

# **Teignmouth Town Council**

*Internal Audit Report: Final update 2021-22*

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## **Background**

Statute requires all town and parish councils to arrange for an independent Internal Audit (IA) examination of their accounting records and systems of internal control and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR).

This report sets out the work undertaken in relation to the 2021-22 financial year, during our three reviews for the year, which took place both in advance at our offices and on site on 19<sup>th</sup> October 2021, 9<sup>th</sup> February and 24<sup>th</sup> / 25<sup>th</sup> May 2022. We thank the Council staff in assisting the process, providing all necessary documentation to facilitate the conduct of this year's review.

## **Internal Audit Approach**

In undertaking our review, we have again had regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts / AGAR. Our programme of cover, as applied to all clients, is designed to afford appropriate assurance that the Council's financial systems are robust and operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'IA Certificate' in the Council's AGAR, which requires independent assurance over a selection of internal control objectives.

## **Overall Conclusion**

The work undertaken this year on the Council's accounting and other records is set out in the following detailed report with any resultant recommendations then summarised in the appended Action Plan.

We have identified several issues requiring attention, detail of which is set out in the following report. The main concern revolves around the Council's budgetary process where concerns remain over the effectiveness of the budget procedures as regards recording transactions during 2021-22 and establishing a sound baseline budget for 2022-23.

We note the departure of both the former Clerk and Responsible Finance Officer (RFO) with the promotion of the former Projects and Facilities Manager now appointed as Town Clerk with a locum Finance Officer also now in place. We have noted a number of concerns over the management of the Council's financial affairs during the year and have discussed detail with the newly appointed Clerk, locum RFO and Chair of the Finance Committee.

We take this opportunity to remind the new Clerk of the requirements of the disclosure requirements of the Accounts and Audit Regulations 2015, as also set out in the preface to the 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 documentation for the financial 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 and financial ledgers maintained in-house during the majority of the financial year by the former RFO. The Council has continued to use the Rialtas Omega accounting software to maintain its financial records with three bank accounts in place at Barclays, the Current and Business Savings Accounts being combined in a single Omega cash book, whilst a further account is operated in a separate cashbook. We noted last year that, following our previous recommendation, a significant sum was transferred to the CCLA Deposit Fund with transactions duly recorded in a further Omega cashbook.

To assess the adequacy, accuracy and appropriateness of transactions in 2021-22, we have:

- Ensured the accurate carry forward of the prior year closing balances, as reported in the year's AGAR, as opening balances in the accounting software for 2021-22;
- Ensured that a formal coding structure remains in place to facilitate reporting of budgetary performance throughout the year (see later comments in this respect);
- Ensured that the Omega ledgers remain in balance as at the financial year-end;
- Verified the combined Current and Business Savings Account transactions for April, September 2021, January and March 2022 by reference to supporting bank statements, also verifying detail of inter-account transfers between the two accounts for those same months;
- Verified, in view of their relatively low volume, detail of all transactions for the financial year on the third Barclays Account and CCLA Deposit Fund to supporting bank statements / documentation;
- Verified the accuracy of bank reconciliations on all accounts at 30<sup>th</sup> April and September 2021, plus 31<sup>st</sup> January and March 2022; and
- Ensured the accurate recording of the combined account balances in the year's AGAR at Section 2, Box 8.

### *Conclusions and recommendation*

***We note that bank reconciliations are prepared routinely at each month-end and are subjected to evidenced review and "sign-off" by members. To further strengthen controls and in line with best practice and the Council's adopted Financial Regulations (FRs Para 2 refers), the councillor reviewing bank reconciliations at each month-end should also be provided with copies of the monthly cashbooks and bank statements so that those values, as recorded on the reconciliation statements can be verified. Both the cashbooks and bank statements should be signed off as evidence of the review and agreement of detail recorded on the bank reconciliation.***

*RI. The councillor reviewing month-end bank reconciliations should be provided with and sign-off the month-end bank reconciliation and cashbook page providing evidence that they have reviewed and agree those values as recorded on the reconciliation to the supporting records.*

## Review of Corporate Governance

Our objective here is to ensure that the Council has a robust regulatory framework in place; that Council and Committee meetings are conducted in accordance with the adopted Standing Orders

(SOs) and that, as far as we are reasonably able to ascertain, given that we do not attend meetings, no actions of a potentially unlawful nature have been or are being considered for implementation. We also aim to ensure that appropriate policies, procedures and protocols are in place to prevent and provide a reasonable assurance of the detection of any fraudulent or corrupt activity.

We have continued our review of the Council's minutes examining those for the financial year and to date in 2022-23 as posted on the Council's website to establish whether or not any issues are apparent that may have an adverse effect, through litigation or other causes, on the Council's future financial stability and are pleased to record that no such concerns appear to exist currently.

We noted last year that the Council's SOs were reviewed and re-adopted in May 2020 to reflect the necessary changes in Council working arrangements in the light of the Covid situation, both consequently being in line with the latest published NALC model documents. We have also noted the review and adoption of revised Financial Regulations (FRs) in October 2021 and have reviewed their content which we consider appropriate for the Council, also noting that both the SOs and FRs refer to a consistent tender limit of £25,000

We also note that the external auditors completed their review of the 2020-21 AGAR signing it off with no significant adverse comments reported.

### ***Conclusions***

***We are pleased to record that no issues of concern arise in this review area, although we understand that concerns were expressed during the year about the accuracy of expenditure coding: we shall continue to monitor the Council's approach to governance issues at future reviews, also continuing our review of future meeting minutes.***

## **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 reviewed the procedures in place for the approval of payments and their release with the RFO at our interim visits and considered them appropriate for purpose: we also acknowledged the ongoing improvement in the way documentation supporting payments was being filed. We note that the documentation supporting payments is now being filed in the Cloud and we will, consequently, have to change our approach to reviewing that documentation at future reviews, also reconsidering the appropriateness and effectiveness of member scrutiny and approval of payments for release now that hard copy documents are not being retained.

In order to confirm the effectiveness of the control and governance arrangements over payments for the year, we have selected an extended sample of individual payments processed. Our test sample includes all individual payments in excess of £2,500 plus a more random sample of every 40<sup>th</sup> payment listed in the cashbooks in the year and includes 65 individual payments, plus the NNDR payments due in respect of Bitton House paid monthly during the year. Our test sample totals £252,600 equating to 53% by value of non-pay related expenditure in the financial year.

We note that, in conjunction with our review of budget reporting, expenditure has been recorded in a number of areas against nominal account codes where no budget is recorded (see later section of this report in that respect).

We have also ensured, by reference to the Omega nominal ledger, that VAT reclaims have been prepared and submitted to HMRC routinely during the year, also verifying the reclaimed amounts to the control account detail.

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

***Whilst no concerns have been identified in this area over the processing of payments for the majority of 2021-22, we shall need to examine and assess the effectiveness of the controls now in place (at our next review visit) over the processing and approval of payments for release with the move to paperless retention of invoices. No specific concerns exist in this area currently other than in relation to the accuracy of coding which should and has been the subject of councillor comment during the year seemingly with no corrective action taken.***

*R2. With the move to Cloud based retention of payment documentation, appropriate arrangements should be put in place to both ensure that the processing of payments is effectively managed and controlled with appropriate hard copy documentation prepared and retained demonstrating members involvement in and control over the authorisation and release of payments to provide effective evidence of the discharge of their fiduciary responsibilities.*

## **Assessment and Management of Risk**

Our aim here is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks to minimise the opportunity for their coming to fruition.

We note that the Council has reviewed and re-adopted a formal risk register at its meeting in January 2022 and consider the document generally appropriate for the Council's present requirements, although it could be argued that, in the light of the staffing situation facing the Council towards the end of 2021-22 with the loss of both the Clerk and RFO, no robust arrangements were in place to manage such an eventuality, albeit a very exceptional situation.

We have examined the Council's 2021-22 insurance policy schedule, noting that Employer's and Public Liability cover are in place at £10 million and £15 million respectively, together with Fidelity Guarantee (FG) cover at £500,000 and Business Interruption – Loss of Revenue cover at £75,000, all of which we consider appropriate for the Council's present requirements.

## *Conclusions*

*We are pleased to report that no issues arise in this area currently warranting formal comment or recommendation: we will continue to monitor the Council's approach to risk management at future reviews.*

## **Precept Determination and Budgetary Control**

We aim in this area to ensure that the Council has sound procedures in place for determining its annual budgetary and precept requirements, together with appropriate monitoring procedures to highlight any potential overspending or other significant variance as soon as it may become apparent.

In examining the final year-end budget outturn for 2021-22, we have noted a number of apparent anomalies in the coding of expenditure with many nominal account codes showing expenditure against codes with no budget recorded. We understand that the former Clerk, at the request of the Assets and Facilities (A&F) Team, had worked out new codes to facilitate better monitoring of expenditure across the various projects, etc that they managed.

Whilst the additional codes were set up in the Omega software, no virement of budgets to these codes was undertaken with the result that expenditure has been recorded against these codes and that they effectively show overspends.

We understand that significant concerns have been identified by the new Clerk and councillors over the robustness of the deliberations surrounding agreement and setting of the budget and precept for 2022-23. For political expediency the latter was set at £791,369 which represented a significant shortfall compared with the projected budget prepared by the former Clerk and RFO.

As a consequence of setting the precept significantly below the proposed budget, together with the need to realign the Omega nominal account codes , in order to generate a workable budget which can be fed into the accounts software to facilitate the production of meaningful management accounting / budget reporting information significant work is required and is under way currently to ensure that the appropriate budgetary information is generated in the accounts and that expenditure to date in the year is coded appropriately.

## ***Conclusions and recommendation***

***From the above, it is apparent that urgent work is required and is in hand to amend / update the Council's nominal account coding structure to reflect appropriate budget heads and ensure accurate reporting of expenditure and income in 2022-23. Consequently, we shall visit this area of financial control as a first call at our 2022-23 first interim review visit.***

- R3. A more meaningful and, where appropriate, rationalised cost centre and nominal account code structure should be developed as soon as practicable for 2022-23, that detail being fed into the Omega accounts for the year with actual income and expenditure also entered appropriately as soon as practicable to afford for effective budget management and control.*
- R4. Once established and income / expenditure data for 2022-23 has been input, members should be provided with regular, at least quarterly, budget reports either generated directly by the accounting software or in downloaded spreadsheet format. These should be subjected to detailed scrutiny and, if / where appropriate, formally recorded explanations of any significant variances from the approved budget.*

## Review of Income

The Council receives income primarily by way of the annual precept, together with office rentals & room hire fees at Bitton House, toilet income collected on behalf of the Council by TDC and paid over as a standard contract sum each month, CIL moneys, grants, donations, VAT reclaims and various other minor sources of variable income.

We have examined the controls in place over the hire of Council facilities at Bitton House examining invoices relating to bookings recorded in the Rialtas Bookings diaries for November 2021 ensuring that the appropriate fees were charged in each case.

We have ensured that income receivable monthly from Teignbridge DC in relation to public toilets and also tenancy rents of rooms at Bitton House are being received routinely with no issues arising.

We have also examined the status of unpaid debts as at 31<sup>st</sup> March 2022 noting the existence of 6 unpaid invoices raised prior to 1<sup>st</sup> January 2022. Whilst appreciating the impact on routine working following the departure of the former Clerk and RFO, we urge that appropriate action is taken to pursue any of these and any subsequent unpaid debts as soon as is practicable.

### *Conclusions and recommendation*

*Whilst no significant concerns have been identified in this area, we urge that appropriate action is taken to pursue any long-standing debts remaining unpaid at the current time.*

*R5. Action should be taken to pursue any residual long-standing debts (i.e., those three or months old at the present date) to ensure recovery as soon as possible.*

## Petty Cash Account

*The Council closed the petty cash account during 2020-21: consequently, we shall again indicate this as “Not applicable” when signing-off the 2021-22 IA Certificate in the year’s AGAR.*

## Review of Staff Salaries

In examining the Council’s payroll function, we aim to confirm that salaries are paid 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.

We have been provided with detail of the staff in post, together with their contracted spinal point on the National NJC scale (or hourly rate where “off-scale”) and contracted basic weekly working hours. Consequently, we have checked to ensure that all staff monthly gross salaries paid in September 2021 correspond to the Council agreed salary rates for each with no issues arising. We have also ensured that the tax, NI and, where applicable, pension contributions have been deducted at the appropriate rates.

The Council continues to use the services of TDC to prepare the monthly payroll and physically pay staff their salaries, together with payments to HMRC and the Pension Fund Administrators, recharging the Council each month with the total gross cost to the Council with a standing order of

£11,000 and the balance invoiced separately by TDC. TDC have provided us with detail of each staff member's Tax Code to facilitate our verification of the tax deductions applied in the September 2021 payroll.

We have made previous reference to the need for the Council, as the employer of staff, to be provided with full and appropriate detail of staff pay each month, ideally including copies of staff payslips, but have seen no change in working practice to date.

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

***As last year, we consider that, as the employer of the staff, the Council should be provided routinely with copies of payslips and all other relevant documentation supporting the payments made to staff, HMRC and the Pension Fund Administrators, as without that documentation, the Council cannot effectively verify the amounts paid to TDC each month. We also again draw the Council and TDC officers to the audit regulations surrounding provision of information for the effective completion of an audit, both internal and external (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.”***

***The responsible officer at TDC has and continues to be reticent to provide the necessary documentation and we will again, as advised previously, endeavour to discuss the position with the DC's Chief Officer to try and reach a satisfactory conclusion and means for us to complete our review process more effectively in this area whilst also ensuring that, as the employer, the Town Council is provided with all relevant documentation.***

***R6. As the employer of staff and in order that the Council may effectively verify the charges made by TDC for staff pay, tax, NI and pension contributions, full and appropriate supporting documentation should be provided routinely to the Town Council.***

## **Fixed Asset Registers**

The Practitioner's Guide requires councils to maintain a formal register of their assets with the nominal (i.e., purchase costs net of VAT) reported in the year's AGAR. This value should only be amended year-on-year to reflect the purchase cost of any new additions or, again at nominal value, the reduction in value following disposal of assets.

We noted last year that the Council had purchased the RBS asset management software, which has been implemented with the asset cost price automatically fed into the Omega AGAR detail, which value is entered on the year's AGAR at Section 2, Box 9.

We also note that the register records detail of a plethora of low value purchases during the year, many with a value of less than £50. Whilst the maintenance of an inventory for such items is commendable, normal practice is for councils to determine a formal value below which new acquisitions are regarded as inventory items rather than “fixed assets”.

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

***As indicated above, consideration should be given to determining a formal value of, say £500, at which assets are recorded in the asset register and the AGAR at Section 2 Box 9. Items valued below that should, ideally, be recorded in a separate inventory record.***

*R7. Consideration should be given to establishing a formal value above which new and existing acquisitions are regarded as “fixed assets”, with those below that value recorded in a separate “inventory” register.*

## **Investments and Loans**

Statutory guidance on local government investments (3rd Edition) issued under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1 April 2018 reduced the level at which councils are now required to develop and maintain an Investment Strategy / Policy from the former £500,000 to £100,000.

Whilst the Council has a policy in place, it is embodied within the Financial Regulations (FRs) and we suggest that consideration be given to separating the two elements (FRs and Investment Strategy) into two separate documents. To assist the process, we have provided the new Clerk with electronic copies of the latest NALC model FRs and, a copy of the Statutory Guidance on Investments and a couple of examples of documents in use at a couple of our other clients.

The Council has no loans in place either repayable by itself or to it from external bodies: consequently, nil values will again be required to be recorded in the relevant boxes of Section 2 of the year’s AGAR.

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

***As indicated above, we suggest that the Council should develop and adopt stand-alone Financial Regulations and Investment Strategy / Policy documents.***

*R8. A suitably designed and independent (from the Financial Regulations) Investment Policy / Strategy document should be developed and be adopted by the Council as required by extant legislation.*

## **Statement of Accounts and AGAR**

The Council has now closed-down the 2021-22 accounts with assistance from the Locum Finance Officer and RBS with a Balance Sheet, Income and Expenditure Account and detail for inclusion at Section 2 of the year’s AGAR automatically generated. We have, consequently, in conjunction with the Locum FO, verified the detail to be disclosed in Section 2 of the AGAR for the year noting an apparent anomaly on the Purchase ledger with a year-end debit balance of £9,653 recorded: this arises in relation to Everflow with 4 credit notes recorded dating back as far as January 2021. The position in respect of the Everflow account should be examined and, if appropriate, remedial action taken to correct the position.

### *Conclusions and recommendation*

*Consequent on the conclusion of our programme of work for the year we have duly “signed off” the IA Certificate in the year’s AGAR, assigning positive assurances in all areas, excepting that in relation to budgetary control.*

*We take this opportunity to remind the new Clerk of the need to ensure that all required disclosures, as set out in the preface to the year’s AGAR, are posted on the Council’s website, including the Notice of Public Rights to examine the Council’s financial records, also ensuring that the timing requirements are also observed appropriately.*

*R9. Appropriate action should be taken to either recover the apparent overpayment to Everflow resulting in a debit balance of almost £10,000 on the Purchase ledger or to ensure it is appropriately offset against current and future unpaid bills.*

Rec. No	Recommendation	Response
<b>Review of Accounting Arrangements and Bank Reconciliations</b>		
R1	The councillor reviewing month-end bank reconciliations should be provided with and sign-off the month-end bank reconciliation and cashbook page providing evidence that they have reviewed and agree those values as recorded on the reconciliation to the supporting records	
<b>Review of Expenditure &amp; VAT</b>		
R2	With the move to Cloud based retention of payment documentation, appropriate arrangements should be put in place to both ensure that the processing of payments is effectively managed and controlled with appropriate hard copy documentation prepared and retained demonstrating members involvement in and control over the authorisation and release of payments to provide effective evidence of the discharge of their fiduciary responsibilities.	
<b>Precept Determination and Budgetary Control</b>		
R3	A more meaningful and, where appropriate, rationalised cost centre and nominal account code structure should be developed as soon as practicable for 2022-23, that detail being fed into the Omega accounts for the year with actual income and expenditure also entered appropriately as soon as practicable to afford for effective budget management and control.	
R4	Once established and income / expenditure data for 2022-23 has been input, members should be provided with regular, at least quarterly, budget reports either generated directly by the accounting software or in downloaded spreadsheet format. These should be subjected to detailed scrutiny and, if / where appropriate, formally recorded explanations of any significant variances from the approved budget.	
<b>Review of Income</b>		
R5	Action should be taken to pursue any residual long-standing debts (i.e., those three or months old at the present date) to ensure recovery as soon as possible.	
<b>Review of Staff Salaries</b>		
R6	As the employer of staff and in order that the Council may effectively verify the charges made by TDC for staff pay, tax, NI and pension contributions, full and appropriate supporting documentation should be provided routinely to the Town Council.	

Rec. No	Recommendation	Response
<b>Fixed Asset Registers</b>		
R7	Consideration should be given to establishing a formal value above which new and existing acquisitions are regarded as “fixed assets”, with those below that value recorded in a separate “inventory” register.	
<b>Investment Strategy</b>		
R8	A suitably designed and independent (from the Financial Regulations) Investment Policy / Strategy document should be developed and be adopted by the Council as required by extant legislation.	
<b>Statement of Accounts &amp; AGAR</b>		
R9	Appropriate action should be taken to either recover the apparent overpayment to Everflow resulting in a debit balance of almost £10,000 on the Purchase ledger or to ensure it is appropriately offset against current and future unpaid bills.	