

Dawlish Town Council

Internal Audit Report: First interim 2019-20

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Background

All town and parish councils are required by statute to arrange for an independent internal audit examination of their governance arrangements, accounting records and system of internal control and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR). This report details the work undertaken at our first visit for the current financial year which took place on 21st November 2019.

Internal Audit Approach

In commencing our review for 2019-20, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording 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 / or the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Internal Audit Report' in the Council's AGAR, which requires independent assurance over several internal control objectives.

Overall Conclusion

Detail of the work undertaken to date this year is set out in the following detailed report, together with any issues arising with resultant recommendations further summarised in the appended Action Plan. We have also reviewed progress in addressing issues highlighted in our 2018-19 reports and acknowledge the responses and positive action taken to address them, although action remains to be taken in one or two areas.

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 the Responsible Finance Officer (RFO) using the RBS Rialtas software.

Bank accounts are in place with “current” transactions processed through the Lloyds bank account: three further accounts are also in place with NatWest. Separate cashbook accounts are being maintained for all four accounts in the Omega financial ledgers with a further cashbook in use in the ledger to record detail of the NatWest One Card (credit card) transactions.

To assess the adequacy, accuracy and appropriateness of transactions for 2019-20, we have:

- Agreed the opening cashbook balances for the year with those in the 2018-19 AGAR;
- Ensured that the accounts remain “in balance” at the present date;
- Noted that the Omega coding structure has been significantly revised and simplified for the current financial year;
- Examined two months’ transactions on the Lloyds Current account (April and October 2019) by reference to supporting bank statements;
- Given their low volume, verified detail of all account transactions on the residual three NatWest bank and One Card accounts for the full financial year to 31st October 2019;
- Checked bank reconciliation detail on each account as at 30th April and 31st October 2019;
- Considered the controls in place over the use of journals on the Omega software; and
- Discussed the Council’s software, financial and other, “back-up” arrangements noting the existence of an on-site server, which also “backs-up” daily to the Council’s IT service provider.

Conclusions and recommendations

In examining the main transaction account detail for April and October we experienced significant difficulties in agreeing bank statement income detail to the cashbooks: we also note that the Finance Officer (FO) has been experiencing significant difficulties in verifying the income transactions in the cashbook to the bank statement detail (no difficulties arise with expenditure transactions) having had to resort to seeking assistance from RBS in the early months of the year following linking of the Bookings software to the financial software with a single Sales Ledger now in use. The FO has now resorted to “reconciling” the transactions using separate spreadsheets which she has had to develop to achieve the desired objective.

We do not believe that the process should be as convoluted as it appears to be and have suggested that the FO liaise closely with RBS to devise a simplified way of processing the data input to more readily match bank statement entries: we will also endeavour to speak to RBS ourselves and, if possible, assist in devising an appropriate way of simplifying data entry and reconciliation of cashbook detail to bank statements. We are not aware of any of our other clients using the RBS Accounts and Sales ledgers experiencing similar difficulties and trust that an appropriate solution can be identified and implemented speedily.

We note that, following our previous recommendation, monthly bank reconciliation detail is presented to members: however, we have seen no indication in the current financial year that the reconciliations are being reviewed in any depth or signed-off by a nominated councillor. The NALC model Financial Regulations, as recently further revised, and the Governance and Accountability Manual (G&AM) give guidance in this respect and, as at para 2.2 of the former, require that this process is undertaken at least once quarterly by neither a cheque signatory nor the Council Chairman, the reconciliations being duly signed-off and dated..

In examining the 31st October 2019 current account bank reconciliation, we also noted the existence of two uncleared / unmatched receipts (£19.30 dated 26/4/2019 & £0.30 dated 15/5/2019): these should be investigated and cleared from the bank reconciliation detail again with assistance from RBS.

- R1. *The RFO should liaise with the software supplier to devise a simplified process for data entry of receipts in relation to hall bookings through the Sales Ledger to avoid the excessive time that appears to be required currently to effectively verify and reconcile cashbook entries to bank statements.*
- R2. *As agreed previously, a nominated councillor should formally review, sign-off and date the monthly prepared bank reconciliations to evidence their review having appropriately questioned any detail on the reconciliations.*

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 and Financial Regulations (FRs) were subjected to further review and re-adoption at the May 2019 full Council meeting. We also note that the revised (2019 edition) of the NALC model FRs was presented to the October 2019 F&GP Committee meeting and will be further discussed at the November 2019 meeting before recommending formal adoption to full Council. We will monitor the outcome at our next review visit.

We have commenced our review of the Council's minutes, examining those for the financial year to date, 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 pleased to note that the 2018-19 AGAR was duly signed-off by the external auditors with no issues raised.

Conclusions

We are pleased to record that no issues of concern arise in this review area currently, although we urge members to adopt the latest NALC model FRs in entirety as they represent best practice.

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 note the increasing use of internet banking for processing payments and will review the procedures in place for releasing the funds at our next review visit.

In order to confirm the effectiveness of the present control and governance arrangements over payments, we have selected a sample of payments processed in the financial year to 31st October 2019: our test sample includes 36 individual payments (those over £1,750 plus every 40th payment as recorded in the cashbooks) plus the Manor House NNDR, which is paid over 10 months in the year. Our test sample totals £137,600 equating to 54% by value of non-pay related payments in the year to date. We are again pleased to acknowledge the ongoing improvement in the evidencing of members' review and certification of invoices together with the filing of invoices.

We note that VAT reclaims are prepared at the end of each quarter and have agreed the value of the first two quarterly reclaims prepared and submitted to HMRC for 2019-20 to the quarter-end Omega control account balances in the financial ledger. In our final 2018-19 report, we noted the existence of a VAT debtor totalling £16,806.50 in the Omega accounting software purportedly dating from 2016. This amount remains on the Trial Balance as at 31st October and should be further investigated and either reclaimed or removed from the accounts by an appropriate journal.

Conclusions and recommendations

We acknowledge the improved way trader invoices are processed and filed with no issues arising currently other than in relation to the above VAT issues: we shall extend our testing in this area at future visits and report our conclusions accordingly.

R3. Action should be taken to establish the exact nature of the prior year VAT debtor, as recorded in the Trial Balance, with appropriate action to either recover the amount, if it is in fact recoverable from HMRC, or remove it from the Balance Sheet.

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 have examined the Council's 2019-20 insurance policy schedule arranged through WPS "Council Guard" to ensure that appropriate cover is in place, noting that Employer's and Public Liability stand at £10 million and £15 million respectively, together with Fidelity Guarantee cover at £742,000: Whilst cover appears to be in place for "Business Interruption – Increased cost of Working" in the sum of £77,508, there appears to be no cover in relation to potential "Loss of Revenue" should the Manor House or Riverside premises cease to be available for hire for any length of time.

We have noted previously that, following our previous recommendation, the Council approved and acquired the LCRS risk management software, which the Clerk intended to apply, but has yet had an opportunity to implement. Consequently, as an interim measure, he developed a different form of Policy / Register which was adopted by the Council in June 2018.

Conclusions and recommendation

No significant issues arise in this area currently: we shall continue to monitor the Council's approach to risk management at future visits reporting our conclusions accordingly. We do, however, urge that, having acquired the LCRS software, further consideration / action be taken to ensure its application, as it not only generates a detailed risk report on each area assessed, but also generates insurance and health / safety checklists.

We also take this opportunity to remind the Clerk and Council that the financial risk registers should be reviewed and formally re-adopted at least once annually as required by the Governance and Accountability Manual.

R4. The insurance schedule should be reviewed to establish whether the Council has appropriate "Business Interruption – Loss of revenue" cover in place.

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 noted in our final report for 2018-19 that, following due deliberation, the Council approved and adopted the budget and precept for 2019-20 setting the latter at £435,373. This review visit occurred in advance of any formal or final conclusions being reached on the budgetary requirements for 2020-21: we will, consequently, review the outcome of members' deliberations at our final visit.

We are pleased to note that members are provided with regular budget performance reports during the year and have examined the latest performance position with no issues of concern identified following implementation of the simplified coding structure.

We have previously suggested that funds set aside in earmarked reserves should be identified separately in the accounting software and are pleased to note that this has been actioned accordingly.

Conclusions

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

Review of Income

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

We have examined the controls over bookings at both the Manor House and Riverside Hall by reference to two weeks' bookings (commencing 2nd September 2019) as recorded on the RBS bookings software. We have ensured that appropriately priced invoices have been raised for each of these bookings and been settled in a timely manner, also noting that certain hirers pay in advance with no invoices raised. We are pleased to acknowledge the improved controls now operating in this area with no issues arising, although we note that one or two accounts remained unpaid as at 31st October 2019.

We have again examined the Omega "Sales Ledger – Unpaid Debts by Date" report, noting the continued existence of a number of long-standing debts, the oldest dating back to May 2017, together with a few "unmatched" receipts, one being for £74.00 and dating back to March 2015. As indicated in our final report for 2018-19, these should be reviewed and, if recovery is deemed improbable, they should be referred to Council for formal write-off. Any "unmatched" receipts should, if not related to specific unpaid invoices, be cleared with the income journaled to a miscellaneous or other appropriate income code.

We have also examined the Omega nominal income transaction record for the financial year to date ensuring, as far as is reasonably possible, that all income due to the Council has been identified and recovered, with no issues identified.

Conclusions and recommendations

Consequent on our review of the Council's income streams and detail of outstanding / unpaid debts, the following recommendation is made to both improve controls and ensure appropriate action is taken to pursue outstanding debts. We shall undertake further work on the Council's income streams at our final visit.

R5. *Urgent action should be taken to pursue the numerous long-standing (i.e. those older than 3 months) debts identified on the Sales Ledger - "Unpaid debts by Date" report (copy attached at Appendix A).*

Petty Cash Account

The Council ceased to operate a petty cash account during 2018-19, banking the residual cash holding accordingly as miscellaneous income following our recommendation.

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 checked to ensure that all staff monthly gross salaries, paid in October 2019, correspond to the Council agreed salary rates for each, noting that all have been uplifted in line with the revised nationally agreed NJC pay award and spinal points applicable from 1st April 2019.

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 by the Council each month. We have also checked to ensure that tax, NI and pension (where applicable) deductions in October 2019 from each employee are correctly calculated and are pleased to record that no issues or concerns have been identified in relation to the percentage pension contributions applied.

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 documentation supporting the payments made to HMRC and the Pension Fund Administrators, as without that documentation, the Council cannot effectively verify the amounts paid to TDC each month. We also 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 was contacted by the RFO during our visit and individual staff tax codes provided verbally, which facilitated our verification of that element of the October staff payroll detail. Notwithstanding that, the payroll officer at TDC should be reminded of the above statutory requirement, which overrides GDPR requirements to ensure that, at future review visits, we are provided with all necessary supporting documents (i.e. pay slips, actual documentation supporting HMRC & pension fund administrator's payment detail – not just a TDC generated spreadsheet record summarising the information) to facilitate verification of the Council's payroll costs.

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 and be made available for audit inspection.

Investments and Loans

The Council currently holds no funds in specific investments, surplus moneys still being held, as indicated earlier in this report, in the two NatWest deposit bank accounts. We noted last year that the Council had prepared and adopted an appropriate Investment Strategy / Policy as now required by statute.

We now note some progress towards the diversification of funds into other accounts with members approving, at the September 2019 meeting, the placement of an element of the surplus funds in the CCLA Deposit fund with further consideration to be given to use of the longer-term placement of funds in the CCLA Property Fund.

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 first repayment made in 2019-20 by reference to the PWLB repayment demand.

Conclusions

We note the intended actions to diversify the placement of surplus funds in alternative banking institutions and will monitor progress to that end at our final visit.

We shall examine the second loan repayment at our final visit, also ensuring the accurate disclosure of the residual loan liability as at 31st March 2020 in the year's AGAR at Section 2, Box 10.

Rec. No	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	The RFO should liaise with the software supplier to devise a simplified process for data entry of receipts in relation to hall bookings through the Sales Ledger to avoid the excessive time that appears to be required currently to effectively verify and reconcile cashbook entries to bank statements.	<i>The RFO will liaise with RBS to devise a better method for the process of data entry for receipts in relation to hall bookings.</i>
R2	As agreed previously, a nominated councillor should formally review, sign-off and date the monthly prepared bank reconciliations to evidence their review having appropriately questioned any detail on the reconciliations.	<i>The F&GP meeting held on 28 November formally appointed the Vice Chairman to be the Council's nominated member for reviewing and signing off bank reconciliations.</i>
Review of Expenditure & VAT		
R3	Action should be taken to establish the exact nature of the prior year VAT debtor as recorded in the Trial Balance with appropriate action to either recover the amount, if it is in fact recoverable from HMRC, or remove it from the Balance Sheet.	<i>The RFO to investigate and recover or remove from Balance Sheet.</i>
Assessment and Management of Risk		
R4	The insurance schedule should be reviewed to establish whether the Council has appropriate "Business Interruption – Loss of revenue" cover in place.	<i>The Council's brokers shall be asked to investigate this and provide costs for the inclusion of such cover in the event it is lacking.</i>
Review of Income		
R5	Urgent action should be taken to pursue the numerous long-standing (i.e. those older than 3 months) debts identified on the Sales Ledger - "Unpaid debts by Date" report (copy attached at Appendix A).	<i>Town Council of 4 December to consider write offs with other debts to be pursued as per standard practices</i>
Review of Staff Salaries		
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 and be made available for audit inspection.	<i>The Town Council shall forward its Internal Auditors findings to Teignbridge's payroll services and make them aware of the support required during the internal audit process to the Town Council.</i>