

Newton Abbot Town Council

Internal Audit Report: Final update 2022-23

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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 2022-23 financial year, during our review visits to the Council's for the year, which took place on 27th October 2022 and 10th May 2023, together with remote work at our own offices. 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 completion of our review for the year.

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 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.

Overall Conclusions

We are pleased to advise that, based on the work undertaken this year, 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. No additional issues have been identified at our final review and we have recorded the current status of action to address the interim report recommendations in the body of this report and appended action Plan.

Based on the overall satisfactory conclusions drawn from our work programme this year, we have duly signed off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area.

We take this opportunity to remind the Clerk and RFO of the requirements of the guidance notes in the year's AGAR in relation to the documentation that should be displayed on the Council's website, together with the need to ensure compliance with the timing requirements for publication of the Notice of Public Rights to examine the Council's financial and other documentation for the year.

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.

Consequently, we have: -

- 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” at the financial year-end;
- Checked four months’ transactions on the combined Current and Instant Accounts cashbook (April and September 2022, plus January & March 2023) by reference to supporting bank statements;
- Checked the accuracy of bank reconciliations on the same two accounts on 30th April and September 2022, plus 31st January and March 2023 with no long-standing uncleared payments or other unresolved anomalies existing at the year-end;
- 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’s receipts of interest to the monthly CCLA statements; and
- Ensured the accurate disclosure of the combined cash and bank account balances in the year’s AGAR at Section 2, Box 8.

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.

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. The Council determined to and has implement this additional check with effect from November 2022.

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 and to date in 2023-24 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. 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) have, following our interim report recommendation, also been reviewed and contrasted with the NALC Model document with members determining to also retain them in their present format subject to a minor amendment in relation to the treatment of CCLA Deposit Fund interest.

We note that the external auditors have finalised their review of the 2021-22 AGAR and have recently signed it off with no significant issues raised other than in relation to the dates of publishing the 2021-22 Notice of Public Rights, which were dated outside the statutorily required period due to the aforementioned whistleblowing issue. Consequently, we shall be required to give a negative response at Box M of the 2022-23 AGAR as will the Council in the year's Governance Statement at Box 4.

We also take this opportunity to advise the Clerk and Council of a recent revision to the Public Contract Regulations clarifying the value at which contracts must be published on the Government's Contract Finder website: the value is now clarified as £30,000 including VAT, which should now be identified accordingly in the Council's SOs and FRs when they are next reviewed and re-adopted.

Conclusions and recommendation

No residual issues arise in this area this year other than to remind the Council to ensure that the appropriate response is given in the year's AGARs Governance Statement at Box 4.

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). These have been reviewed and re-adopted with members determining to retain them in their present format with one minor amendment.

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 discussed the payment approval and release processes with the RFO during our interim review considering that the controls in place remained effective with an appropriate degree of segregation of duties between setting up online payments and their physical release. We are also pleased to note that a certification stamp is 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 sample of 82 individual payments, including the Museum Non-Domestic Rates bill paid over 10 months of the year, processed in the financial year. Our test sample includes all payments individually in excess of £3,000, together with a more random sample of every 40th payment, as listed in the Omega cashbooks and totals £395,350 equating to 52% by value of the non-pay related payments processed in the year 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 warranting formal comment or recommendation this 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 Risk Management Plan / Register has been reviewed and re-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.

We are pleased to note the satisfactory conclusion of the Council's 2023-24 budget and precept deliberations with the latter formally approved and adopted by Council at £1,284,500 at the January 2023 full Council meeting.

We are again pleased to note that members continue to receive periodic budget reports throughout the year, also again noting that in a number of areas expenditure has been charged to nominal account codes with no assigned budget. We have discussed the position with the RFO and understand that an appropriate exercise has taken place to ensure that appropriate budgets are set up and recorded in Omega for 2023-24 to help ensure that expenditure will be charged against the appropriate heading and covered by an allocated budget. We have examined the detailed transactions for the year on those headings where either relatively significant variances to the approved budget have arisen or where significant spends have occurred against a recorded zero budget with no residual concerns arising.

Similarly, we have noted previously that members are reluctant to allocate potential income budgets in a number of areas due to the uncertainty over the potential amounts to be received and do not consider this a significant issue. We have, as above where significant income variances exist, examined the detailed transaction reports in the Omega accounts obtaining appropriate explanations in every case with no residual issues requiring further enquiry or comment.

We have also considered the appropriateness of the level of retained reserves noting that total funds at the financial year-end stand at £630,000 comprising the General Reserve balance of £126,000 and earmarked reserves (EMRs) of £504,000 including ringfenced CIL money of £108,000.

Conclusions

No issues arise in this area warranting formal comment or recommendation. We shall continue to monitor budgetary performance at future reviews ensuring, as far as we are reasonably able, that no significant unexplained or anticipated variances exist.

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, at our interim review we 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 were, subsequent to the interim visit, 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 indicated a few disparities in the detail.

We noted 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 indicated 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 have at this final review visit, examined the controls and records relating to the Christmas Fayre and income received from stall holders with no issues arising. We have, similarly, examined income arising from donations to the Museum again with no issues arising.

We note that a year-end stock check of museum sale items has been undertaken, the resultant purchase cost value of stock held being appropriately recorded in the financial ledger at the year-end.

Finally in this area, we have examined the Sales Ledger “unpaid invoices by date” report generated by the Omega accounts and are pleased to note that, as at 31st March 2023 no significant or long-standing debts remained unpaid.

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. Appropriate action has been taken as recommended.

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 during our interim visit agreeing the cash holding, together with one unreimbursed payment, 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. Consequent on this, we 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

We are pleased to record that no issues arise in this area this year warranting formal comment or recommendation. We note that the RFO has negotiated an agreement with an alternative payroll provider for 2023-24 (DCK Accounting) and that all relevant payroll detail, including copy payslips are now, in 2023-24, being provided each month.

Fixed Asset Registers

The Practitioner's Guide requires all councils to maintain a record of all assets owned. We have recorded previously that the register, in its present state, identifies assets in groups at a very high level and should, in line with best practice identify greater specific detail for each Council owned asset. We have again reviewed the existing register noting that the few new acquisitions in 2022-23 had not been added to the register with the result that the AGAR asset value at 31st March 2023, as initially provided for our examination, remained unchanged from that at the prior year-end.

We have discussed the position in this respect with the RFO that they would be added to the asset register and are pleased to record that the register was updated during our visit with the revised value duly recorded in the AGAR at Section 2, Box 9.

We also note that the Council has acquired the Rialtas asset register software and that the RFO is in the process of populating it, although work on this had not been completed by the financial year-end. We are also pleased to note the intention to include photographic detail in the Rialtas register and will check on progress at our 2023-24 interim review.

Conclusions

As indicated above, we shall check on progress with the population of the Rialtas asset register at our 2023-24 interim review reporting our conclusions accordingly. Given the action taken by the RFO during the course of this final review for 2022-23 to identify and update the existing asset register appropriately, we do not consider a formal recommendation as being required.

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, which is credited accordingly to the Council's Current bank account.

We have checked and agreed the two half-yearly PWLB repayments for the year to their demand invoices as part of our previously referenced expenditure review with no issues arising. We have also, at this final review visit, agreed the year-end residual loan liability to the PWLB

confirmatory advice note of the balance repayable at that date ensuring its accurate reporting in the AGAR at Section 2, Box 10.

Conclusions

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

Statement of Accounts / AGAR

The Accounts and Audit Regulations, as amended periodically, require all councils to prepare annually a Statement of Accounts, now in the form of the AGAR, which, together with the Annual Governance Statement, is subject to independent external audit examination and certification.

As part of our review process, we have examined the Council's procedures in relation to the identification of detail for inclusion in the AGAR, which for most values is generated automatically by the Omega accounting software and duly verified the accuracy of that detail subject to the above referenced issues that were corrected during the course of our final review visit.

Conclusions

We are pleased to record that no additional issues arise in this area this year and we have duly signed off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area, except in relation to the timing dates for publication of the Notice of Public Rights for 2021-22, as also referred to in that year's external audit report.

Rec. No	Recommendation	Response
Maintenance of Accounting Records & Bank Reconciliations		
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.	<i>The Council determined to and has implement this additional check with effect from November 2022.</i>
Review of Corporate Governance		
R2	The Council should, ideally in reviewing its extant Financial Regulations, align them more closely to the NALC model document (see also Recommendation R1).	<i>These have been reviewed and re-adopted with members determining to retain them in their present format with one minor amendment.</i>
Review of Income		
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.	<i>Appropriate action has been taken as recommended.</i>