adopted subject to the inclusion of the word CCLA on page 14, item 3c and confirmation that interest is regularly transferred back to the fund.</p>
<b>Review of Income</b>		
R3	Controls and documentation relating to the hire of rooms at the Museum should be revised to ensure consistency and strengthened, as detailed in the body of the report, to provide a clear audit trail from booking to payment of fees due, etc.	The Premises Use Policy has been amended and will be reviewed by the Policy & Resources Committee on 15 <sup>th</sup> February 2023