
Sprowston Town Council

Internal Audit Report 2017-18 (Final update)

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for Auditing Solutions Ltd

Background and Scope

Background

Town and parish councils are required by statute to make arrangements for an independent internal audit examination of their accounting records and system of internal control, and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR). Auditing Solutions Ltd has been appointed to provide this service to Sprowston Town Council.

This report provides detail of the areas examined and the results of our final audit visit in relation to the 2017-18 financial year, which took place on 15th May 2018. It updates the report that we issued following our interim audit visit in December 2017.

Internal Audit Approach

In undertaking our audit, we have had regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the AGAR. We have employed a combination of selective sampling techniques (where appropriate) and 100% detailed checks in a number of key areas, in order to gain sufficient assurance that the Council's financial and regulatory systems and controls are appropriate and fit for the purposes intended.

Our internal audit programme is designed to afford appropriate assurance that the Council's financial systems are 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 'Annual Internal Audit Report' on Page 3 of the AGAR, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

On the basis of the programme of work we have undertaken, we have concluded that the Council has continued to maintain an adequate and effective system of internal control. We have completed and signed the 'Annual Internal Audit Report' in the 2017-18 AGAR. In doing so, we have concluded that, in all significant respects, the control objectives as set out in that report were being achieved throughout the financial year to a standard adequate to meet the needs of the Council.

We have identified one area where we consider there is scope for further action. This is explained in the body of the report, with our recommendation included in the appended Action Plan. We ask that Members consider the content of this report and respond in due course to the recommendation set out in the Action Plan, indicating the action to be taken and the likely timescale for implementation.

This report has been prepared for the sole use of Sprowston Town Council. To the fullest extent permitted by law, no responsibility or liability is accepted by Auditing Solutions Ltd to any third party who purports to use or rely, for any reason whatsoever, on this report, its contents or conclusions.

Detailed Report

Accounting and Banking Arrangements

Our objective is to confirm that the accounting records are being maintained accurately and kept up to date, that no anomalous entries appear in cashbooks or financial ledgers and that appropriate banking arrangements are in place.

The Council's accounts are maintained on the Sage accounting software, which we consider to be adequate for its purposes.

The Council's banking arrangements are with Barclays Bank Plc. At present there are five bank accounts, of which the 'General Account', 'Drawings Account' and 'Salaries Account' are used for day to day business, with part of the Council's funds are held in two instant access savings accounts. Further funds that are not required in the immediate future are held in a six month fixed-interest Treasury Deposit with Barclays.

During the course of our audit visits, we have:

- Checked and agreed the opening balance for 2017-18 in the Sage accounting software with that in the 2016-17 Statement of Accounts and AGAR;
- Confirmed that the financial ledger remained "in balance" at the year-end;
- Confirmed that the cost centre and nominal ledger income and expenditure coding structure remains appropriate for purpose;
- Checked and agreed the detail in all of the Sage cashbooks, verifying two sample months' transactions (May 2017 and March 2018) to relevant bank statements;
- Checked and agreed the detail on the bank reconciliations as at 30th September 2017 and 31st March 2018, confirming that reconciliations continue to be prepared on a regular basis and that there is evidence of independent review;
- Confirmed that the overall balances as at 31st March 2018 have been recorded correctly in Section 2, Line 8 of the AGAR (total value of cash and short term investments).
- Confirmed that daily back-up of the Sage software is undertaken and that this is being tested on a periodic basis.

Conclusion

We have confirmed that the controls in place in this audit area are adequate and continue to operate effectively. There are no issues arising from our audit work that require a formal comment or recommendation.

Corporate Governance

Our objective is to confirm that the Council has robust corporate governance arrangements in place and that, as far as we may reasonably be expected to ascertain (as we do not attend Council meetings), all meetings are conducted in accordance with the adopted Standing

Orders and that no actions of a potentially unlawful nature have been or are being considered for implementation.

We noted the following:

- The Standing Orders and Financial Regulations were reviewed at the Council meeting on 17th May 2017 and both re-adopted without amendment;
- At the May 2017 meeting, the Council also re-adopted the General Power of Competence;
- The Council continues to ensure that its strategic aims and objectives are clearly documented, with a wide range of policies and strategic documents in place that are subject to review on a regular cycle. These include, in particular, a five-year business plan, supported by an outline financial plan for the period and a business plan for the Diamond Centre;
- A range of detailed financial procedures documents are in place, and
- We have completed our review of the Council minutes for the year. We are pleased to record that we have not identified any issues that may have an adverse effect on the Council's financial stability in the short, medium or longer term or that give us concern that the Council may either be considering, or have taken, decisions that might result in ultra vires expenditure being incurred.

Conclusion

On the basis of our review, we are satisfied that the Council continues to adopt a sound approach to its corporate governance responsibilities. There are no issues arising from our audit work that require a formal comment or recommendation.

Expenditure

Our objective is to ensure that:

- Council resources are released in accordance with the approved procedures and budgets;
- 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;
- That an official order is raised where relevant: we acknowledge that this will not be necessary for all items of expenditure, which are regularly the subject of contracts (e.g. grounds maintenance) or legal requirements (e.g. non domestic rates);
- Any 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.

We have completed our review of the procedures in place in this area, selecting a sample of non-pay related payments to check compliance with the above criteria. Our test sample

included all payments in excess of £2,500, together with a more random selection of every 40th cashbook transaction irrespective of value over the financial year. In all, we examined 59 payments, totalling £1,454,000, which equates to 91% of non-pay related payments processed.

We confirmed that VAT returns are being submitted on a quarterly basis, checking and agreeing the reclaims for the second and final quarters of 2017-18 to the relevant nominal ledger control account balance.

Conclusion

On the basis of our review, we are satisfied that the arrangements in place for the coding and authorisation of payments are sound, with appropriate supporting documentation present for all payments in our test sample.

We noted from our discussions with the Town Clerk and Finance Officer that, when reviewing the December quarter's claim, HMRC identified that VAT should have been charged for one area of activity, the 'Movie Afternoons', that had been understood to be non-Vatable. This resulted in a demand for a payment of £4,680 and we have confirmed that this was adjusted for in the final quarter's return.

There are no issues arising from our audit work in this area that require a recommendation.

Assessment and Management of Risk

Our objective 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 noted the following:

- The Council re-approved its overall risk management strategy at the meeting on 17th May 2017, with detailed appendices setting out the mitigating controls, together with its health and safety policy;
- An updated financial risk assessment for the 2017-18 financial year was approved at the meeting on 7th June 2017;
- At the June 2017 meeting, the Health and Safety Policy and manual was also updated;
- The grounds staff undertake regular inspections of the playground equipment (normally on a monthly basis). These are reported to the Committee/Administrative Officer, who is responsible for maintaining a record of issues identified and ensuring appropriate action is taken;
- The most recent annual Health and Safety (H&S) audit was carried out by Elcons (the Council's H&S advisor) on 13th June 2017. The identified actions were reported to the Council on 19th July 2017 and programmed to be undertaken over the next year, and
- The insurance policy in place with Zurich Municipal for 2017-18 included Public Liability cover of £15 million; Employer's Liability of £10 million, Fidelity

Guarantee at £500,000 and Business Interruption cover of £30,000, all of which we consider to be appropriate to meet the needs of the Council. This was the second year of a three year agreement.

Conclusion

On the basis of our audit work in this area, we consider that the Council has adopted a sound approach to its responsibilities in relation to corporate governance.

The one matter we would draw to Members' attention relates to the arrangements for the inspection of the Council's play areas and play equipment. As noted above, regular inspections are undertaken throughout the year by the Council's own grounds staff. Whilst this approach works well, ensuring that issues are flagged up and acted upon on a timely basis. However, in line with the approach taken by other councils, it may be beneficial for the Council to introduce annual play area health and safety inspections by external consultants (such as the Council's own insurers or RoSPA), who are trained to assess compliance with the British and European safety standard EN1176.

R1 In line with good practice and to supplement its own in-house arrangements, the Council should consider the introduction of annual play area health and safety inspections by independent specialists who are trained to assess compliance with the requirements of the British and European safety standard EN1176.

Budget setting, Budgetary Control and Reserves

Our objective is to ensure that the Council has appropriate procedures in place to determine its future financial requirements leading to the adoption of an approved budget and formal determination of the amount to be precepted on the District Council and that effective arrangements are in place to monitor budgetary performance throughout the financial year. We also aim to confirm that the Council has identified and retains appropriate reserve funds to meet future spending plans.

We are pleased to note that the Council continues to receive detailed budget monitoring reports on a quarterly basis during the year and that these include details of reserve balances.

We confirmed that the budget and precept requirements for 2018-19 were determined at the Council meeting on 20th December 2017, following consideration at the November meeting. We noted that the Town Clerk provided a detailed report to inform the decision making process. The Precept was set at £623,000 (£590,000 for 2017-18), which is an increase of 1.98% for Band D properties. One of the key reasons for the increase is to fund the redevelopment of play equipment at Windsor Park gardens.

The reserve requirements were considered during the course of the year and as part of the budget setting process. As at 31st March 2018, the overall reserves stood at £1,127k, of which £700k is earmarked for completion of the Diamond Centre project. Further earmarked reserves amount to £114k, leaving a General Fund/Contingency balance of £313k (£277k at the previous year end). Whilst this is below the target of £400k, it equates to approximately 50% of the annual precept, which does not appear unreasonable for the size and complexity of the Council.

In addition to its accumulated reserves, the Council is continuing to receive income from the Community Infrastructure Levy (CIL) from housing developments and, in accordance with the agreed approach, this is being allocated to the Diamond Centre re-development project.

Conclusion

There are no matters arising from this area of our audit work that require a formal comment or recommendation.

Income

In this area of review, our objective is to ensure that income due to the Council is identified, invoiced (where applicable), recovered at the appropriate rate and within a reasonable timescale, and also that it is banked promptly in accordance with the Council's Financial Regulations.

The Council receives income from a variety of sources, including hire fees for use of the Diamond Centre, letting of sports facilities, fees from burial and related activities, allotment rentals, bank interest and recoverable VAT.

From our audit work, we noted the following:

- **Review of fees and charges:** In accordance with the Financial Regulations, the Council continues to review the scales of fees and charges for all its activities annually. The fees and charges for the 2017-18 financial year were approved at the Council meeting on 7th December 2016, as part of the budget process and a similar approach has been followed for 2018-19;
- **Cemetery and related fees:** We examined all interment records for the period 1st July to 31st October 2017, checking the application forms, sales ledger invoicing and Sage transactions to ensure that the correct fees had been levied in accordance with the published scales and that monies had been received and banked in an accurate and timely manner, with no issues arising;
- **Hire of facilities:** We examined a sample of sales ledger invoices for the various Diamond Centre room bookings and the indoor & outdoor facilities at the Recreation Ground, again also to ensure fees were in accordance with the published scales and were settled in a timely manner, with no matters arising;
- **Allotments:** We confirmed that all allotment renewal invoices effective from 1st October 2017 were raised on a timely basis. From the Sales Ledger, Aged Debtors report as at 6th December 2017, we confirmed that all rental income due had been received;
- **Outstanding debts:** From review of the Aged Debtors Report at the time of our interim audit and at the year-end, we also confirmed that, as was the case last year, the total value of outstanding debtor balances of more than one month remains very low, which demonstrates the effectiveness of the Council's debt management arrangements; and

- Banking of income: As noted earlier in this report, we checked and agreed all bank receipts arising in the sample months of May 2017 and March 2018 to relevant cashbooks and bank statements, with no issues arising.

Conclusion

There are no matters arising from this area of our audit work that require a formal comment or recommendation.

Petty Cash and Barclaycard Account

When completing the 'Annual Internal Audit Report' in the AGAR, we are required to confirm that there are effective controls over the petty cash account operated by the Council. To meet that objective, we confirm that:

- Any petty cash accounts in operation are managed effectively and that all expenses incurred are appropriately supported by a trade invoice or relevant till receipt;
- Only low value expenditure is incurred from any petty cash account(s) in use;
- Where appropriate, VAT is identified and coded accordingly for periodic recovery from HMRC; and
- The physical cash held is periodically reconciled to the supporting records.

During the course of our interim audit we reviewed the petty cash account and confirmed that it is being managed effectively and that the physical cash held at the date of the audit visit agreed to the underlying accounting records.

The Council continues to make use of a commercial Barclaycard (with a card limit of £4,000), which has largely superseded the use of the petty cash account. The Clerk is the sole holder of the card, which is used for occasional internet purchases, urgent customer catering for Diamond Centre meetings and fuel for the Council's vehicle, with settlement by direct debit in full each month. Details of the transactions on this account continue to be presented to Members for approval in the same manner as all other supplier payments. At our interim audit we reviewed the most recent Barclaycard statement (to 2nd November 2017) and confirmed that all payments were supported by receipts and that VAT had been correctly identified for recovery.

At the final audit visit, we checked and agreed the petty cash and Barclaycard balances as at 31st March 2018 and confirmed that they have been included correctly in Section 2, line 8 of the AGAR.

Conclusion

There are no matters arising from this area of our audit work that require a formal comment or recommendation.

Salaries

In examining the Council's payroll function, our objective is to confirm that extant

employment legislation is being appropriately observed and that the requirements of HM Revenue and Customs (HMRC) as regards the deduction and payment over of income tax and NI contributions are complied with, together with meeting the requirements of the local government pension scheme.

To check compliance with the above criteria, we have:

- Confirmed that the Council reviews and approves pay scales for staff annually, noting that there have been a number of changes to both personnel and hours of employment within the grounds management and cleaner/caretaker teams since the start of the 2017-18 financial year. All staff are on nationally agreed (NJC) pay scales and the Council had resolved to implement the nationally agreed pay awards for 2016-17 and 2017-18 at its meeting on 8th June 2016;
- Confirmed that signed contracts of employment are held for staff who joined the Council during 2017-18, and
- Undertaken detailed testing of salaries paid, by reference to the November 2017 payroll, which the Town Clerk continues to produce using bespoke Sage software, to confirm that:
 - Gross salaries were paid in accord with the approved SCP pay rates - full and part-time;
 - PAYE tax codes and National Insurance contribution tables were being applied accurately;
 - Pension contributions were being computed in accordance with the revised salary bandings for employee contributions;
 - Any additional hours and/or other relevant expenses were supported by appropriate timesheets and approved claim forms;
 - All net pay computations for the sample month agreed to the payslip details and to the resultant electronic BACS payments made;
 - The current HMRC regulations requiring monthly, electronic payroll submissions (the Real Time Initiative) were being met; and
 - The payroll details are now subject to periodic review by the Council Chairman, as we recommended last year. In our interim report, we noted that these reviews were not being evidenced and were pleased to confirm at our final audit visit that this is now being done.

Conclusion

There are no matters arising from this area of our audit work that require a formal comment or recommendation.

Asset Register/Inventory

Councils are required to maintain an asset register and to report the overall value of fixed assets held in the AGAR each year. Whilst the "Practitioners' Guide" does not specify a particular basis of accounting for fixed assets, it stresses that the approach taken from year to year should be consistent and that the value of individual assets held should not normally change from one year to another - with the only changes being the inclusion of new assets

purchased or removal of assets disposed of. In most cases, assets are recorded at their purchase cost, or at a suitable proxy where that value is not known. However, assets gifted at nil cost or other assets held which have no intrinsic value (often referred to as community assets) are normally included at a nominal £1.

The asset register is maintained using a spreadsheet and is updated on a regular basis for purchases and disposals. At our final audit visit, we reviewed the asset register and confirmed that it had been updated for all purchases and disposals in the year.

We have confirmed that the total value of fixed assets at the year end, £2,849,847, has been reported correctly in the Statement of Accounts (Section 2, line 9 of the AGAR).

Conclusion

There are no matters arising from our audit work in this area that require a formal comment or recommendation.

Investments and Loans

Our objectives here are to ensure that the Council is investing “surplus funds”, be they held temporarily or on a longer term basis, in appropriate banking and investment institutions; that an appropriate investment policy is in place; that the Council is obtaining the best rate of return on any such investments made; that interest earned is brought to account correctly and appropriately in the accounting records and that any loan repayments due to or payable by the Council are transacted in accordance with the relevant loan agreements.

The Council’s Treasury Management (Investment) Policy was adopted in January 2016 and we note that it was formally reviewed and re-adopted in May 2017.

Last year, following the drawdown of a £1.5m loan from the PWLB towards the costs of redevelopment of the Diamond Centre, the Council took the decision to place £1m in a fixed interest Treasury Deposit account (six months) with Barclays. This was rolled forward for a further six months in April 2017. However, with the redevelopment now well underway, only £500k has been reinvested from October 2017 and was held at the year end.

We have checked and agreed the instalment repayments of the Council’s PWLB loans for the year from the relevant bank statements to their third party direct debit settlement advice notes. At our final audit visit we confirmed that the payments of capital and interest made in the year (£181,890) and the outstanding balance at the end of the year (£2,134,230) have been reported correctly in the AGAR (Section 2, lines 5 and 10 respectively).

Conclusion

There are no matters arising from our audit work in this area that require a formal comment or recommendation.

Statement of Accounts and AGAR

We have examined the detailed accounts prepared from the Sage accounting system and also the draft of the statutory “Accounting Statements 2017-18” that the Council is required to

complete and approve at Section 2 of the AGAR. We have agreed the detail to the supporting accounting records and other related documentation.

Conclusions

There are no matters arising from this area of our review that require a further comment or formal recommendation. We look forward to receiving a copy of the finalised AGAR (Sections 1 and 2), once the document has been approved by the Council.

On the basis of the work undertaken during the course of our review for the year, we have completed and signed the Annual Internal Audit Report in the AGAR, assigning positive assurances in all areas of internal control

Action plan

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Recommendation

Response

Assessment and management of risk

- R1 In line with good practice and to supplement its own in-house arrangements, the Council should consider the introduction of annual play area health and safety inspections by independent specialists who are trained to assess compliance with the requirements of the British and European safety standard EN1176