



# **Sprowston Town Council**

*Internal Audit Report 2018-19 (Final update)*

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*for Auditing Solutions Ltd*

## **Background and Scope**

### **Background**

All 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 sets out the areas examined during our final audit visit in relation to the 2018-19 financial year, which took place on 14<sup>th</sup> May 2019. It updates the report that we issued following our interim audit visit in December 2018.

### **Internal Audit Approach**

In undertaking our internal audit work for the year, we have had regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts/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 provide assurance that the Council's financial systems are robust and are operating 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 audit 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 2018-19 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 are pleased to report that there are no matters arising from our final audit testing that require a formal comment or recommendation for action. In the course of our audit visit, we have also confirmed that appropriate action has been taken to address the matters raised in our interim report.

In the sections below we have explained the objectives of each area of our audit, summarising the work we have undertaken during the year and our findings.

<p>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.</p>
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# 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. As at 31<sup>st</sup> March 2019, there were five bank accounts in operation. Of these, the 'General Account', 'Drawings Account' and 'Salaries Account' are used for day to day business, with part of the Council's funds held in two instant access savings accounts.

Further funds that are not required in the immediate future have been invested in two Fixed Term Treasury Deposits with Barclays. The first of these, for six months, matured shortly after the year-end and has been rolled forward to October 2019. The second, which is fixed for one year, matures in January 2020.

During the course of our audit visits, we have:

- Checked and agreed the opening balance for 2018-19 in the Sage accounting software with that in the 2017-18 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;
- Checked and agreed the detail in all of the Sage cashbooks, verifying two sample months' transactions (June 2018 and March 2019) to relevant bank statements;
- Checked and agreed the detail on the bank reconciliation as at 30<sup>th</sup> September 2018 and 31<sup>st</sup> March 2019 and confirmed that daily reconciliations continue to be prepared by the Finance/Administrative Officer;
- Confirmed that the overall balances as at 31<sup>st</sup> March 2019 have been recorded correctly in Section 2, Line 8 of the AGAR (total value of cash and short-term investments), and
- Confirmed that daily back-up of the Sage software is undertaken and that this is being tested on a periodic basis.

At our interim visit, we highlighted the need to ensure that, in line with the Financial Regulations, the Chairman reviews the bank reconciliations on a quarterly basis, signing the reconciliations and the original bank statements as evidence of verification, with the reconciliation schedule then reported to the Council. At our final audit visit, we confirmed that this control is now in place and that the review had recently been completed for the year-end bank reconciliation.

### **Conclusion**

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

## **Review of 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:

- Both the Standing Orders and the Financial Regulations were reviewed and re-adopted at the Council meeting on 16<sup>th</sup> May 2018, with an update to the Standing Orders approved at the Council meeting on 26<sup>th</sup> September 2018;
- At the 16<sup>th</sup> May 2018 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, which underpin the Financial Regulations, 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 we consider might 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.*

## **Review of 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;

- 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 payments for the year, to check compliance with the above criteria. We selected a sample which included all individual payments over £2,500, together with a more random selection of every 40<sup>th</sup> cashbook transaction irrespective of value. In all, we examined 72 payments, totalling £925,963, which equates to 85% of non-pay related payments processed.

We confirmed that VAT returns have been submitted on a regular basis each quarter. We checked and agreed the second and fourth quarter re-claims to the relevant nominal ledger control account balance.

### **Conclusion**

*On the basis of our audit work, 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, and that appropriate action has been taken with regard to re-claiming VAT. There are no matters arising that require a formal comment or 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 overall Risk Management Strategy was re-adopted at the Council meeting on 16<sup>th</sup> May 2018, with the Financial Risk Assessment for 2018-19 approved on 6<sup>th</sup> June 2018;
- The insurance policy with Zurich Municipal expired on 31<sup>st</sup> March 2019. At its meeting in February 2019, the Council resolved to enter into a new 5-year agreement with Zurich. The new policy includes Public Liability cover of £15 million; Employer's Liability of £10 million, Fidelity Guarantee at £500,000 and Business Interruption cover of £75,000, all of which would appear to be adequate to meet the needs of the Council;
- The Health & Safety Policy and Manual were updated in January 2018 with the Council's Policy Statement re-adopted on 16<sup>th</sup> May 2018;

- 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;
- In response to our recommendation last year, the Council has entered into a contract with Zurich to undertake annual inspections of the play areas, to check compliance with relevant health and safety standards. The first inspections were completed in June 2018, and
- The Council continues to receive support on health & safety matters from Elcons, including an annual health and safety audit.

We have confirmed with the Town Clerk that, as recommended in our interim report, the results of the annual inspections of the play areas (from June 2019) will be reported to the Council.

### **Conclusion**

*On the basis of our audit work, we consider that the controls in place in relation to risk management are adequate and are operating effectively. There are no matters arising that require a formal comment or recommendation.*

## **Budget setting, budgetary control and reserves**

Our objective is to confirm that the Council has sound procedures in place for the determination of future budgetary requirements and the level of precept to be drawn down from the District Council, and that effective budget reporting and monitoring arrangements are in place. We also consider whether 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.

From our minutes review, we confirmed that the Council received detailed budget monitoring reports for 2018-19, from the half year onwards. We have confirmed with the Town Clerk that, as recommended in our interim audit report and in line with the Financial Regulations, budget monitoring reports for all four quarters will be presented to Members in 2019-20.

The annual budget and Precept requirements for 2019-20 were determined at the Council meeting on 12<sup>th</sup> December 2018. As in previous years, the Town Clerk provided a detailed report to inform the decision-making process. The Precept was set at £650,355 (£623,000 for 2018-19). As there had been a significant increase in the tax base from the previous year, this only represented is an increase of 1.99% for Band D properties.

The Council's reserve requirements were considered during the course of the year and as part of the budget setting process. As at 31<sup>st</sup> March 2019, the total reserves stood at £616k (compared to £1,127k at the previous year-end). The main reason for the change was the utilisation of reserves set aside for completion of the Diamond Centre project, leaving only a retention sum of £50k. The overall balance of other earmarked reserves has increased to £179k (£114k), principally as the result of the establishment of a capital projects reserve.

The General Fund/Contingency Reserve balance at the year-end amounted to £337k (£313k). Although this balance remains slightly below the Council's target of £400k, it equates to approximately 52% of the annual precept, which is not unreasonable for the size and complexity of the Council.

### **Conclusion**

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

## **Review of Income**

In this area of our audit, 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, fees from the cemetery and related activities, allotment rentals, letting of sports facilities, bank interest and recoverable VAT.

During the course of our visits, we undertook the following audit work:

- ***Fees & charges:*** We confirmed that, in accordance with its Financial Regulations, the Council continues to review the scales of fees and charges for all its activities annually. The fees and charges for the 2018-19 financial year were approved at the Council meeting on 20<sup>th</sup> December 2017, as part of the budget setting process - with the allotment increases to apply from 1<sup>st</sup> October 2018. The fees and charges for 2019-20 were similarly reviewed as part of that year's budget setting process, in December 2018 (Minute 18/295);
- ***Cemetery and related expenditure:*** We reviewed the Burial Register and the Register of the Grants of Exclusive Rights of Burial for the period 1<sup>st</sup> April to 30<sup>th</sup> June 2018. We examined the related application forms and other documentation, the sales ledger invoices and Sage transactions to confirm that fees had been charged in accordance with the published scales and that monies had been received and banked in an accurate and timely manner. There were no matters arising;
- ***Hall hire:*** We examined a sample of sales ledger invoices for the various Diamond Centre room bookings for a sample week (w/c 29<sup>th</sup> October 2018) to confirm the fees charged were in accordance with the published scales and were settled in a timely manner. There were no matters arising. We also confirmed that hall hire agreements were in place for all customers;
- ***Allotment rents:*** We confirmed that all allotment renewal invoices effective from 1<sup>st</sup> October 2018 had been raised on a timely basis. From the Sales Ledger and Aged Debtors Report as at 5<sup>th</sup> December 2018, we confirmed that the rental income had been received from all allotment holders who wished to continue with their tenancy and that action was being taken to re-let out the few plots that had become vacant. We also checked the tenancy agreements for a sample of allotment holders to confirm these were in order;

- *Outstanding debtors:* From review of the Aged Debtors Reports as at 30<sup>th</sup> November 2018 and 31<sup>st</sup> March 2019, we 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 June 2018 and March 2019 to relevant cashbooks and bank statements, with no issues arising.

At our interim visit, we noted that changes were due to be made imminently to the hall hire agreements, to ensure that they fully reflect the hirers' responsibilities when using the Diamond Centre (which is not manned) and also that they address the latest guidance on privacy of data. The latter issue had already been addressed for allotment holders, with "consent forms" received back for the majority of tenants. At our final audit visit we confirmed that the hall hire agreements have been amended appropriately.

### **Conclusion**

*On the basis of our audit work, we consider the controls in place in relation to income to be adequate and to be operating effectively. There are no matters arising 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.

At our final audit visit, we confirmed the year-end balance of the petty cash float and that this had been included correctly in the overall cash and short-term investments balance reported in Section 2, line 8 of the AGAR.

The Council makes use of a commercial Barclaycard, which has largely superseded the use of the petty cash account. The card is held by the Town Clerk and has been used for internet purchases and the purchase of 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. A further

Barclaycard account, in the name of the Town Clerk Designate, was opened in March 2019 and the original account will be closed when the current Town Clerk retires.

At our final audit visit, we reviewed the transactions on both Barclaycard accounts for March 2019 and confirmed that all payments were supported by receipts and that VAT had been correctly identified for recovery.

### **Conclusion**

***There are no matters arising from our audit work to date that require a formal comment or recommendation.***

## **Review of 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. All staff are on nationally agreed (NJC) pay scales and the Council confirmed the pay award for 2018-19 at its meeting on 25<sup>th</sup> April 2018;
- Confirmed that a signed contract of employment is held for the Town Clerk Designate;
- Undertaken detailed testing of salaries paid, by reference to the November 2018 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 accurately applied;
  - Pension contributions were being accurately computed in accord 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 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;
  - The monthly payroll calculations are double checked by the Finance/Administrative Officer, and

- The payroll calculations are also subject to periodic review by the Council Chairman, as recommended previously. We confirmed that this independent review was carried out in April 2018 and, we understand, is due to be repeated for the December payroll)

### **Conclusion**

*The controls over the processing of salaries and wages were found to be adequate and to be operating effectively. There are no matters arising 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, £4,307,297 (£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.

We have confirmed that:

- At present, the Council does not hold any long-term investments (which are defined as investments of more than one year);

- The Council's Treasury Management (Investment) Policy was formally reviewed and re-adopted in May 2018;
- The payments of capital and interest made during 2018-19 on the Council's loans (£180,232) agree to the third-party direct debit settlement advice notes issued by the PWLB, and
- The payments of capital and interest made during the year and the outstanding balance as at 31<sup>st</sup> March 2019 (£2,013,478) 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 2018-19" 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 formal comment or 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 on Page 3 of the AGAR, assigning positive assurances in all areas of internal control***