



Axminster Town Council
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20th May 2024

Internal Audit Results and Recommendations – Financial Year 1st April 23 – 31st March 24

To whom it may concern,

The following report should be read in conjunction with the Annual Internal Audit Report 2023/24 for Axminster Town Council. It provides further details, explanations and recommendations where the Internal Control Objectives were not achieved. Audit testing has been performed in line with the guidance provided by the Joint Panel on Accountability and Governance Practitioners' Guide March 2023.

As was the case last year, the Responsible Financial Officer (RFO) was very supportive of the audit and provided significant time and support to the process. In general there was an excellent record of transactions and an overall desire to understand control weaknesses and where improvements could be made. Significant progress has been made in regards to the weaknesses identified last year and also during the interim audit which took place in December.

Parts 1 & 2 of this report relate to the findings of the Internal Audit Report for the current year, Part 3 relates to an outstanding item from last year and Parts 4 & 5 follow-up the issues identified during both last year's audit and the interim audit for 2023/24.

Part 1 – Annual Internal Audit Report 2023/24 Failures and Recommendations

Internal Control Objective D – The precept or rates requirement resulted from an adequate budgetary process; process against the budget was regularly monitored; and reserves were appropriate.

Budget monitoring

- Weakness: Whilst the RFO has a very good handle on the finances of the Council and is diligent in reporting the financial performance on a regular basis it was not evident that this reporting included a comparison to the Budget. This creates a risk that an overspend against the Budget may not be apparent to the Council in a timely manner, thereby reducing the ability to make to enact mitigating actions.

- **Recommendation:** At least on a quarterly basis, financial performance against Budget should be included in reporting to the Council. This should be provided in an easily understandable format, highlighting any areas of concern and providing suitable commentary.

Internal Control Objective G – Salaries to employees and allowances to members were paid in accordance with this authority’s approvals, and PAYE and NI requirements were properly applied.

Employee Contracts

- **Weakness:** It was noted during testing that 2 employees who were transferred onto the Council payroll in August following the change in ownership of the Guildhall did not have contracts of employment. A lack of contracts provides legal uncertainty and financial risk to both employee and employer.
- **Recommendation:** At the time of the audit corrective action was taking place to remedy the situation. The reason for the issue occurring in the first place was that the employees didn’t have a contract in place with their original employer and this wasn’t identified as part of the ownership transfer and given the nature of the event it is unlikely to occur again. Other than completion of the corrective action already underway no further control updates are suggested.

Internal Control Objectives M & N – In the year covered by this AGAR, the authority correctly provided for a period for the exercise of public rights as required by the Account and Audit Regulations & the authority has complied with the publication requirements for the 2022/23 AGAR.

AGAR Publication

- **Weakness:** It was noted that the Council failed to publish the 22/23 AGAR for the 30 working days required. Although the document was on display for the required period, for the first two weeks of that time it hadn’t been formally approved by the Council and so the requirements of the audit test are therefore not met.
- **Recommendation:** It has been noted that the RFO has already made provision in the Council’s calendar to ensure that appropriate reporting can be completed. No further action is recommended.

Part 2 – Other recommendations from Internal Audit 2023/24

The following recommendations seek to improve the control environment at Axminster Town Council, they are not evidence or suggestions of existing control failures.

1. **Software assisted invoicing:** It was noted that the Council has recently started using Scribe accounting software. This is a good step-forward in control of the financial processes of the Council and should help to prevent some of the human error issues that can arise through using excel. However it was noted that invoicing for Council services such as use of the Guildhall, Allotments, etc has not yet been ported to the system and this is recommended as soon as practicable should Scribe prove to be suitable for these processes.
2. **Insurance:** Whilst there is insurance in place for the Council assets, values have typically been taken from historic documentation. It is therefore recommended that a fully itemised with updated valuations list is created that is maintained and reviewed annually going forward.

- 3. Banking:** It was noted that the Council maintains two savings accounts with the same provider, it is recommended that these are consolidated in order to reduce the administrative burden. Note – the original intent of having two accounts was to benefit from the £85,000 FSCS Guarantee Scheme should the provider fail however the Council is no longer eligible for this scheme.

Part 3 – Outstanding recommendations following Annual Internal Audit Report 2022/23

Internal Control Objective I – Periodic bank account reconciliation were properly carried out during the year

- Weakness: Whilst monthly reconciliations were performed, these were not always reviewed and approved. It was also noted that the bank reconciliations were also based on excel data rather than a check against bank statements.
- Recommendation: Bank reconciliations are reviewed monthly and should include confirmation against third party documentation (e.g. statements / online accounts). This will probably require a separate process to the existing one where a financial pack is presented to the wider council, but the results of this check and control should become part of that financial pack.
- **Interim Update December 2023:**
 - Reconciliations are now reviewed on a monthly basis by an independent councillor. The control weakness is now resolved and risk factor closed.
 - **Further Recommendation:** It was noted that the reconciliation process and the audit performed by the Council's external auditors (PKF) does not independently verify the actual bank account balances, instead relying on printed statements. If correct, this is a significant weakness in the audit testing performed by PKF and it is recommended that their year-end testing include the sending of bank confirmation letters to the relevant account providers in order to independently verify the Council's balances.
- **Final Audit Update May 2024:**
 - **OUTSTANDING:** There has been no further update regarding PKF's testing procedures and the risk remains.

Part 4 – Completed recommendations from Annual Internal Audit Report 2022/23

Internal Control Objective B – This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.

Tender Process:

- Weakness: For purchases made under the quotes and tender processes defined within the Standing Orders (SO) and Financial Regulations (FR) of the council, due to changes in personnel it was not possible to examine supporting documentation to ensure the required processes had been followed.
- Recommendation: A process for documenting and storing quotes and tenders should be established to ensure ease of future access and reference.

- **Interim Update December 2023:**

- Quotes for tenders now stored and documented electronically. The control weakness is now resolved and the risk factor closed.

Standing Orders and Financial Regulations:

- Weakness: There were inconsistencies between the limits for the purchasing processes between the two documents.
- Recommendation: The two documents should be review and updated for consistency where applicable.

- **Interim Update December 2023:**

- These documents have now been aligned. The control weakness is now resolved and the risk factor closed.

Invoice Receipts & Payment Authorisation:

- Weakness: Whilst there are good controls in place regarding the actual authorisation of payments (dual authorisations and segregation between those setting payments up and those sending) there are weaknesses in the control systems for the receipt of invoices and confirmation of goods / services delivery prior to setting up payment. At present this process is entirely managed by the RFO who may also be responsible for the initial order.
- Recommendation: A formal process should be established for the collation of invoices and confirmation of goods / services receipt, this should be segregated from the person initiating the order. A suitable approach would be for a member of the council (someone who hasn't placed the order) to stamp and sign the invoices they have checked and have approved for payment prior to them being entered onto the banking system. Those sending payment should ensure this sign-off has taken place before they initiate payment.
- **Interim Update December 2023:**
 - Updated process now in place and councillors are providing independent payment authorisation. The control weakness is now resolved and the risk factor closed.

Recovery of VAT

- Weakness: It was noted that whilst VAT was being recovered regularly, this wasn't a slightly irregular basis. Given the council is in a VAT receivable position each month, a more frequent and established process for recovery is suggested.
- Recommendation: Although VAT may be reclaimed on a monthly basis, given the amounts involved (circa £2k - £3k per month) it is recommended that a formal quarterly reclaim is put in place to maximise timeliness of cash receipts and benefit from additional interest.
- **Interim Update December 2023:**

- VAT now being recovered quarterly and in a number of cases even more frequently. The control weakness is now resolved and the risk factor closed.

Review of Debit / Credit Card Limits

- **Weakness:** The council has no credit cards however the debit card has a limit significantly above the day-to-day requirements of the authority. Although physical security of the card is good and the account checked frequently it does extend the risk of fraud unnecessarily.
- **Recommendation:** The council's bank does not allow for a reduction in the daily limit on the debit card so it's recommended that a credit card with a suitable limit is applied for instead to limit risk and the debit card cancelled. The account should be paid in full each month so as not to incur any interest charges.
- **Interim Update December 2023:**
 - A charge-card (a credit card that is paid in full each month) is now in place to support Guildhall spending, which minimises the risk to the Council.
 - The debit card is however still in place for day-to-day spending of the Council as the existing banking provider (Lloyds) doesn't provide credit cards to local authorities. This means that the initially identified risk around the debit card being a single point of failure remains and it is recommended that the Council review the option of also moving its general business to the charge-card and cancelling the debit card.
- **Final Audit Update May 2024:**
 - The debit card has now been destroyed. The control weakness is now resolved and the risk factor closed.

Internal Control Objective L – The authority publishes information on a free to access website / web page, up to date at the time of the internal audit in accordance with any relevant transparency code requirements

- **Weakness:** At the time of the audit this process was not yet in place, however the RFO had identified this issue and the council is in the process of beginning to follow the latest transparency code. It was noted that a placeholder was now showing on the council website in readiness for this reporting.
- **Recommendation:** The council should ensure that the requirements of the code are met as soon as practicable.
- **Interim Update December 2023:**
 - Outstanding at the time of the interim audit but expected to be completed in time for the year-end.
- **Final Audit Update May 2024:**
 - The Council has now published the required information on it's website. The control weakness is now resolved and the risk factor closed.

Part 5: Completed recommendations identified during the Interim Audit in December 2023

1. Axminster Guildhall

- It was noted that the Council has taken on direct responsibility for the Guildhall during the second-half of 2023. This brings several new areas of risk for the Council:
 - i. VAT: Compliance risk and registration requirements are currently under detailed review by the RFO, this will also have pricing implications which will require careful consideration to ensure the commercial success of events.
 - ii. Cash management: the RFO has put in place good controls around the management of physical cash and holdings are kept to a minimum.
 - iii. Stock management: the Guildhall has a stock of alcohol and snacks, the RFO has implemented an electronic point of sale and stock management system to monitor and reconcile the sale and procurement cycles around these items.
- New Recommendation:** It was noted that there is no formal stock-count process to ensure the accuracy of these stores and one should be put in place as soon as practicable.
- **Final Audit Update May 2024:**
 - The Council has implemented internal stock control and monitoring procedures including adhoc stock counts. The control weakness is now resolved and the risk factor closed.

2. Treasury Policy

- **New Recommendation:** Given the material change in the Bank of England base rate over the past 12 months it is recommend that the Council reviews it's financial reserves to ensure they are appropriately invested to ensure maximum benefit to tax-payers from interest bearing deposit accounts whilst the capital is not placed at risk and suitable liquidity is maintained.
- **Final Audit Update May 2024:**
 - The Council is making use of several accounts that provided improved interest rates whilst benefitting from instant access. It is recommended that these accounts be consolidated to minimise the administrative burden.