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## **Sprowston Town Council**

*Internal Audit Report: 2019-20 (Final Update)*

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## **Background and Scope**

There is a statutory requirement for all town and parish councils to make arrangements for an independent internal audit examination of their accounting records and system of internal control each year, and for the conclusions to be reported in the Annual Governance and Accountability Return (AGAR). Auditing Solutions Ltd was appointed to provide this service to Sprowston Town Council for the 2019-20 financial year.

This report sets out the results of our final audit work in relation to 2019-20, which was undertaken in July 2020. It updates the report that we issued following our interim audit visits on 18<sup>th</sup> November 2019 and 12<sup>th</sup> February 2020.

## **Internal Audit Approach**

In undertaking our audit work, we have had regard to the materiality of transactions and their susceptibility to potential mis-recording or mis-representation in the year-end Statement of Accounts, operating a mix of 100% substantive or selected sampling techniques where considered applicable.

Due to the impact of the Covid-19 pandemic, our final review for the year was undertaken remotely. We wish to thank the Town Clerk and the Finance/Administrative Officer for providing the additional documentation required for the final audit review. This has enabled us to complete our audit work for the year and sign off of the 'Annual Internal Audit Report' in the year's AGAR.

## **Overall Conclusion**

On the basis of the programme of work we have undertaken for the year, we have concluded that the Council continues to maintain an adequate and effective system of internal control. The records held in support of the accounting transactions continue to be of a high standard and provide an effective audit trail, with clear cross-referencing of all relevant documentation. We have completed and signed the 'Annual Internal Audit Report' in the 2019-20 AGAR, having concluded that the internal 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.

In the sections below, we have explained the objectives of each area of our audit, outlining the work undertaken and our findings. We identified some minor errors in the draft Statement of Accounts (Section 2 of the AGAR), but these have been rectified and we are pleased to report that there are no matters arising from our audit work that require a formal recommendation for further action. We ask that Members consider the content of this report.

# 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 by the Finance/Administrative Officer using the Sage accounting software, which we consider to be adequate for its purposes.

The banking arrangements are with Barclays Bank Plc. As at 31<sup>st</sup> March 2020, 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.

As at 31<sup>st</sup> March 2020, further funds that were not required in the immediate future were invested in two 6-month Barclays Fixed Term Treasury Deposits. One of these matured shortly after the year-end and we understand that a decision on re-investment will be made once the second one matures, later in July.

During the course of our audit, we have:

- Checked and agreed the opening balance for 2019-20 in the Sage accounting software with that in the 2018-19 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 three sample months' transactions (April 2019, September 2019 and March 2020) to the relevant bank statements;
- Checked and agreed the detail on the bank reconciliation as at 30<sup>th</sup> September 2019 and 31<sup>st</sup> March 2020 and confirmed that daily reconciliations continue to be prepared by the Finance/Administrative Officer;
- Confirmed that the bank reconciliations are being reviewed by the Town Mayor on a quarterly basis, in accordance with our recommendation from last year;
- Confirmed that the overall balances as at 31<sup>st</sup> March 2020 have been recorded correctly in Section 2, Box 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.

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### **Conclusion**

***There are no matters arising that require a formal comment or recommendation.***

## Corporate Governance arrangements

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

During the course of our audit, we have confirmed the following:

- Our review of the minutes of the Council for the 2019-20 financial year did not identify any issues that we consider might have an adverse effect, through litigation or other causes, on the Council's future financial stability;
- Both the Standing Orders and the Financial Regulations were reviewed and re-adopted at the Council meeting on 15<sup>th</sup> May 2019;
- A range of detailed financial procedures documents are in place, which underpin the Financial Regulations, and
- 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.

### *Conclusion*

*There are no matters arising that require a formal comment or recommendation.*

## Review of Expenditure

Our objective here 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. electricity supply) 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.

At our interim audit visits, we undertook a sample review of payments to check compliance with the above criteria. Our sample included all individual payments over £2,000, together with a more random selection of every 20<sup>th</sup> cashbook transaction irrespective of value for

the period 1<sup>st</sup> April 2019 to 31<sup>st</sup> January 2020. In all, we examined 72 payments, totalling just under £585,000, which equated to 88% of non-pay related payments processed during that period. There were no issues arising from our audit work and, consequently, we did not extend our sample to cover the final two months of the financial year.

We confirmed that VAT returns have been submitted on a regular basis each quarter. We checked and agreed the third and fourth quarter re-claims to the relevant nominal ledger control account balance and confirmed that the latter was included correctly as a debtor in the Statement of Accounts.

### **Conclusion**

*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 & safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage any risks identified in order to minimise the opportunity for their coming to fruition.

During the course of our audit, we have confirmed the following:

- The Council's insurance cover continues to be provided by Zurich, under a long-term agreement to 1<sup>st</sup> January 2023. We examined the policy schedule for the year to 31<sup>st</sup> March 2020 and noted that Public Liability cover stands at £15 million, and Employer's Liability at £10 million, with Fidelity Guarantee of £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 Financial Risk Assessment was reviewed and re-adopted by the Council at its meeting on 15<sup>th</sup> May 2019;
- Inspections of play areas and equipment continue to be undertaken by Zurich on a periodic basis, supplementing daily and monthly reviews undertaken by grounds staff. The results of these reviews are reported to the Committee/Administrative Officer, who is responsible for maintaining a record of issues identified and ensuring appropriate action is taken, and
- The Council continues to receive support on health & safety matters from Elcons, including an annual health & safety audit.

### **Conclusion**

*There are no matters arising that require a formal comment or recommendation.*

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

Our objective here is to confirm that the Council has robust procedures in place for identifying and approving its future budgetary requirements and the level of Precept to be drawn down from District Council, and that an effective budget reporting and monitoring process is in place. We also aim to confirm that the Council retains sufficient funds in

earmarked and general reserves to finance its ongoing spending plans and to cover any unplanned expenditure that might arise.

From our minutes review, we confirmed that the Council has received detailed budget monitoring reports on a quarterly basis during 2019-20 which has enabled it to respond to matters arising on a timely basis.

The annual budget and Precept requirements for 2020-21 were determined at the Council meeting on 4<sup>th</sup> December 2019. As in previous years, the Town Clerk provided a detailed report to inform the decision-making process. The Precept was set at £688,011 (£650,355 for 2019-20). This represented a 5% increase for Band D properties on the revised tax base for 2020-21.

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 2020, the total reserves stood at £549,406. This is approximately £66,446 less than the previous year, but the Council had originally anticipated utilising £122,853 from reserves to support revenue expenditure.

During the year, further tranches of money were received under the Community Infrastructure Levy (CIL) and were allocated against the costs of the Diamond Centre project. This enabled the Council to release funds held in the Capital Reserve to facilitate the early redemption of a number of loans from the Public Works Loan Board (PWLB). At the year end, the remaining Earmarked Reserves totalled £153,403, with the two largest being a £50,000 retention for the Diamond Centre project and £45,000 in the Street Lighting Renewals Fund.

The remaining £396,003 was held as General Reserves (the General Fund and Contingency Reserve). This is in line with the Council's target of £400,000 and equates to approximately 60% of the Precept demand for 2020-21, which is not unreasonable for the size and complexity of the Council.

We understand from our discussions with the Town Clerk and Finance/Administrative Officer that, over the next few months, further consideration is to be given to the levels of earmarked and general reserves required going forward.

### ***Conclusion***

***There are no matters arising 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 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 audit, we undertook the following audit work:

- We confirmed that Members continue to review the Council's scales of fees and charges annually. Those for 2019-20 were approved in the previous financial year, with the 2020-21 fees determined as part of the budget setting process;
- As noted earlier in this report, we have checked and agreed three sample months' receipts transactions from cashbooks to relevant bank statements;
- We reviewed the Burial Register and the Register of the Grants of Exclusive Rights of Burial for the period 1<sup>st</sup> August to 31<sup>st</sup> October 2019. 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;
- We examined a sample of sales ledger invoices for the various Diamond Centre room bookings for a sample week (w/c 18<sup>th</sup> November 2019) to confirm that the fees charged were in accordance with the published scales and were settled in a timely manner. There were no matters arising, and
- We examined the Aged Debtors report at the year-end and were pleased to note that the total debts amounted to less than £2,000, with none more than one month old.

As we were not able to visit the Council for our final audit, our work in relation to allotment income has been limited this year to confirmation that there were no outstanding debtors at the year end. However, the controls over allotments have been found to be very effective in previous years and we consider this to be low risk.

### ***Conclusion***

***There are no matters arising that require a formal comment or recommendation.***

## **Petty Cash and Credit Card usage**

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, we confirmed that the year-end balance of the petty cash float had been included correctly in the overall cash and short-term investments balance reported in Section 2, Box 8 of the AGAR.

The Council makes use of a commercial Barclaycard with an overall credit limit of £6,000, which has largely superseded the use of the petty cash account. The card is held by the Town Clerk and is mainly used for internet purchases and the purchase of fuel for the Council's vehicle, with settlement in full each month, by direct debit. Details of the transactions on this account continue to be presented to Members for approval in the same manner as all other supplier payments. We tested a sample month's payments (September 2019) to supporting invoices or till receipts and there were no matters arising.

### ***Conclusion***

***There are no matters arising that require a formal comment or recommendation.***

## **Salaries and Wages**

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 local government pension scheme requirements, as most recently revised with effect from 1st April 2019 in relation to staff salary contribution bandings.

To check compliance with the above criteria, we have:

- Confirmed that the Council reviews and approves pay scales for staff annually and has duly implemented the NJC award for the current year;
- Undertaken detailed testing of salaries paid, by reference to the October 2019 payroll, which is produced by the Finance/Administrative Officer using the 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, and
  - The monthly payroll calculations are double checked by the Town Clerk.

### ***Conclusion***

***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 Council’s asset register is maintained by the Finance/Administrative Officer using a spreadsheet and is updated on a regular basis for purchases and disposals. During our final audit, 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, £4,315,495 (£4,307,298 as at 31<sup>st</sup> March 2019), has been reported correctly in the Statement of Accounts (Section 2, Box 9 of the AGAR).

### Conclusion

*There are no matters arising 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.

In our previous year’s audit, we confirmed that the Council has a formal Treasury Management (Investment) Policy, which was last updated in May 2018.

At present, the Council does not hold any long-term investments (which are defined as investments of more than one year). As noted earlier in this report, the Council held two Barclays Fixed Term Treasury Deposits at 31<sup>st</sup> March 2020. These were for both for six months, maturing in April and July 2020 respectively. We confirmed these investments by reference to the Barclays “deal confirmations”.

At the start of 2019-20, the Council had eight outstanding PWLB loans. Following a detailed assessment and proposal from the Clerk in conjunction with considerations of potential future borrowings in relation to a street lighting project, Members approved the settlement in full (including future interest payments) of four of these loans. This was duly executed in December 2019. During our audit, we checked and agreed the instalment repayments made during the year to the PWLB “demand notices” and also the redemption of the four loans.

At the final audit, we confirmed that the payments of capital and interest made during the year and the outstanding balance as at 31<sup>st</sup> March 2020 have been reported correctly in the AGAR (Section 2, Boxes 5 and 10 respectively).

### ***Conclusion***

***There are no matters arising 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 2019-20” 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.

A number of minor adjustments were required to the figures included in the draft AGAR, to reflect the fact that the Council’s accounts require to be presented on an Income & Expenditure basis and we have confirmed that these were have been made.

### ***Conclusions***

***There are no matters arising from this area of our review that require a formal comment or recommendation for further action. 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.***