

Minehead Town Council

Internal Audit Report 2021-22 (Final Update)

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For and on behalf of Auditing Solutions Ltd

Background

Statute requires all town and parish councils to arrange for an independent internal audit examination of their 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 sets out the work undertaken in relation to the 2021-22 financial year which took place on the 28th September 2021, 14th and 15th February and 26th May 2022 together with our preparatory work. We wish to thank the Officers for providing the records to facilitate our work.

Internal Audit Approach

In undertaking our review for the year, 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 is designed to afford appropriate 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 'Internal Audit Report' which is part of the Council's AGAR and requires independent assurance over specified internal control objectives.

Overall Conclusion

Based on our work completed this year, the Council maintains adequate internal control arrangements. We have duly signed the Internal Audit Report in the Council's AGAR assigning positive assurance against the control objectives.

Our detailed comments are reported in the following sections. We request that this report is presented to Members.

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Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Officers use the Rialtas Omega accounting software to maintain the Council's financial records. Transactions on the current account with NatWest are recorded in the main cash book (number one). Surplus funds are held in a CCLA Deposit Fund account and a Natwest liquidity account for which separate cash books are maintained. There is also a cash book for the charge card.

Our objectives in this area are to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. Consequently, we have:

- Reviewed the report of the external auditor on the 2020/21 accounts to confirm there were no matters raised by them requiring our follow up;
- Agreed the opening 2021/22 Rialtas trial balance with the 2020-21 closing trial balance and Statement of Accounts;
- Checked that a full and effective cost centre and nominal account code structure remains in place;
- Ensured that the financial ledger remains in balance at the time of each of our reviews, based on the back-ups supplied. Specifically, we ran a data check to confirm that the trial balance agreed and that it also agreed to the nominal ledger;
- Confirmed arrangements for backing up the Council's IT systems noting there is a daily back-up to a cloud;
- Confirmed arrangements for processing journals, manual adjustments to the Rialtas Ledger. They are set up by the Administration Officer and checked by the Deputy Clerk and then printed and filed;
- For the current account, (Cash Book one) agreed the reconciliation at 31st July, 31st August, 30th November and 31st December 2021 and 28th February and 31st March 2022 between the Rialtas cash book and a printout from the bank/or bank statements provided electronically by the Finance Officer. Then we agreed the transactions in August, December and March as recorded on the bank printouts/bank statements to the cash book;
- Similarly for the cash book recording the CCLA account we agreed the reconciliation between Rialtas and a scanned copy of the CCLA statement at 31st July, 31st August, 30th November, 31st December 2021 and 31st January and 31st March 2022 provided by the Officers and confirmed the one transaction in August and one in March from the CCLA statement to Rialtas;
- Agreed the reconciliation at 31st August 2021, 30th November and 31st December 2021 and 31st March 2022 on the Natwest Liquidity account from Rialtas to a printout/or statement from the bank provided by the Officers;
- For the charge card agreed the reconciliation at 31st July, 31st August, 30th November and 31st December 2021 and 31st March 2022 and agreed transactions in August, December and March to a listing from the bank scanned to us; and
- Confirmed with officers the arrangements for Member oversight of the reconciliation process.

Conclusions

The Council's Ledger is in balance, the coding structure is set up on the accounting system, financial information has been brought forward correctly and regular bank reconciliations are being completed. There are no anomalous adjusting entries in the reconciliations.

There are no matters requiring formal comment or recommendation.

We have agreed the cash balances to the AGAR.

Review of Corporate Governance

Our objective here is to ensure that the Council has a robust regulatory framework in place, and that, as far as we may reasonably determine (as we do not attend meetings), Council and Committee meetings are conducted in accordance with the approved Standing Orders. Also, that no actions of a potentially unlawful nature have been or are being considered for implementation, although it is for the Council to determine the legality of its transactions. We have:

- Completed our review of the minutes of the Full Council and Standing Committee meetings for the year (excluding Planning), reviewing those on the web site, to ensure that no issues affecting the Council's financial stability exist and that no legal issues appear to be in existence whereby the Council may either be considering or have taken decisions that might result in ultra vires expenditure;
- Confirmed the audit of the 2020/21 accounts was advertised with the notice of public rights being placed on the Council's website; and
- Confirmed the Council continues to post detail of payments over £500 on its website in compliance with the Transparency Code.

Conclusion

Based on our work completed there are no matters to report requiring formal comment or recommendation. The Council has arrangements in place for governance.

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;
- 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 and that submissions have been returned in a timely manner.

We discussed with officers the controls over the authorisation of payments noting they are checked by officers and that listings are reported to Members for approval. To obtain assurance in this area we have tested a sample of payments, checking those expensed in the year to 31st March 2022. Our sample comprised 76 payments from the Cash Books including all payments individually in excess of £2,000, plus every 30th other non-pay related payment to cover a wider cross-section of expenditure. Our sample totalled £304,396 equating to 57% of non-pay expenditure in the financial year. All invoices were provided. One invoice for the lease of the Council offices was a letter from the Landlord, the amount was not clearly written in the letter, we confirmed the amount paid with officers.

We note the Council is having playground equipment installed at three sites, Irnham Recreation Ground, King George Playing Field and Cross Farm Park. We inspected the quotes the Council obtained in connection with the works.

We confirmed that VAT due at 31st March 2021 was recovered in 2021/22. We reviewed the first three quarterly VAT returns for 2021/22 confirming the funds were recovered from HMRC and the income recorded in the accounts.

Conclusion

Based on our work there are no matters requiring formal comment or recommendation. Payments are supported by suitable documentation.

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:

- Reviewed the 2021/22 insurance policy running to the 31st March 2022, provided by Zurich, noting that cover included:
 - Buildings Insurance;
 - Business interruption insurance
 - Public liability cover £15m;
 - Hirer's liability £2m;
 - Employer's liability £10m;
 - Motor vehicle cover; and
 - Fidelity guarantee cover of £2m;

- Confirmed the Council's arrangements for undertaking safety inspections of play areas. We understand the Council undertakes regular inspections supplemented by an annual external inspection by ROSPA Play Safety Ltd; and
- Noted a report on risks was prepared by officers in May 2022 which was provided to Members. The report incorporated the Council's risk assessment and identified the individual risks, assessed the likelihood of them occurring and the management controls in place to address the risk. It included financial risks.

Conclusion

There are no matters arising in this area based on our work completed requiring formal comment or recommendation. The Council has arrangements for managing risks.

Budgetary Control and 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 appropriate budget and the formal determination of the amount to be precepted on the District Council; 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 note that the Council held a finance seminar to discuss the 2022/23 budget. This considered the then current budget position, the tax base, levels of reserves, service issues and the Council's vision and priorities. A detailed working paper was developed showing income and expenditure line by line and projecting for 2022/23 with a note of key issues. A detailed analysis of the council tax base was prepared. Full Council agreed the precept and 2022/23 budget at the meeting in December 2021.

We note that officers provide a report from the accounting system comparing budgets to spending, although this is not presented formally to Full Council. All payments are presented to both Finance and Staffing Committee and Full Council. In addition, an income report is provided regularly.

At the year-end, 31st March 2022, total reserves and balances were £639,976 including a general reserve of £239,950 and earmarked reserves of £400,026. Total spending in the year per the AGAR was £817,212 or £68,101 a month. The general reserve represents some 3.5 months spending. This is within the normal expected range for a town council of 3-8 months. We note members considered a report from officers on earmarked reserves in May 2022.

We reviewed full year income and expenditure for 2021/22 comparing to prior year trends. We note spending is reduced this year reflecting the high level of spend in the prior year on the Community Building. We note the Council incurred additional payroll costs in 2021/22 due to the need to recruit additional staff to cover for sick leave.

Conclusion

The Council has arrangements for managing its budget. There are no matters arising from our work in this area requiring formal comment or recommendation.

Review of Income

The Council receives income from a variety of sources including the precept, interest on balances, allotment income, fees from burials, floral displays and miscellaneous income including grants. We aim in this area of our review to ensure that income due to the Council is identified, recovered and banked within a reasonable time period. We have:

- Agreed the first and second instalments of the 2021/22 precept as recorded and approved in the Council minutes to the amount receipted in the Rialtas cash book. In addition, we have agreed the precept received to the list of 2021/22 precept demands published by the Government;
- Noted the Council reviewed fees and charges in March 2022;
- Reviewed the income arising on burials, testing a sample of five interments occurring in June and July 2021. We confirmed the interments were recorded in the Burial Register and that a certificate of cremation or burial was held, then we confirmed the amount charged agreed to the schedule of fees and tested to see if the amount was brought to account in Rialtas. For three of the sample, it was difficult to tie the income from the detailed burial register to the Rialtas system. A similar problem was noted last year when we understood a new computer system was being introduced to streamline processes and officers intended to assign an individual reference to each burial to ensure all the records tied up and intended to ask the Funeral Directors to provide full detail when paying by BACS;
- Tested income arising on the Community Building. We agreed the rent received from the Football Club to supporting paperwork. We then tested room hire in August to the booking record and income recorded in the Rialtas Ledger confirming the charges agreed to the schedule of rates and confirming booking forms were retained;
- Tested receipt of a grant for £9,995 to supporting information including the grant application;
- Reviewed the allotments register confirming the income due was consistent with the income recorded in the Rialtas Ledger;
- Tested interest income recorded in Rialtas to the bank/CCLA statements;
- Tested the receipt of a grant for play equipment from Somerset West and Taunton Council for £41,125 to the remittance advice;
- Reviewed the unpaid invoices report in Rialtas at each of our review stages discussing outstanding debt with officers. We note there is only one material aged debtor, £5,000 due from the Football Club in respect of the new bar. The delay in settling this amount was due to the Football Club taking time to obtain a liquor licence. We understand an

agreement has been reached wherein the Football Club are paying £200 a month to clear the debt, supplemented by the takings from one off events.; and

- As referred earlier in this report we have traced a sample of transactions in the bank to the Council's cash book including income items.

Conclusion and recommendation

The Council has arrangements for collecting income.

The audit trail between the detailed burial records and the Rialtas accounting systems needs strengthening to provide assurance all income due is being recovered.

- R1. Officers should ensure each burial is given a unique identifier for example by raising an invoice for each interment or related burial fee. A copy invoice should be filed with the burial records showing for each entry in the burial register an invoice has been raised. The invoice should be entered on Rialtas. Undertakers should be asked to quote invoice numbers when paying. (See action plan for response).*

Petty Cash Account

We are required to comment on the controls over petty cash and imprest accounts as part of the AGAR certification process. We understand the Council has closed its petty cash account with small miscellaneous items of expenditure being paid for through the charge card account for which a separate cash book has been set up in Rialtas.

We tested the reconciliation of the charge card account, as reported above in the section headed 'Maintenance of Accounting Records & Bank Reconciliations'. Our sample of invoices referred to in the section headed 'Review of Expenditure' included items paid through the card account. We further discussed controls over the card with officers.

Conclusion

There are no matters arising from this area of our work.

Review of Staff Salaries

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the requirements of HM Revenue and Customs (HMRC) as regards the deduction and payment over of income tax / NI contributions and that staff pension contributions are in line with the requirements of the Local Government Pension Scheme.

We note that the Council now processes its own payroll using the Moneysoft system with payroll reports produced monthly and we understand payroll costs are included in the list of payments provided to Members for approval. We have:

- Obtained the payroll reports for July 2021, as a sample, then agreed the total costs to the amounts paid through the Rialtas cash book;
- Tested the gross pay as shown on payslips for two staff to signed appointment letters;
- Checked the calculation of tax and national insurance for the staff paid in July per the payroll reports;
- Tested the calculation of pension deductions in July ensuring the correct bandings were applied and confirmed the employer's rate of contributions was applied; and
- Completed our month on month trend analysis of payroll costs for the year to identify any material anomalies.

Conclusion

Based on our work completed the Council has arrangements for administering payroll and there are no matters to report.

Asset Register

The Accounts and Audit Regulations 1996 (as amended periodically) require that all Councils establish and maintain inventories/asset registers of buildings, land, plant and equipment, etc. owned by them.

The Council is maintaining its asset register which analyses assets by category. We confirmed the method of valuation was in line with the accounting guidance, specifically acquisition cost. We cross checked a sample of additions in the year to the accounts (Rialtas Ledger) to ensure consistency in the records. We agreed the total of fixed assets as reported on the asset register to the amount in the AGAR section 2 line 9.

Conclusions

The Council is maintaining its asset register and there are no matters arising from our work in this area requiring formal comment or recommendation.

Investments and Loans

As part of our audit, we seek to confirm the Council is investing surplus funds in financial institutions to obtain some interest and also seeking to mitigate the risk of a financial institution failing by diversifying where money is invested. We also confirm any loan balances owed by the Council.

As noted previously in this report we have agreed the balances with Natwest and the CCLA to third party statements and test checked the receipt of interest income. We note that the Council has an investment strategy.

The Council has no loan liabilities.

Conclusion

No issues arise in this area warranting formal comment or recommendation based on our work.

Statement of Accounts / AGAR

We have reviewed the year end accounts prepared by officers from the Rialtas system considering any major variations year on year in reported figures and reviewing the supporting working papers confirming key amounts including year-end debtors and creditors.

In addition, we have agreed the amounts in the draft AGAR to the supporting records specifically verifying the accuracy of detail contained within the AGAR at Section 2 with no issues arising.

Conclusions

No additional matters have arisen from our work in this area.

We have duly signed off the Internal Audit Certificate in the year's AGAR providing a copy for the Officer's necessary further action. We also take this opportunity to remind the Officers of the requirements of the guidance notes in the preface to 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 documentation for the financial year

Rec. No.	Recommendation	Response
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Review of Income

R1	<p>Officers should ensure each burial is given a unique identifier for example by raising an invoice for each interment or related burial fee. A copy invoice should be filed with the burial records showing for each entry in the burial register an invoice has been raised. The invoice should be entered on Rialtas. Undertakers should be asked to quote invoice numbers when paying.</p>	<p><i>We have completed our training on Epitaph, and we can produce numbered invoices on the Epitaph system. These link automatically to each individual burial/ashes interment. There is an option for printing out lists eg outstanding invoices etc. Unfortunately, the Epitaph system doesn't work with the Rialtas system, so the received payments will still have to be entered into Rialtas via the cashbook, or two different numbered invoices would be raised for each burial/ashes interment. We are only starting year 3 of a 5-year contract, so we will not be able to move to the Rialtas Cemetery system any time soon.</i></p>
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