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# **Sprowston Town Council**

*Internal Audit Report 2018-19 (Interim)*

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*Stephen Christopher*

*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 those areas examined during the course of our recent interim visit to the Council for 2018-19, which took place on 4<sup>th</sup> and 5<sup>th</sup> December 2018.

### **Internal Audit Approach**

In commencing 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 programme of cover 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 programme is also designed to facilitate our completion of the 'Annual Internal Audit Report' in the Council's AGAR, which requires independent assurance over a number of internal control objectives.

### **Overall Conclusion**

We have concluded that, on the basis of the programme of work we have undertaken in the year to date, the Council continues to maintain adequate and effective internal control arrangements.

We have identified a few areas where we consider that the controls could be further improved. Details of the matters arising from our audit are set out in the body of the report, with the recommendations arising drawn together in the appended Action Plan. We ask that Members consider the content of this report and respond in due course to the recommendations set out in the Action Plan, indicating, where appropriate, the actions to be taken and the likely timescale for their implementation.

# 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 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 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 time of the interim visit;
- 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 one sample month's transactions (June 2018) to relevant bank statements;
- Checked and agreed the detail on the bank reconciliation as at 30<sup>th</sup> September 2018 as reported to the Council and confirmed that daily reconciliations continue to be prepared by the Finance/Administrative Officer; and
- Confirmed that daily back-up of the Sage software is undertaken and that this is being tested on a periodic basis.

### *Conclusion and recommendation*

*In overall terms, the controls in this area were found to be adequate and to be operating effectively. The one matter requiring further action is in relation to the periodic review of the bank reconciliation by the Council Chairman.*

*The Council's Financial Regulations require this to be done on a quarterly basis. (Financial Regulation 2.2 states that "at least once in each quarter ... the Chairman or a cheque signatory shall ... verify bank reconciliations for all accounts produced by the RFO. The member shall sign the reconciliations and the original bank statements as evidence of verification. This activity shall on conclusion be reported, including any exceptions, to and noted by the Council"). However, we confirmed that whilst the position as at 30<sup>th</sup> September 2018 had been verified and reported, this was not done at the end of the first quarter of the 2018-19 financial year.*

*R1 In accordance with the Council's Financial Regulations, the Chairman should review the bank reconciliations on a quarterly basis, going forward, signing the reconciliations and the original bank statements as evidence of verification, and the reconciliation schedule should then be reported to the Council.*

*We will undertake further work in this area at our final visit, including verification of the accurate disclosure of year-end balances in the AGAR.*

## **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 commenced our review of minutes for the year, examining those for the period to early November 2018. 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 and there are no matters arising from our audit work to date that require a formal comment or recommendation. We will continue to monitor the approach at the final audit visit, also extending our review of minutes to cover the remainder of the financial year.*

## 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;
- 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 commenced 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, for the financial year to date (30<sup>th</sup> November 2017). In all, we examined 49 payments, totalling £855,283, which equates to 88% of non-pay related payments processed.

We confirmed that VAT returns have been submitted for the first two quarters of the 2018-19 financial year and we checked and agreed the second quarter's claim to the relevant nominal ledger control account balance.

### **Conclusion**

*There are no matters arising from our audit work to date that require a formal comment or recommendation. We will extend our test sample to cover the remainder of the financial year at our final visit.*

## 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 current insurance policy with Zurich Municipal (to 31<sup>st</sup> March 2019) includes 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;

- 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.

### ***Conclusion and recommendation***

***On the basis of our audit work to date, we consider that the controls in place in relation to risk management are adequate and are operating effectively.***

***The one area where we noted the potential for further action is in relation to the reporting of the results of the annual health and safety inspections of the play areas. As noted above, Zurich undertook its first annual inspections in June 2018, but the results of these have not been reported back to the Council. [NB The new play area at Windsor Park Gardens was not included, as this has been subject to a separate post-implementation inspection].***

***R2 The results of the annual inspection reports on the play areas should be reported to the Council, to ensure that Members are able to satisfy themselves that risks are being considered and managed appropriately, in accordance with their responsibilities as set out in the Health and Safety Policy Statement.***

## **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 also 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.

Our interim review took place just before the Council was due to give formal consideration to the budgetary and precept requirements for 2019-20, although we noted that some initial discussions had taken place. We will review the process followed at our final audit visit, at which time we will also examine the year-end outturn against the budget for the current year and the overall reserves position.

From our minutes review, we noted that the Council received a detailed budget monitoring report for 2018-19, covering the half-year to 30<sup>th</sup> September 2018, which included details of the balances of the General Fund and specific earmarked reserves.

### **Conclusion and recommendation**

***The only matter arising from our audit work in this area to date relates to the frequency of the in-year reporting of budgetary performance to Members. As noted above, a report was taken to Council at the end of the half year. However, the Council's Financial Regulations (FR 4.8) state that budgetary performance should be reported quarterly.***

**R3** *In accordance with the Financial Regulations, reports on budgetary performance should be made to the Council on at least a quarterly basis, going forward.*

### **Review of 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, fees from the cemetery and related activities, allotment rentals, letting of sports facilities, bank interest and recoverable VAT.

At our interim audit visit, we undertook the following:

- **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 process - with the allotment increases to apply from 1<sup>st</sup> October 2018;
- **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 Report, 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 month of June 2018 to relevant cashbooks and bank statements, with no issues arising.

From our discussions with the Town Clerk, we noted that changes are 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 has already been addressed for allotment holders, with "consent forms" received back for the majority of tenants. We will review progress at our final audit visit.

### *Conclusion*

*On the basis of our audit work, we are pleased to report that the systems for identification and recording of income appear to continue to work effectively and there are no matters arising that require a formal comment or recommendation. We will undertake any further testing that may be considered necessary, including the update of our year-on-year analysis of income arising across the various activities at our final visit.*

## **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 will confirm 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 continues to make use of a commercial Barclaycard, which has largely superseded the use of the petty cash account. The Town Clerk is the sole holder of the card, which is mainly used for internet purchases 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 final audit, we will review a sample of the monthly Barclaycard statements



to confirm 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. As noted above, we will undertake further testing in this area at our final audit visit.*

## **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;
- 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.*

## **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 formally reviewed and re-adopted in May 2018.

As noted earlier in the report, the Council does not have any long-term investments. Following the drawdown of a £1.5m loan from the PWLB in 2016-17 towards the costs of redevelopment of the Diamond Centre, part of the funds was invested in a six-month fixed interest Treasury Deposit with Barclays. This was rolled forward every six months as the project proceeded, but for a reducing amount. With the redevelopment nearing completion, £250k, which equates to balance of the Council’s general contingency reserve was reinvested in the Treasury Deposit from October 2018.

We have checked and agreed the instalment repayments of the Council’s PWLB loans for the year to date from the relevant bank statements to their third party direct debit settlement advice notes. At our final visit we will verify the accuracy of the disclosure of the year-end PWLB balances in the AGAR.

### ***Conclusion***

***No issues have arisen in this area at present: we will undertake further work in this area at our final audit visit, including verifying the accurate disclosure of the year-end PWLB balances in the AGAR.***

Recommendation		Response
<b>Accounting and banking arrangements</b>		
R1	In accordance with the Council's Financial Regulations, the Chairman should review the bank reconciliations on a quarterly basis, going forward, signing the reconciliations and the original bank statements as evidence of verification, and the reconciliation schedule should then be reported to the Council.	The Council received the audit recommendation and noted action required.
<b>Assessment and management of Risk</b>		
R2	The results of the annual inspection reports on the play areas should be reported to the Council, to ensure that Members are able to satisfy themselves that risks are being considered and managed appropriately, in accordance with their responsibilities as set out in the Health and Safety Policy Statement.	The Council received the audit recommendation and noted action required.
<b>Budget setting, budgetary control and reserves</b>		
R3	In accordance with the Financial Regulations, reports on budgetary performance should be made to the Council on at least a quarterly basis, going forward.	The Council received the audit recommendation and noted action required.