

Shepton Mallet Town Council

Internal Audit Report 2022-23 (Interim)

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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 our initial review for 2022-23, undertaken both at our offices and during a visit to Shepton Mallet Town Council offices on 10 November 2022. We offer our thanks and appreciation to the Town Clerk for her courtesy and assistance prior to and during the visit.

Internal Audit Approach

The objective of this interim review is to provide an appropriate level of assurance to the Council on their governance, procedures and financial control in advance of the main review at the financial year end. Any recommendations, therefore, should be seen as an ‘early warning’ of issues that need to be addressed in order to provide full and supportable assurances in the Annual Governance and Accountability Return (AGAR) for 2022-23.

In commencing our review for the year, we have 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 reasonable assurance that the Council has appropriate and robust financial systems in place that 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’ as part of the Council’s AGAR process, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

Details of the work undertaken on the Council’s accounting and other records during this interim review are set out in the following detailed report.

While we have not seen the need to make formal recommendations at this time, we have made a number of observations throughout this report which we would invite Council to consider. We have identified a number of areas where the former high level of internal financial control has slipped, due to recent staff changes. However the Council’s financial procedures are still fundamentally sound, and we see no reason at this time why an unqualified opinion should not be offered on the final 2022-23 accounts.

Detailed Report

Review of Accounting Arrangements & Bank Reconciliations

The Council's accounting records are currently maintained using Rialtas Alpha software, although we note the Town Clerk's intention to upgrade this to Rialtas Omega, which we feel should be undertaken before the year-end as long as suitable financial controls and reconciliations are maintained during the upgrade. Banking is undertaken via a Current Account and an Instant Access Account with Unity Trust Bank, a CCLA investment, and three small Charity Accounts (held variously with Unity Trust and Lloyds Bank).

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in the financial records. To that end, we have:

- Ensured that an appropriate analysis of income and expenditure is available in the accounting system;
- Checked that the closing balances, as reported in the Statement of Accounts for 2021-22 have been rolled forward correctly as opening balances for 2022-23 in the Rialtas Alpha system. We have noted that the opening balance for Box 9 (Assets) has not yet been brought forward, which we believe to be an issue with Rialtas that the Town Clerk will pursue with them;
- Checked and agreed sample transactions in the accounting system to the relevant bank account statements; and
- Checked the status of bank reconciliations on the Unity Trust accounts. Due to the loss of the previous Responsible Financial Officer (RFO) these have not been undertaken since June 2022. We note that a new RFO has recently been appointed, and has this task as a high priority.

We have discussed with the Town Clerk the desirability of making better use, and attracting a higher interest return, on the Council's balances. We have discussed the possibility of arranging a 'sweep' system where balances above a certain level are automatically moved from current to deposit. The Town Clerk is also considering transferring some long-term Earmarked Reserves into the CCLA Property Fund, which offers a higher rate of return although funds are not immediately available. We will review progress in this area during our final review of the 2022-23 accounts.

With regard to bank reconciliations, we have also reiterated our view that an independent Councillor (ie. not a bank signatory) be appointed to undertake quarterly checks of the bank reconciliations and significant financial transactions, to suitably certify such checks, and report to the next meeting of Council and/or the Policy and Resources Committee. This is an important internal control, evidence of which is required to comply with Financial Regulation 2.2.

Conclusion

There are no issues arising in this area of our review warranting formal comment at this time, although we have made observations about the need for regular bank reconciliations periodically reviewed by an independent Councillor. We have also discussed with the Town Clerk methods of increasing the Council's interest earnings.

Review of Corporate Governance

Our objective is to ensure that the Council has robust corporate governance documentation and processes in place, and that, as far as we may reasonably be expected to ascertain (as we do not attend Council or Committee meetings) all meetings are conducted in accordance with the adopted Standing Orders and no actions of a potentially unlawful nature have been or are being considered for implementation. We have:

- examined the minutes of the Full Council and its Standing Committees' meetings for the year to date to ascertain whether any significant issues affecting the Council's financial stability either in the short, medium or long term exist;
- noted that, further to our previous recommendations, the Council's Standing Orders (SOs) and Financial Regulations (FRs) were reviewed at the May 2022 meeting of the Council, and now accord with the NALC Model Forms;
- noted that, at the May 2022 meeting, the Council confirmed its eligibility for the General Power of Competence (GPoC);
- noted that the Exercise of Public Rights in respect of the 2021-22 Accounts was properly applied and undertaken;
- noted that elements of information available on the Council's website show a good level of compliance with the Transparency Code 2015, although the quarterly report on financial transactions over £500 needs to be kept up to date;
- discussed with the Town Clerk the need to draw up procedure notes, recognising the shortfall in Business Continuity between the departure of the former RFO and the recent appointment of the new RFO.

Conclusion

There are no issues arising in this area of our review warranting formal comment at this time, other than the desirability of drawing up Business Continuity procedures over a reasonable timeframe.

Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Internal Control over payments by Councillors is evidenced and maintained;
- 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;
- An official order has been raised for all purchases and service delivery where one would be expected;
- 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.

During our interim visit we reviewed a sample of significant invoices paid between 1 April and 30 September 2022. We have noted a number of recent procedural weaknesses, due to the staffing issues previously referred to, although these relate to record keeping rather than the possibility of incorrect payments. We have discussed the re-establishment of the former level of sound internal control in this area with the Town Clerk.

We have referred above to the desirability of independent internal checks being undertaken by Councillors, which is an important part of internal control providing assurance to both the Council and its staff. A sample check on paid invoices could be included with the FR2.2 bank reconciliation checks.

We note that, at the time of audit and due to the staffing pressures referred to above, outstanding VAT has not yet been recovered during the year from HMRC, although it has been fully recovered for 2021-22. The trial balance at the end of October 2022 shows an outstanding balance of over £37,500. While Financial Regulations only require an annual reclaim, it is considered Best Practice to reclaim VAT on a quarterly basis, especially when large sums are involved.

Conclusion

There are no issues arising in this area of our review warranting formal comment at this time, other than the need to re-establish the former level of internal control over payments, and the desirability of more frequent VAT reclaims.

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

We note that, at the time of audit, the Council had yet to review its Risk Register during 2022-23. The Register was last reviewed in January 2022 by the Policy and Resources Committee, and the Council's Strategy is to review its risks every 6 months, although the requirement in Financial Regulations is for a minimum annual review.

The Council maintains its insurance needs through Zurich Municipal under a 3-year Long Term Agreement that commenced on 1 October 2022. The key insurance covers are £12M for Employers Liability, £15M for Public Liability, and £1M for Official Indemnity, along with cover for identified assets, all of which we feel is appropriate for a Council of this size.

We note that the Council's play facilities are subject to regular safety inspection by the Mendip DC contractor (idverde), although the Town Clerk intends to review this arrangement.

Conclusion

There are no issues that we wish to bring to the attention of Council at this time, other than the observation about periodic reviews of the Council's risk profile.

Budgetary Control and Reserves

Our aim here is to ensure that: -

- The Council has undertaken a budget determination exercise, which forms the basis of the annual precept request from the parent Council.
- The Council has received regular reports identifying the budget position throughout the year.
- The Council has formally approved the establishment of specific reserves.
- The utilisation of reserves and the return of unused balances to the General Fund are reported to the Council at regular intervals.
- Year-end reserves and General Fund balances are reviewed to ensure that they are both appropriate and are likely to be utilised.

This interim review took place in advance of the 2023-24 Budget setting and Precept determination process being concluded by the Council: consequently, we shall examine the outcome of the Council's deliberations in this regard during our final update review for the year. At that time we will also review the level of the Council's General and Earmarked Reserves.

Conclusion

There are no issues arising in this area of our review warranting formal comment at this time.

Review of Income

In considering the Council's income streams, we aim to establish that robust systems are in place to ensure the identification of all income due to the Council from its various sources, that income is invoiced in a timely manner and that effective procedures are in place and to pursue recovery of any outstanding monies due to the Council. At this interim stage, we have:

- noted that the Council's Allotment fees were reviewed in June 2022 by the Recreation, Amenities and Environment Committee, with no increase proposed. This meets the requirement of FR9.3 for at least an annual review;
- noted that the Council uses the Rialtas Allotments management package, which we have not reviewed at this time in light of staff changes and the proposed system upgrade. We will undertake substantive work in this area during our final 2022-23 review.

Conclusion

There are no issues arising in this area of our review warranting formal comment at this time.

Petty Cash Account

A Petty Cash account is managed by the RFO. The approved balance for this account is £100, and it is managed on a non-imprest basis. The balance shown in the Alpha system (£58.93 @ 28 October 2022) is to be adjusted in the accounts system by a journal entry at the year-end.

We have discussed with the Town Clerk the possibility of replacing this little-used account with credit cards for key members of staff, with clearly-defined financial limits and control procedures, which we believe would be more efficient. We will undertake substantive work in this area as part of our final 2022-23 review.

Conclusion

There are no issues arising in this area of our review warranting formal comment at this time.

Salaries and Wages

In examining the Council's payroll function, we aim to ensure that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenue and Customs (HMRC) in relation to the deduction and payment over of income tax and NI contributions.

We note that payroll management continues to be outsourced to Pata Payroll Services.

We have test-checked the payroll records for staff in post for September 2022 with no issues arising. We have test-checked payments made to individual members of staff, and statutory deductions to HMRC and Somerset CC Pensions as part of our Expenditure review detailed above.

We will undertake further work in this area as part of our final 2022-23 review, with particular regard to new staff and the implementation of the recent NJC pay award backdated to 1 April 2022.

Conclusion

There are no issues arising in this area of our review warranting formal comment at this time.

Investments and Loans

A revised Investment Strategy was considered and approved by Policy and Resources at its April 2021 meeting. At that meeting, a policy of transferring excess funds from Unity Trust to the CCLA Deposit Fund was also approved.

The Council does not currently have any long-term investments, all funds being kept in easy access accounts. However, should funds be placed with the CCLA Property Fund, this would represent a long-term investment that would require a revision to the Investment Strategy.

The Council has no loans repayable by or to it.

Conclusion

There are no issues arising in this area of our review warranting formal comment at this time.

Review of Fixed Asset Registers

The Governance and Accountability Manual (GAM) requires councils to develop and maintain a register of all assets. The Annual Return requires disclosure of the value of assets retained by the Council as at 31st March annually that requires asset values to be reported at cost price or, where that value is unknown, a nominal value of £1. Annual Return values are then updated to reflect the cost of any new acquisitions or deletions / disposal.

We shall review this area as part of our final 2022-23 review. We would note that, should funds be placed with the CCLA Property Fund, these are then treated as a Fixed Asset (Box 9) rather than Cash and short-term Investments (Box 8) on the AGAR.

Conclusion

There are no issues arising in this area of our review warranting formal comment at this time.

Charity Accounts

The Council maintains three small Charity accounts – Collett Park, the Market Cross, and the Cenotaph. The Accounts for these Charities are maintained in the Rialtas Alpha system, although they form no part of the main Council Accounts.

These accounts are funded by small annual donations of £1,000 from the Town Council. We will review these accounts during our final 2022-23 review, in accordance with Charity Commission requirements.

Rec. No.	Recommendation	Response
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No recommendations made
