

Didcot Town Council

Internal Audit Report (First interim) 2020-21

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Background

Statute requires all town and parish councils to arrange for an independent internal audit 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 2020-21 financial year, during our first interim review of the Council's records for the year, which was undertaken remotely (due to the ongoing Covid-19 situation and restrictions) between 26th & 28th November 2020. We wish to thank the Clerk and her staff for assisting the process, providing all necessary documentation in electronic format to facilitate commencement of our review for the year.

Internal Audit Approach

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

We hope to be able to conduct the interim update and final reviews on site in the New Year and early summer respectively and will liaise with the Clerk to determine the approach to be taken nearer that time.

Overall Conclusions

We are pleased to advise that, based on the work undertaken to date, the Council continues to maintain generally adequate and effective internal control arrangements with a few issues requiring attention. As above, due to the Covid situation, we have been unable to undertake this review on site. Consequently, as it is not convenient or physically possible to effectively verify the actions taken to address issues raised in last year's report, we shall follow them up as and when we can next visit the Council to assess the extent of progress and, if appropriate restate the recommendations at that time to ensure that they are not overlooked.

For the present though, we are pleased to acknowledge the positive actions already taken to address those matters and again thank the Clerk and her staff for their assistance in progressing this first review for 2020-21.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

Officers maintain the Council's accounting records using the Rialtas Omega software with three separate bank accounts in place at Barclays: two are in place primarily for the Council (Current and Deposit) with a daily sweep arrangement to leave a £2,000 balance in the former at the close of business each day, plus a separate Current account for the Civic Hall. A further very small deposit is in place with Santander with an unchanged (over the past two years) balance of £3.81 and was, we understand, being retained to defray any mayoral expenses. The main balance of the Council's surplus funds (in excess of £800,000) is held in the CCLA Deposit Fund.

Due to the daily sweep facility in the Council's main Current and Deposit accounts, transactions are recorded in a single cashbook in Omega, with separate cashbooks being maintained for each of the Civic Hall, Santander and CCLA accounts. We understood last year that the Civic Hall and Santander accounts were due to be closed with all transactions processed through the Council's Current Account in future, but note that appropriate action has still to be taken to effect their closure, presumably due to the Covid situation over recent months.

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. We have consequently:

- Verified the accurate carry forward of closing trial balance detail in the 2019-20 Statement of Accounts & AGAR to the current year's Omega records
- Verified that the financial ledger remains "in balance" as at 31st October 2020
- Verified detail in the Council combined Current & Deposit a/c and Civic Hall account cashbooks for April & September 2020 to the supporting bank statements
- Verified the CCLA Account transactions for the financial year to 30th September 2020, and
- Checked and agreed detail on all account bank reconciliations as at 30th April and September 2020.

Conclusions

We are pleased to record that no issues arise in this area currently, noting that, following the departure of the Finance Officer, the services of DCK Accounting have been contracted to provide the Council's book-keeping service. We are pleased to note that bank reconciliations are now being reviewed routinely with a nominated councillor signing them off, together with the underlying bank statements.

We shall undertake further work in this area at our future visits including examination of a further two months' main account transactions, together with those for the remainder of the year on the CCLA Deposit Fund account; verification of the accuracy of the year-end bank reconciliations on each account and accurate disclosure of the combined year-end cash and bank balances in the Accounts / AGAR.

Review of Corporate Governance & Regulatory Framework

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 (as we do not attend meetings), no actions of a potentially unlawful nature have been or are being considered for implementation.

We note that the Council's Standing Orders (SOs) and Financial Regulations (FRs) have been subjected to detailed scrutiny and update being finally adopted at the June 2020 Council meeting.

We have reviewed the Council and Standing Committee minutes, excluding those relating to planning issues, for the year to date as posted on the Council's website: our review aims to ensure that the Council has neither considered nor is considering taking any action that may result in ultra vires expenditure being incurred.

We understand that the Council's 2019-20 AGAR has now been signed off by Moore, the appointed external auditor, but have yet to receive a copy: we have requested provision of a copy and will review its content taking account of any considerations set out therein when planning our interim update visit.

Conclusions

We are pleased to record that no issues arise in this area currently warranting formal comment or recommendation: we do, however, remind the Clerk that the Accounts and Audit Regulations 2015 require the AGAR, together with both internal and external audit reports to be posted on the website and will check for compliance at our next visit. We note that Moore have only recently signed off the 2019-20 AGAR.

Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the approved procedures and budgets
- Payments are appropriately supported, 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
- An official order has been raised on each occasion when one would be expected
- 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 placement of orders, approval and release of funds in respect of expenditure during last year's review visits and, whilst considering them generally sound, we had some concerns over the controls in place over payments processed on-line, which were being set up and effected solely by the Finance Manager, albeit following scrutiny and approval of the payment schedule by the Town Clerk and members. Due to this review being undertaken remotely, we have not had an opportunity to discuss with the Clerk the controls now in place following the departure of the Finance Manager and intend to examine these at our next review visit. We do however note that, following last year's recommendation, a suitably designed rubber certification stamp has been acquired and is being affixed to every payment docket with the certificate being signed by at least one councillor confirming approval of the payment.

Where payments are made by Direct Debit, Standing Order or BACS / on-line, we also suggested that a unique sequential number be assigned to each such payment and be recorded on the certificate and used as a cross reference when entering data in the purchase ledger and / or Omega cashbook: we considered this particularly relevant to standing orders as they are generally for an identical amount each month / period and it affords a more effective audit trail to individual invoices. Such action should also help ease of tracing invoices in the event of a query or need for audit examination.

In order to ensure compliance with the criteria set out at the start of this section of the report, we have selected a sample of 32 individual payments plus 2 Non Domestic rates invoices (paid monthly during the year) processed during the financial year to 31st October 2020: our sample includes all payments greater than £3,000 plus a more random sample of every 30th payment recorded in the Council and Civic Hall cashbooks: we are pleased to record that no significant issues arise in relation to compliance with the above test criteria, although invoices for 4 of the test sample, together with the 2 Non Domestic rates have still to be traced - we shall follow these up at our next review visit, also extending our test sample to cover the remainder of the year.

We wish to thank the Town Clerk for her assistance in locating the invoices in our test sample also noting that, in conjunction with DCK Accounting, she is in the process of sorting out the way in which paid invoices are filed.

We note that VAT reclaims for the Council are prepared and submitted to HMRC for repayment routinely during the course of the financial year and have checked and agreed the repaid amounts to the detail in the Omega nominal control account for the year to 31st October 2020.

Conclusions

We are pleased to acknowledge the actions already taken to address the issues / recommendations raised in our 2019-20 report with further action continuing in certain areas: we shall, assuming that we are able to undertake the interim update review on site re-examine the procedures now in place to ensure full and appropriate action has been taken, also extending our test sample of invoices for review and, hopefully, examining the outstanding 6 documents referred to above.

Consequently, no issues arise in this area currently warranting formal comment or recommendation.

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 in order to minimise the opportunity for their coming to fruition.

We are pleased to note the development of an overarching Strategic Risk Assessment document which was presented to and adopted at the May 2020 Finance and General Purposes Committee, together with a more detailed service level register developed using the LCRS software.

We examined the Council's 2019-20 insurance policy with cover provided by WPS as part of last year's review and now note that a tendering exercise has been underway as the WPS policy is due to expire at the end of November 2020: consequently, we have requested sight of a copy of the new insurance schedule and will examine detail once received. Existing cover to date in 2020-21 includes Public and Employer's Liability at £10 million each, together with Fidelity Guarantee cover of £2

million and a raft of furniture and equipment identified as covered on the schedule, we considered that adequate cover was in place and was appropriate to the Council's present requirements.

Conclusions

No issues arise in this area currently warranting formal comment or recommendation. We shall continue to monitor and assess the appropriateness of the Council's approach to risk management at future review visits, also examining the new insurance policy once in place and effective from the end of November 2020.

Budgetary Control and Reserves

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and level of precept to be drawn down from South Oxford District Council: also, that an effective reporting and monitoring process is in place. We also aim to ensure that the Council retains appropriate funds in general and earmarked reserves to finance its ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

This review occurred in advance of any formal consideration or decision on the budgetary and precept requirement for 2021-22, although we note recent discussions at Committee level of their budgetary requirements for the upcoming year: consequently, we shall review the outcome of members deliberations at a future review visit.

We have reviewed the current budget position (as at 31th October 2020), as set out in the detailed report generated by the Omega accounting software, with no unanticipated or unexplained variances (allowing for the impact of the Covid situation on the Civic Hall) identified warranting further enquiry or investigation.

Conclusions

We are pleased to record that no issues arise in this area warranting formal comment or recommendation at this stage of our review process: we shall, at future visits (hopefully) ensure the formal agreement and adoption of the Council's budgetary and precept requirements for 2021-22; review the year-end budget outturn for 2020-21 and assess the ongoing appropriateness of the retained reserves (General Fund and Earmarked) to meet the Council's ongoing revenue spending requirements and development aspirations..

Review of Income

Our objective in this area is to ensure that the Council identifies and recovers all income to which it is entitled and has appropriate arrangements in place to ensure its prompt recovery. The Council receives income from a variety of sources including the annual precept; Civic Hall hire and bar / catering income; interment and associated fees; allotments; Section 106 and CIL moneys; bank interest and from other miscellaneous sources.

Obviously, the Covid situation has significantly affected the level of income in relation to Civic Hall hires and activities: consequently, we shall review that area at our next visit, checking on the progress made in addressing issues raised in our 2019-20 final report, obviously subject to the Hall re-opening and being back to a degree of normal use.

We have consequently, focused attention at this first interim review on income arising from allotments and the cemetery. As last year, detail of transactions in these two areas is managed through the respective RBS software applications. We wish to thank the Officer Services Manager for providing appropriate documentation in electronic format for us to undertake work in respect of these two income streams remotely, the outcome of which is set out in the following paragraphs.

Allotment rents and deposits

We have examined the allotment records provided, together with the Omega nominal income code account detail noting that total income in the latter (code 3282) stands at £12,013 as at 31st October 2020 and £10,827 as at 17th November on the allotment specific software with 18 tenants' rents remaining unpaid at that same date totalling £683. Whilst the unpaid amount is relatively insignificant, we urge that appropriate steps be taken to ensure that the amounts due are recovered as swiftly as possible.

We also note that allotment tenants pay a £40 deposit, the current holding of £4,040.50 being correctly recorded in the Omega accounts at code 503 as a liability.

We raised a few issues with regard to allotments at our 2019-20 review, noting the subsequent intention to address them appropriately. Due to this review being undertaken remotely, we will check on their status when we are next able to visit the Council to ensure that they have been actioned accordingly.

Burial and associated fees

We have acquired detail of a sample of 10 interments taking place during the financial year to date, together with 5 memorials and checked detail of each to the supporting undertakers' / stonemasons' applications and supporting legally required burial and / or cremation certificates as provided by the Office Service Manager. We have also ensured that the appropriate fees have been applied in each case and are pleased to record that no issues arise in that respect.

However, in examining the cemetery Omega detailed transaction report (Code 3383) we note that on 15th July 2020 £115.00 is recorded as received and as "allotment fees", which, on the face of it, should have been posted to nominal account code 3282.

Finally, in this area, we have examined the Sales Ledger "Unpaid invoices by Date" report noting numerous debts remaining unpaid dating back as far as December 2018 with one "unmatched" receipt dated 31st October 2018.

Conclusions and recommendations

As indicated above, we have identified no serious causes of concern, although we suggest that further appropriate and positive action should be taken to ensure recovery of the outstanding allotment rents and other debts. The apparent miscoding of allotment rents in July 2020 to the cemetery income code should be investigated and, if confirmed as truly allotment income, an appropriate correcting journal should be raised.

Given the relatively high volume of aged debts recorded in the Sales Ledger "Unpaid Invoices by Date" report (copy attached), we urge that appropriate action be taken to undertake a detailed review in conjunction with DCK Accounting of the status of each of the long-standing debts, which should either be actively pursued or, if deemed irrecoverable, be presented to full Council for formal write-off approval in accordance with the adopted Financial Regulations (Para 9.4 refers).

As also indicated above, we shall undertake further work in relation to the Council's income streams when we are next able to visit the Council following upon the recommendations raised last year in relation to allotments and also to the booking procedures, etc in relation to the Civic Hall.

- R1. *Urgent and positive action should be taken in conjunction with the Council's contract accountants to review the extent of unpaid debts recorded in the Sales Leger currently, either instigating appropriate recovery procedures or if recovery is deemed improbable for whatever reason, to arrange formal write-off of those debts deemed irrecoverable. The "unmatched" receipt should be written off to miscellaneous income if it not to be set-off against another invoice.*
- R2. *The apparent miscoding of allotment rents in July 2020 as cemetery income in the financial ledger should be investigated and, if the miscoding is confirmed, an appropriate correcting journal should be raised.*

Petty Cash Account

The internal audit report in the AGAR requires us to assess the Council's approach to and control of the management of petty cash account transactions. Due to the Covid restrictions and our being unable to attend the Council at this time we have not undertaken any work in this area to date. We will, consequently, examine the controls in place and apply appropriate tests at the time of our next visit to the Council.

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 Employee Rights Act 1998 and the requirements of HMRC legislation as regards the deduction and payment over of income tax and NI contributions and the implementation of the nationally agreed pay award payable from 1st April 2020, which, we note was paid with the arrears backdated to 1st April with the September 2020 salaries. To meet the above objective, we have:

- Agreed the gross salaries paid to all staff in both September (including the calculations of arrears for each) and October 2020 by reference to the Council's "Establishment record"
- Ensured that tax and NI deductions, together with pension contributions, have been calculated applying the appropriate tax code, NI Table and pension band percentage contribution for both months, also ensuring that the relevant deductions / contributions have been paid over to HMRC and the Pension Fund Administrators accurately and in a timely manner for September 2020, and
- Ensured the accurate physical payment of staff net salaries for September 2020.

Conclusions

We are pleased to report that no issues have arisen from our work in this area warranting formal comment or recommendation. We noted last year that the previous internal audit report made reference to the absence of formal employment contracts for a number of staff and intended to examine a sample of contracts at this first review visit for 2020-21: however, for obvious reasons we have been unable to do so and will aim to examine a sample at the time of our next physical visit to the Council.

Investments and Loans

We aim here to ensure that the Council is maximising its interest earning potential through “investment/deposit” of surplus funds in high interest bearing accounts/deposits. We have made previous reference in this report to the placement of surplus funds in both a Barclays Deposit account and the CCLA Deposit Fund and have no further comment in that respect, having verified the year’s transactions to date to supporting statement detail.

We have checked and agreed the first half-yearly PWLB loan repayment instalments as part of our above payment review process by reference to the relevant PWLB demand notices

Conclusions

No issues arise in this area warranting formal comment or recommendation at present. We shall check the second half-yearly loan repayments as part of our continuing review of expenditure at future visits, also ensuring the accurate disclosure of the residual loan liability in the AGAR by reference to the UK Debt Agency website listing of all local government loan balances as at 31st March 2021.

Rec. No.	Recommendation	Response
Review of Income		
R1	Urgent and positive action should be taken in conjunction with the Council's contract accountants to review the extent of unpaid debts recorded in the Sales Leger currently, either instigating appropriate recovery procedures or if recovery is deemed improbable for whatever reason, to arrange formal write-off of those debts deemed irrecoverable. The "unmatched" receipt should be written off to miscellaneous income if it not to be set-off against another invoice.	
R2	The apparent miscoding of allotment rents in July 2020 as cemetery income in the financial ledger should be investigated and, if the miscoding is confirmed, an appropriate correcting journal should be raised.	