

Dawlish 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 three reviews of the Council's records, which took place both remotely at our offices on 20th May 2023 and during our onsite visits on 28th October 2022 and 22nd February 2023. We thank the Clerk and his staff in assisting the process, providing all requested documentation to facilitate the conduct of this year's review in either hard copy or electronic format.

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 on the Council's accounting and other records is set out in the following detailed report with a few relatively minor resultant recommendations arising: these are further summarised in the appended Action Plan. We again wish to express our appreciation to officers for the very tidy way the accounting records are being maintained and filed.

Based on the generally 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 Finance and Admin Officer (FAO) 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 and financial ledgers prepared on behalf of the Council by officers using the RBS Rialtas Omega software.

The bulk of financial transactions are processed through the Lloyds Treasurer's bank account. Three further accounts are in place with NatWest with separate cashbooks maintained for all four of these accounts in the Omega financial ledgers: two further cashbooks are also in use in the ledger to record detail of the NatWest One Card transactions and also the CCLA deposit account that was opened during 2022-23.

To assess the adequacy, accuracy and appropriateness of transactions for 2022-23, we have:

- Agreed the opening control ledger balances for the year with those in the 2021-22 AGAR and Omega accounts;
- Ensured that the accounts remain "in balance" at the financial year-end;
- Verified the accuracy of four months' transactions on the Lloyds Current account (April and September 2022, plus January and March 2023) by reference to supporting bank statements;
- Similarly, verified detail of account transactions on the residual three NatWest, the "One Card" and CCLA accounts for the same months;
- Checked and agreed bank reconciliation detail on each account at 30th April and September 2022, plus 31st January and March 2023; and
- Ensured the accurate disclosure of the combined account balances in the year's AGAR at Section 2, Box 8.

Conclusions

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

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, 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 note that the Council's SOs were further reviewed and re-adopted at the May 2022 Council meeting with appropriate references in those and the Financial Regulations (FRs) to, inter alia, the requirements of the Public Contract Regulations. We take this opportunity to advise the Clerk and Council of a recent update / clarification of the value at which tenders should be formally advertised on the Government's Contract Finder website: that value is now set at £30,000 including VAT: we suggest that, when the SOs and FRs are next reviewed, this revised value should be recorded therein.

We have continued our review of the Council's minutes, examining those for the financial year and to date in 2023-24 as posted on the Council's website to determine whether 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 such concerns exist currently.

We are again pleased to note that the external auditors issued a clean certificate on the 2021-22 AGAR and that the Council has complied with the 2015 Accounts and Audit Regulations posting an appropriate "Notice of Public Rights" to examine the Council's financial records accordingly posting the notice on the website for a period of 30 working days.

Conclusions

We are pleased to report that no issues of concern arise in this review area currently: we shall continue to review minutes and consider the Council's approach to corporate governance at future visits reporting our findings accordingly.

Review of Expenditure & VAT

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 previously reviewed the procedures for processing and approving payments, the majority of which are now processed electronically with 2 members going "on-line" to release the payments. Whilst we consider this to be an effective control, our examination of a sample of payments processed in 2022-23 indicates that members are no longer evidencing on individual invoices their review of those documents. Instead, a reviewing councillor now completes and signs an appropriately designed certificate confirming examination of the individual invoices, the certificate being filed accordingly with the retained hard copy invoices. We consider this a satisfactory alternative to their initialling every individual invoice.

We have selected an extended sample of 86 payments processed in the financial year for review: our test sample totals £682,165 equating to 78% by value of non-pay related payments in the financial year. We thank the Finance Officer for her help in providing the year's selected sample of invoices for our review.

We note that VAT reclaims are prepared at the end of each quarter and have ensured recovery of the 2021-22 final quarter's reclaim, together with the first three quarters reclaims for 2022-23 by reference to the Omega nominal control account detail. We shall ensure recovery of the final quarterly reclaim for 2022-23 at our 2023-24 interim review.

We have referred in previous reports to the continued recording of two old VAT debtors of £16,806.50 & £380.22 respectively in the Omega accounting software (Nominal a/c codes 106 & 107) the first purportedly dating from 2016 and the second to “late invoices for 2017-18”. These amounts still show on the Omega Trial Balance at the financial year-end: as the detail of these amounts is not now readily identifiable and is, consequently, unlikely to be recoverable, we understood that the Town Clerk would be seeking Council approval to write the amounts off prior to the financial year-end, but this does not appear to have occurred.

Whilst not a significant issue, in reviewing the files of processed invoices at our first review visit, we noted that they were not always being filed in the month in which they were physically paid and appeared in that month’s cashbook. To ensure clarity of the audit trail and ease of tracing invoices, we urged that they be filed accordingly.

Conclusions and recommendation

We are pleased to record that no significant concerns arise in this area this year, although we again suggest that action be taken to remove / write-off the two long-standing VAT debtors which are now unlikely to be recoverable.

- R1. To ensure ease of tracing and provide a clear audit trail, invoices should be filed appropriately in the month in which they are physically paid and appear in the cashbooks. This is now being observed appropriately.***
- R2. Given the passage of time since their creation and continued uncertainty over their source the VAT debtors of £16,806.50 and £380.22 initially recorded in the Council’s accounts in 2016 should now be cleared by journal charging it to an appropriate miscellaneous expense code. The Council will be asked to approve the write-off of these amounts.***

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.

The Council is now insured through Aviva: we have examined the 2022-23 insurance schedule ensuring that appropriate cover remains in place, noting that Employer’s and Public Liability cover both stand at £10 million, together with Fidelity Guarantee cover at £742,000 and total “Business Interruption – Loss of Revenue” cover set at £57,000 for the two hireable venues.

The Council’s Risk Management Report has been formally reviewed and re-adopted by the Council at the March 2023 meeting. We have reviewed the content of the re-adopted document and consider that it remains appropriate for the Council’s present requirements.

Conclusions

No issues arise in this area warranting formal comment or recommendation: we shall continue to monitor the Council’s approach to risk management at future visits.

Budgetary Control & Reserves

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 sound monitoring procedures to highlight any potential overspending as soon as it becomes apparent.

We are pleased to note that the budget and precept for 2023-24 were formally approved, adopted and minuted as such at the January 2023 full Council meeting, the latter being set at £559,404.

We are again pleased to note that members continue to be provided with periodic financial performance reports during the year based on the Omega accounting software and have reviewed the position at the financial year-end as detailed in the year-end Omega budget report. We have again noted the existence of several areas where spending has significantly exceeded budget and have obtained appropriate explanations by reference to the Omega detailed transaction reports in each case, noting that the most significant are covered by the application of and transfer from existing earmarked reserves. We also note that, at the year-end, income stands at 171% of the year's approved budget whilst expenditure stands at 160% with a net surplus of almost £58,600 for the year.

We have again considered the appropriateness of the level of retained reserves to meet the Council's ongoing revenue spending requirements and future development aspirations. Funds overall have increased to £1,010,529 (£951,957 at the prior year-end), including earmarked funds (EMRs) of £630,848 (£539,872 at 31st March 2022) at the financial year-end. The residual General Fund Reserve balance of £379,681 equates to approximately 7½ months' revenue spending and sits comfortably within the generally recognised guideline of between 3-and-12 months revenue spending.

Conclusions

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

Review of Income

The Council receives income primarily by way of the annual Precept, together with room rentals and hire fees at the Manor House and Riverside Hall, annual allotment rents and various other relatively minor income streams.

At our first visit we selected a sample of bookings at the Manor House and Riverside Hall (fortnight commencing 14th August 2022) and, by reference to the Rialtas booking system's diary covering that period ensured that invoices were raised for all hires and that appropriate fees were charged in accordance with the approved schedule of fees and charges. No residual issues remain in this area following our further check to ensure that invoices had been raised for all bookings in the selected sample. We are also pleased to note that all of the invoices raised covering the remainder of hires in our test period have been settled accordingly.

At our interim update visit, we examined the Rialtas managed records relating to allotment rents which fell due on 1st January 2023 and are pleased to note that at the date of that review visit, only one remained unsettled: this has now been paid.

We have also examined the Events, Project & Tourism Officer's control record in relation to stall holder fees at the 2022 Christmas market with no significant issues arising. However, we suggest that two separate worksheets be maintained, one purely recording the financial information which ideally should include plot / site reference number, stall holder name, amount payable, amount received, date of receipt and form of receipt (cash, cheque or direct credit to the Council's bank account). The other worksheet could then include all other relevant detail surrounding management of the market stalls.

Finally in this area, we have examined the detailed nominal income reports for each budget head for the financial year and are pleased to record that no obvious anomalies exist. We have also again examined the Sales Ledger – "Unpaid invoices by Date" report, noting that, at the financial year-end, 7 invoices raised prior to 31st December 2022 remain unpaid at the financial year-end, 2 of which dated from August 2022. If these debts still remain unpaid, we urge that appropriate steps are taken to ensure their prompt recovery and also urge that appropriate action is taken to implement a rigorous and regular follow-up regime to ensure prompt settlement of all long-standing (i.e., those over 3 months) debts: we have provided the Clerk with a copy of the above Omega report as at 31st March 2023.

Conclusions and recommendations

We are pleased to record that no significant concerns arise from work undertaken in this area this year, other than the need to examine and clear the one "unmatched" receipt referred to in our first interim report appearing on the "Sales ledger – Unpaid invoices by date" report: we understand that this has been cleared appropriately.

- R3. *The "unmatched receipt" appearing on the "Sales Ledger - unpaid invoices by date" report at 31st January 2023 should be further investigated and, if necessary, with assistance from Rialtas, action be taken to remove the receipt from the Sales Ledger. **This has been cleared appropriately.***
- R4. *An appropriate procedure for the follow-up and recovery of all long-standing debts should be implemented.*
- R5. *Ideally, the spreadsheet control record of Christmas market stall rents should be split into two separate worksheets with one providing control information on the "staff rents" due and date of recovery as detailed in the body of the report.*

Petty Cash Account

The Council does not operate a petty cash account.

Review of Staff Salaries

In examining the Council's payroll function, we aim to confirm that salaries are paid in line with 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 spinal point on the National NJC scale and contracted basic weekly working hours. At our first visit, we checked to ensure that all staff monthly gross salaries paid in October 2022 corresponded to the Council agreed

salary rates for each with no issues arising. We also ensured that the tax, NI and pension contributions were deducted at the appropriate rates.

The nationally agreed pay award for 2022-23 was implemented with the November 2022 salaries including arrears due from 1st April 2022. We have, consequently, checked the December 2022 payroll ensuring that the pay award had been accurately applied: due to the incidence of monthly overtime for a few employees, we have been unable to readily verify the gross salaries paid in November 2022 to certain staff, hence the check of December's payroll.

The Council continues to use the services of Teignbridge District Council (TDC) to prepare the monthly payroll and pay staff their salaries, together with HMRC and the Pension Fund Administrators; TDC is then reimbursed for the full cost of staff salaries, including any travel and incidental expenses paid through the payroll by the Council each month.

Conclusions and recommendation

As last year, we consider that, as the employer of the staff, the Council should be provided routinely with copies of staff 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 noted at our interim review that staff travel, and other non-pay expenses paid through the payroll on advice by the Clerk / RFO each month had, at that date not been recorded against the appropriate nominal account codes), being initially coded as staff costs. We are pleased to note that appropriate journals have now been raised during the year recoding all such expenses appropriately to nominal account codes linked to Box 6 on the AGAR as "Other expenditure".

R6. The monthly analysis of payments to TDC should be reviewed periodically rather than at the year-end with any non-pay costs (travel and other expenses) recoded appropriately to the correct non staff pay nominal account code in Omega. This has been actioned appropriately.

Fixed Asset Registers

The Practitioner's Guide requires all councils to maintain a record of all assets owned. We have noted previously the existence and maintenance of an asset register, with detail of the Council's asset stock duly recorded.

We noted last year that the Council had acquired the RBS asset register software: this has now been implemented with asset values assigned accordingly. However, we note that the Manor House and a number of other assets are now recorded with a nominal value of £1 rather than the values previously assigned resulting in the value to be reported in the 2022-23 AGAR at Section 2, Box 9 reducing significantly from over £3 million to marginally over £300,000.

Whilst we consider that the asset register now provides a very comprehensive record of the Council's asset stock, the Council will need to provide an appropriate explanation to the external auditors of the reasons for the significant devaluation of its asset stock.

Conclusions

No issues have been identified in this area warranting formal comment or recommendation, although, as indicated above, the external auditors will need to be provided with an appropriate

explanation for the significant reduction in the total asset value being reported in the year's AGAR.

Investments and Loans

We are pleased to note that, following our previous recommendation, the Council has now placed £100,000 in a CCLA Deposit Fund. We noted previously that the Council prepared and adopted an appropriate Investment Strategy in 2018, as required by statute for Councils with total funds in excess of £100,000. We also note that the Strategy has been reviewed and re-adopted by the Finance & General Purposes Committee.

A single loan received from PWLB remains in place with repayments made at half-yearly intervals. We have, as part of our above expenditure review test sample, examined the two repayments made during the year by reference to the PWLB repayment demands. We have also agreed the value of the residual loan liability recorded in the AGAR at Section 2, Box 10 to the year-end advice from the UK Debt Management Agency of that value.

Conclusions and recommendations

We are pleased to record that the Council has now taken appropriate action to place surplus funds in the CCLA Deposit Fund.

R7. Action should be taken urgently to diversify the placement of surplus funds to ensure that the Council is maximising its interest earning potential. This has been actioned accordingly with £0.1 million placed on deposit with CCLA.

Statement of Accounts and AGAR

The Council's year-end Statement of Accounts, including the Balance Sheet and Income and Expenditure Account, together with financial detail for inclusion at Section 2 of the year's AGAR are generated automatically by the Omega accounting software including the value of assets owned at 31st March 2023.

As part of our overall review of the Council's accounting transactions, we have, on a sample basis, verified the accuracy of the recorded value of transactions in the accounting software and consequently for reporting in the year's AGAR and are satisfied that the AGAR accurately reflects the year's transaction detail.

Conclusions

No issues arise in this area; we have duly signed off the IA Certificate in the AGAR assigning positive assurances in each relevant area. We ask that we be provided with copies of the certified Sections 1 & 2 once formally adopted by the Council.

Rec. No	Recommendation	Response
Review of Expenditure and VAT		
R1	To ensure ease of tracing and provide a clear audit trail, invoices should be filed appropriately in the month in which they are physically paid and appear in the cashbooks.	<i>This is now being observed appropriately.</i>
R2	Given the passage of time since its their creation and continued uncertainty over their source the VAT debtors of £16,806.50 and £380.22 initially recorded in the Council's accounts in 2016 should now be cleared by journal charging it to an appropriate miscellaneous expense code.	<i>The Council will be asked to approve the write-off of these amounts.</i>
Review of Income		
R3	The "unmatched receipt" appearing on the "Sales Ledger - unpaid invoices by date" report at 31 st January 2023 should be further investigated and, if necessary, with assistance from Rialtas, action be taken to remove the receipt from the Sales Ledger.	<i>This has been cleared appropriately.</i>
R4	An appropriate procedure for the follow-up and recovery of all long-standing debts should be implemented.	
R5	Ideally, the spreadsheet control record of Christmas market stall rents should be split into two separate worksheets with one providing control information on the "staff rents" due and date of recovery as detailed in the body of the report.	
Review of Staff Salaries		
R6	The monthly analysis of payments to TDC should be reviewed periodically rather than at the year-end with any non-pay costs (travel and other expenses) recoded appropriately to the correct non staff pay nominal account code in Omega.	<i>This has been actioned appropriately.</i>
Investments & Loans		
R7	Action should be taken urgently to diversify the placement of surplus finds to ensure that the Council is maximising its interest earning potential.	<i>This has been actioned accordingly with £0.1 million placed on deposit with CCLA.</i>