

## **Didcot Town Council**

*Internal Audit Report (Final update) 2020-21*

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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 2020-21 financial year, during our initial review of the Council's records for the year, which was undertaken remotely (due to the ongoing Covid-19 situation and restrictions) between 26<sup>th</sup> & 28<sup>th</sup> November 2020 and our final visit on 20<sup>th</sup> May 2021, plus prior and subsequent work at our offices. We wish to thank the Clerk and her staff for assisting the process, providing all necessary documentation in electronic format for the interim review and / or hard copy at the final review to facilitate the effective conduct of our review for the year.

## **Internal Audit Approach**

In undertaking the year's 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 'IA Certificate' in the Council's AGAR, which requires independent assurance over a series of internal control objectives.

## **Overall Conclusions**

We are pleased to advise that, based on the work undertaken this year, the Council has maintained generally adequate and effective internal control arrangements under the unusual circumstances arising due to the Covid situation and several staff changes with a few issues requiring recommendation.

Based on the generally satisfactory conclusions drawn from completion of our review programme for the year, we have signed-off the IA Certificate in the AGAR assigning positive assurances in each relevant area.

We also take this opportunity to remind the Clerk of the requirements of the guidance notes in the year's AGAR in relation to the documentation that must be displayed on the Council's website, together with the need to ensure compliance with the timing requirements for publication of the Notice of Public Rights to examine the Council's documentation for the financial year.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

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 three 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. A Barclays credit card is also in place, which is settled monthly.

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, which we assume is due to other more pressing priorities in view of the Covid and staffing situation.

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" at the financial year-end;
- Verified detail in the Council combined Current & Deposit a/c and Civic Hall a/c cashbooks for April & September 2020, plus January and March 2021 to the supporting bank statements;
- Verified the CCLA Account transactions for the full financial year;
- Checked and agreed detail on all account bank reconciliations as at 30<sup>th</sup> April and September 2020, plus 31<sup>st</sup> January and March 2021; and
- Ensured the accurate disclosure of the combined year-end cash and bank balances in the AGAR at Section 2, Box 8.

### *Conclusions and recommendation*

*We are pleased to record that no significant issues arise in this area this year noting that bank reconciliations are now subject to regular review during the year with a nominated councillor signing them off, together with the underlying bank statements. However, as indicated in last year's report, the need to retain the Santander, which has had no movement in the past three years (with a balance of only £3.81), and Barclays Civic Hall accounts is questionable: we note that the Clerk is currently looking at an alternative banker for effecting the Council's day-to-day transactions and urge that, as and when that takes place, the above two accounts should be closed and not replaced.*

*R1. Urgent consideration should be given to rationalising the Council's banking arrangements with closure of the Santander and Barclays Civic Hall actioned in advance of or simultaneously with any move to change the primary banker.*

## 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 formally 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 and Agendas as posted on the Council's website for 2021-22: 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 note that the Council's 2019-20 AGAR has been signed off by Moore, the appointed external auditor, also noting that a few issues have been raised therein, the detail of which should be borne in mind when completing, adopting and signing off the 2020-21 AGAR.

### *Conclusions*

*We are pleased to record that no issues arise in this area warranting formal comment or recommendation this year: we do, however, take this opportunity to remind the Clerk that the preface to the year's AGAR details the timing of actions for submission and advertising the audit for members of the public, together with detail of the documentation that must be posted on the Council's website.*

## Review of Expenditure & VAT

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 being processed on-line, which were being set up and released solely by the then Finance Manager, albeit following scrutiny and approval of the payment schedule by the Town Clerk and members.

The Finance Manager post has fallen vacant during the year with DCK Accounting appointed to undertake maintenance of the Council's financial records. Consequently, we understand that online payments are now effectively being set up by the DCK contractor using the Clerk's log-on detail with

the Clerk then physically releasing the payments. We do not consider it sound practice for an external contractor to be routinely involved in setting up online payments using the Clerk's log in detail.

As above, we also understand that the Clerk is seeking to change the Council's banking arrangements to a more "user-friendly" provider affording improved segregation of duties between setting up payments and their physical release, with the intention that the latter role (i.e., physical release of payments) is undertaken by members. We consider this a sound move and urge that it is actioned as soon as practicable.

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 auditor other bodies' examination.

In order to ensure compliance with the above criteria, we have now selected an extended sample of 60 individual payments plus 2 Non Domestic rates invoices paid over 10 months during the year: our test sample includes all payments greater than £3,000 plus a more random sample of every 30<sup>th</sup> payment recorded in the Council and Civic Hall cashbooks and totals £489,800 equating to 69% by value of non-pay related payments. We are pleased to record that no significant issues arise in relation to compliance with the above test criteria.

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 noting that since 1<sup>st</sup> January 2021 reclaims have been prepared and submitted to HMRC monthly rather than quarterly. The residual balance / reclaim for March 2021 is correctly identified as a debtor in the year's Accounts and AGAR.

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

***As indicated in last year's report, improved control / segregation of duties between approving payments, setting up and physically releasing them online should be implemented as soon as practicable to afford appropriate protection to staff against any potential allegation of mismanaging public funds, whilst also ensuring that members are involved in the process thereby demonstrating effective discharge of their fiduciary responsibilities.***

*R2. In line with the potential change in Council's banker appropriate arrangements should be put in place to ensure effective segregation of duties between the approval of payments, setting them up online and then physically releasing them.*

## **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 appropriate arrangements exist to monitor and manage those risks 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 note that, following a review of the Council's insurance arrangements, the Council has renewed its cover through WPS to November 2021: consequently, we have examined the 2020-21 insurance schedule noting that a raft of land, premises and equipment is in place, together with Public and Employer's Liability cover at £15 million and £10 million respectively; also in place are Fidelity Guarantee cover of £2 million and "Business Interruption – Loss of Revenue cover at £600,000, all of which we consider appropriate for 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.***

## **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.

We note that, following due deliberation, Council approved the budget and precept for 2021-22 at its meeting in January 2021 setting the latter at £1,144,053.

Our examination of minutes indicates that members receive regular budget reports throughout the year based on the accounting software and that these are reviewed in depth with several questions being raised on the detail. We have duly reviewed the year-end outturn seeking and obtaining, by reference to the detailed transaction reports in Omega, appropriate explanations for any significant variances existing.

We have also considered the appropriateness of the level of retained reserves at the financial year-end noting that overall reserves have increased to £961,658 (£912,585 as of 31<sup>st</sup> March 2020). The total value comprises earmarked reserves of £679,005 (£390,158 at the prior year-end) with the General Reserve now standing at £282,853 (£522,426 at the prior year-end). The General Reserve balance equates to approximately 3 months' revenue spending at the 2020-21 level and sits 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**

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 generally 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 Council's income generation potential during the year with the halls and other facilities

closed for much of the year. The Civic Hall effectively remains closed to casual hirers at the present date, being used by the NHS as a vaccination centre for which a regular payment of some £2,000 is now being received. Consequently, the bar and catering facilities also remain closed with no or only very limited income generated during the year.

We focused attention at our 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 Office 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 examined the allotment records provided, together with the Omega nominal income code account detail noting that total income in the latter (code 3282) stood at £12,013 as at 31<sup>st</sup> October 2020 (£12,800 at the financial year-end) with no tenants' rents now remaining unpaid.

We also note that allotment tenants pay a £40 deposit, the year-end holding of £4,800.50 being correctly recorded in the Omega accounts at code 503 as a liability.

### **Burial and associated fees**

We acquired detail of a sample of 10 interments during the financial year to the date of our interim review, 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 also ensured that the appropriate fees had been applied in each case and were pleased to record that no issues arose in that respect.

However, in examining the cemetery Omega detailed transaction report (Code 3383) we noted that on 15<sup>th</sup> July 2020 £115.00 was recorded as received and as "allotment fees", which, on the face of it, should have been posted to nominal account code 3282. In examining the year-end detailed transaction report, we note that no action has been taken to correct this mis-posting.

Finally, in this area, we have again examined the Sales Ledger "Unpaid invoices by Date" report noting numerous debts remaining unpaid dating back as far as January 2019 with a few "unmatched" receipts, one dating back to 31<sup>st</sup> October 2018. Whilst we understand that a few have paid in the new financial year we are concerned to note the number of debts that are more than six months old at the end of the financial year: we attach a copy of the above report at Appendix A and urge that further action is taken to pursue the long overdue debts appearing thereon.

### ***Conclusions and recommendations***

***As indicated above, we have identified no serious causes for concern, although we urge that further appropriate and positive action be taken to ensure recovery of the outstanding debts, also offsetting the "unmatched" payments against outstanding debts where appropriate.***

R3. *Further positive action should be taken (in conjunction with the Council's contract accountants) to review the extent of unpaid debts and "unmatched" receipts recorded in the Sales Leger "Unpaid invoices by date" report attached at Appendix A.*

R4. *The apparent miscoding of allotment rents in July 2020 as cemetery income in the financial ledger should have been followed up and, if appropriate a correcting journal have been raised*

*at or before the financial year-end, although we acknowledge that it does not have any impact on the AGAR financial detail.*

## **Petty Cash Account**

The IA Certificate in the AGAR requires us to assess the Council's approach to and control of the management of petty cash account transactions.

We note that the Omega ledger indicates the existence of two petty cash accounts, one for the office, with a float of £150 and one for the Civic Hall with a float of £250. A further cash change float of £600 is recorded in Omega for the Civic Hall bar.

As the Civic Hall has effectively been closed for virtually the whole financial year, we have not undertaken any work in that area this year understanding that the Hall floats are securely locked in the Bar.

We understand from the Clerk that she is unaware of any petty cash transactions having occurred during the financial year and was purely handed a bank cash bag by the Finance Manager on her departure with a combination of notes and coin therein. The cash was not checked at that time or subsequently and we have, consequently at this final visit, checked the physical cash holding, which stood at £134.70, an apparent shortfall of £15.30 against the recorded £150 balance in Omega.

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

***Given the apparent shortfall in the petty cash account holding, we urge that the Hall petty cash float of £250 and bar change float of £600 be checked as a matter of urgency with any further discrepancies reported to Council. If use of the office petty cash account is likely to continue / be reinstated in the near future, we suggest that a cash cheque be drawn covering the apparent shortfall of £15.30, which should be charged as a miscellaneous expense and that, once usage resumes, a nominated councillor undertakes a periodic review of the physical cash held agreeing that amount, together with the value of any unreimbursed expenses to the £150 imprest.***

- R5. *The physical cash holding in the Hall petty cash account and bar float should be checked as a matter of urgency to ensure its continued existence at the accounts recorded value.*
- R6. *The apparent office petty cash account shortfall should be investigated further and, if the account is required and to be used in future, the holding be topped-up to the recorded value of £150 with the shortfall charged as a miscellaneous expense.*
- R7. *If it is deemed necessary to retain the petty cash account, the value of cash held and any unreimbursed expenses should be subjected to periodic independent verification.*

## **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 1<sup>st</sup> April 2020, which, we note was paid with the arrears backdated to 1<sup>st</sup> 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 IA report referred to the absence of formal employment contracts for a number of staff and will, as part of our 2021-22 initial interim review, examine a sample of staff contracts.*

## **Fixed Asset Registers / Inventories**

The Practitioner’s Guide requires all councils to maintain an appropriate register of its asset stock: the Council has complied with the requirement with an appropriate register in place identifying the asset holdings in 7 categories, each, apart from Land and Buildings, with a comprehensive schedule of the individual assets identifying for each the acquisition date (where known) and purchase cost net of VAT. The register also identifies the value of any new acquisitions in the year and the prior year recorded cost price of any assets disposed of in the year.

We consider the register to be appropriate for the Council’s present requirements, although we note that no detail of the major constituent of the total asset value (i.e., Land and Buildings) at the year-end is recorded in the detail, purely the total value at cost price of £5,572,446, less a disposal of £293,500 during the year. The register should identify detail of all individual land and premises owned by the Council with the individual value of each recorded.

We note that the prior year asset value recorded in the Omega accounts’ AGAR as at 31<sup>st</sup> March 2020 agrees with the asset register showing a value of £6,774, 085, but the closing 2020-21 value in the AGAR is shown as £6,730,141, compared with the updated asset register value at that date of £6,520,141. These values should be in synch.

### **Conclusions and recommendations**

*As indicated above the asset register should include detail of all land and premises owned. Similarly, the asset value to be reported in the AGAR at Section 2, Box 9 should agree with that in the asset register.*

*Several of our clients have developed photographic registers of their street furniture, play equipment, etc, which they have found of assistance should the need arise for any insurance reclaim or police investigation following damage to or theft of equipment, etc. Consequently, we commend the development of such a register to the Council as an example of best practice.*

R8. *The asset register should be expanded to identify full detail of the Council’s land and premises with values assigned to each adding up the total value as at 31<sup>st</sup> March 2021 of £5,278,946 as recorded in the Summary of Fixed Assets.*

*R9. The asset register and / or the AGAR should be reviewed to ensure that the value to be reported in the 2020-21 AGAR at Section 2, Box 8 is in synch with the total asset value recorded in the asset register at that date.*

*R10. Consideration should be given to the development of a supplementary photographic register of the Council's asset such as street furniture and play equipment.*

## **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 supporting statement detail.

We have checked and agreed both half-yearly PWLB loan repayment instalments as part of our above payment review process by reference to the relevant PWLB demand notices, also now ensuring the accurate disclosure of the year-end residual loan liability as at 31<sup>st</sup> March 2021 by reference to the UK Debt Agency web site where detail of all local government loan liabilities is reported.

### ***Conclusions***

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

## **Statement of Accounts & AGAR**

We are required as part of the IA reporting process to provide assurance that the Council's financial records prepared during the year are maintained on the correct accounting basis and are pleased to confirm compliance with that requirement. We have also considered the basis for determining year-end debtors and creditors, which are primarily generated by the Omega Sales and Purchase ledgers, together with journal entries for accruals and prepayments at the financial year-end with no issues arising.

### ***Conclusions***

*No issues have been identified in this area and, based on the satisfactory conclusions drawn from our review programme, we have duly signed off the IA Certificate in the year's AGAR assigning positive assurances in each relevant area.*

Rec. No.	Recommendation	Response
<b>Review of Accounting Arrangements and Bank Reconciliations</b>		
R1	Urgent consideration should be given to rationalising the Council's banking arrangements with closure of the Santander and Barclays Civic Hall actioned in advance of or simultaneously with any move to change the primary banker.	
<b>Review of Expenditure and VAT</b>		
R2	In line with the potential change in Council's banker appropriate arrangements should be put in place to ensure effective segregation of duties between the approval of payments, setting them up online and then physically releasing them.	
<b>Review of Income</b>		
R3	Further positive action should be taken (in conjunction with the Council's contract accountants) to review the extent of unpaid debts and "unmatched" receipts recorded in the Sales Leger "Unpaid invoices by date" report attached at Appendix A.	
R4	The apparent miscoding of allotment rents in July 2020 as cemetery income in the financial ledger should have been followed up and, if appropriate a correcting journal have been raised at or before the financial year-end, although we acknowledge that it does not have any impact on the AGAR financial detail.	
<b>Petty Cash Account</b>		
R5	The physical cash holding in the Hall petty cash account and bar float should be checked as a matter of urgency to ensure its continued existence at the accounts recorded value.	
R6	The apparent office petty cash account shortfall should be investigated further and, if the account is required and to be used in future, the holding be topped-up to the recorded value of £150 with the shortfall charged as a miscellaneous expense.	
R7	If it is deemed necessary to retain the petty cash account, the value of cash held and any un-reimbursed expenses should be subjected to periodic independent verification.	

Rec. No.	Recommendation	Response
<b>Fixed Asset Register</b>		
R8	The asset register should be expanded to identify full detail of the Council's land and premises with values assigned to each adding up the total value as at 31 <sup>st</sup> March 2021 of £5,278,946 as recorded in the Summary of Fixed Assets.	
R9	The asset register and / or the AGAR should be reviewed to ensure that the value to be reported in the 2020-21 AGAR at Section 2, Box 8 is in synch with the total asset value recorded in the asset register at that date.	
R10	Consideration should be given to the development of a supplementary photographic register of the Council's asset such as street furniture and play equipment.	

**See attached PDF File “Unpaid sales Ledger invoices as at 31<sup>st</sup> March 2021”.**