

**Shepton Mallet Town Council**

*Internal Audit Report 2022-23 (Final)*

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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 final review for 2022-23, building on our interim review in November 2022, and has been undertaken both at our offices and during a visit to Shepton Mallet Town Council offices on 6 June 2023. We offer our thanks and appreciation to the Town Clerk and her team for their courtesy and assistance throughout this review.

## **Internal Audit Approach**

The objective of this final review is to provide an appropriate level of assurance to the Council on their governance, procedures and financial control in order to provide full and supportable assurances in the Annual Governance and Accountability Return (AGAR) for 2022-23.

In concluding 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 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 governance procedures, accounting and other records during this final review are set out in the following detailed report. We are pleased to record that action has been taken on the observations made in our interim 2022-23 report.

We are happy to inform the Council that we can offer a reasonable level of assurance on the financial and governance controls in place throughout 2022-23, which is to the credit of the Town Clerk and her team. In light of the actions taken on our previous reports we have no specific recommendations to make in this final report. However we have made some further observations in this report, which we would invite Council to consider in due course.

# 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 during 2023-24 although suitable financial controls and reconciliations need to be 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, and that the accounts remain 'in balance' at the year-end;
- Checked and agreed sample transactions in the accounting system to the relevant bank account statements; and
- Checked the status of bank reconciliations for all accounts as at 31 March 2023. We are pleased to note that, from March 2023, these are now checked by an independent Councillor which meets the requirements of both Financial Regulation 2.2 and the Council's Policy and Resources (P&R) Committee.

### *Conclusion*

*There are no issues arising in this area of our review warranting formal comment or recommendation.*

## 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 full year to ascertain whether any significant issues affecting the Council's financial stability either in the short, medium or long term exist;
- noted that the Council's Standing Orders (SOs) and Financial Regulations (FRs) were reviewed at the May 2022 meeting of the Council, and 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 in accordance with the Accounts and Audit Regulations;
- noted that information available on the Council's website shows a good level of compliance with the Transparency Code 2015.

### **Conclusion**

*There are no issues arising in this area of our review warranting formal comment or recommendation.*

## **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.

In accordance with the above objectives, we have checked a sample of payments throughout the year, with no issues arising. We are pleased to note that, further to our concerns in our interim report, and the appointment of new staff, an appropriate level of internal control has been re-established, with signed checks by the Responsible Financial Officer (RFO, the Town Clerk, and authorising Councillors.

We note that credit cards, with defined expenditure limits, have been provided to some staff, and are processed as normal supplier payments. This practice removes the need for a Petty Cash account (see below).

Further to our comments in our interim report, we note that VAT has been recovered up to 30 September 2022, and that the outstanding balance as at 31 March 2023 (£61,438.08) is properly shown on the Trial Balance and as a Debtor in the final accounts. We are confident that quarterly claims will be re-established during 2023-24.

### **Conclusion**

*There are no issues arising in this area of our review 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 identified in order to minimise the opportunity for their coming to fruition.

We note that the Council reviewed its Risk Register in January 2023, which meets the requirement in Financial Regulations for at least an annual review. However, we note that the Council's Risk Management Strategy requires a twice-yearly review which has not been met during 2022-23, although this does not constitute a reportable failure of governance on the AGAR.

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 idverde, although the Town Clerk intends to review this arrangement.

### *Conclusion*

*There are no issues arising in this area of our review warranting formal comment or recommendation, apart from the possibility of more frequent review of the Council's Risk Register.*

## 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.

We note that the Council undertook a sound Budget and Precept-setting exercise for 2023-24, setting its Precept at £715,750 at its January 2023 meeting.

The year-end accounts show a range of Earmarked Reserves for various projects totalling £307,250. When deducted from the year-end cash balances, this leaves a General Reserve (for unforeseen events) of £429,516, which is the equivalent of approximately 60% of the Precept, which has increased from 2021-22 and is above the Best Practice level of 50%.

We have discussed this with the Town Clerk, and understand that this should reduce to a more appropriate level during 2023-24 should the intended purchase of a significant capital asset take place, when the necessary funds will be established as an Earmarked Reserve.

### ***Conclusion***

***There are no issues arising in this area of our review warranting formal comment or recommendation.***

## **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.

The Council has relatively few income streams, namely the Precept, Bank interest, miscellaneous grants, and Allotment charges. We have checked a sample of significant receipts to the financial records and bank statements with no issues arising.

We note that Allotment charges are managed through the Rialtas Allotments package, which is linked to the Alpha accounting system. We have discussed procedures with the responsible Officer, and can give an assurance that the system for billing and receipt of income is robust. This should be further enhanced by the upgrade to Omega, which we will examine further during our 2023-24 interim audit.

Finally, we note 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;

### ***Conclusion***

***There are no issues arising in this area of our review warranting formal comment or recommendation.***

## **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-impresst basis. The balance shown in the Alpha system as at 31 March 2023 is £3.74.

The need for such an account has been superseded by the issue of Credit Cards to key staff. We have discussed with the Town Clerk the methodology for closing this account as soon as possible.

### ***Conclusion***

***There are no issues arising in this area of our review warranting formal comment or recommendation, other than our observation about closing this account.***

## 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 and March 2023 with no issues arising. We have test-checked payments made to individual members of staff, and statutory deductions to HMRC and Somerset Council Pensions as part of our Expenditure review detailed above.

### *Conclusion*

*There are no issues arising in this area of our review warranting formal comment or recommendation.*

## Investments and Loans

A revised Investment Strategy was considered and approved by Policy and Resources at its April 2021 meeting. While not a specific requirement, we have not seen any review of this important policy during 2022-23. We feel that, given the Council's significant bank balances, and ongoing consideration of how to optimise interest earnings from low risk sources, this policy should be reviewed more frequently.

The Council does not currently have any long-term investments, all funds being kept in easy access accounts.

The Council currently has no loans repayable by or to it.

### *Conclusion*

*There are no issues arising in this area of our review warranting formal comment or recommendation, other than our observation about more frequent review of the Council's investment strategy.*

## 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 31<sup>st</sup> March annually, that requires asset values to be reported at cost price or, where that value cannot reasonably be determined, a nominal value of £1. Annual Return values are then updated to reflect the cost of any new acquisitions or deletions / disposals.

We have reviewed the Council's Asset Register, and are pleased to report that it satisfies the above requirements.

We have discussed with the Town Clerk the desirability of maintaining a photographic record of significant assets, to aid any insurance claim.

### ***Conclusion***

***There are no issues arising in this area of our review warranting formal comment or recommendation.***

## **Charity Accounts**

The Council maintains three small Charity accounts – Collett Park, the Market Cross, and the Cenotaph.

These accounts are funded by small annual donations from the Town Council. We have confirmed the bank balances on the three Charity accounts to the relevant bank statements, with no issues arising. We believe this meets any requirements of the Charity Commissioners.

## **Statement of Account and AGAR**

The AGAR incorporates the Council's Annual Accounts, which are subject to external audit scrutiny and verification.

### ***Conclusions***

***There are no matters arising in this area of our review process and we have duly signed off the Internal Audit Certificate at Page 3 of the 2022-23 AGAR, assigning appropriate assurances in all relevant categories.***



Rec. No.	Recommendation	Response
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**No recommendations made**

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