
Sprowston Town Council

Internal Audit Report: 2020-21 (Final Update)

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for Auditing Solutions Ltd

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 2020-21 financial year.

This report sets out the results of our final audit work in relation to 2020-21, which was undertaken in May 2021. It updates the report that we issued in February 2021, following our interim audit. Once again, due to the impact of the Covid-19 pandemic, we have undertaken our audit work remotely. We wish to thank the Town Clerk, Finance/Administrative Officer and Committee/Administrative Officer for providing the information required for the audit.

Internal Audit Approach

In carrying out our internal audit work for the year, 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 applicable.

Our audit programme is designed to afford appropriate assurance that the Council's financial systems remain robust and operate in a manner to ensure effective probity of transactions, and to afford a reasonable probability of identifying 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 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 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 2020-21 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, summarising the work we have undertaken and the key matters arising. We are pleased to note that appropriate action has been taken to address the matters raised in our interim report and confirm that there are no further matters arising that require a formal recommendation. We ask that Members consider the content of this report.

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 on, for any reason whatsoever, this report, its content 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 accounts are maintained by the Finance/Administrative Officer using the Sage accounting software, which we consider to be adequate for the Council's purposes.

The banking arrangements are with Barclays Bank Plc. Currently, there are five bank accounts in operation. Of these, the 'General Account', 'Drawings Account' and 'Salaries Account' are used for day-to-day business, with most of the Council's funds held in two instant access savings accounts (Active Saver and Business Saver).

At the start of the 2020-21 financial year, further funds not required for immediate use were held in two 6-month Barclays Fixed Term Treasury Deposits. Both of these investments matured by the end of July 2020 and at the year end the balances were held in the Active Saver account, awaiting a decision on re-investment.

During the course of our audit, we have confirmed:

- the opening balance for 2020-21 in the Sage accounting software agreed with that in the 2019-20 Statement of Accounts and AGAR;
- the financial ledger remained "in balance" as at 31st March 2021;
- the cost centre and nominal ledger income and expenditure coding structure remains appropriate;
- for a sample of three months' transactions (May and December 2020, plus March 2021), the detail in the Sage accounts fully reconciled to the relevant bank statements;
- the monthly bank reconciliations as at 30th April 2020, 31st December 2020 and 31st March 2021 agreed to the bank statements, with daily reconciliations continuing to be prepared by the Finance/Administrative Officer and, at the year-end, there were no long-standing uncleared cheques or other anomalous entries;
- bank reconciliations continue to be reviewed by the Town Mayor on a quarterly basis, in accordance with a previous internal audit recommendation;
- the overall bank balances as at 31st March 2021 have been recorded correctly in Section 2, Line 8 of the AGAR (total value of cash and short-term investments), and
- Confirmed that the Sage software continues to be backed-up on a regular basis.

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 interim audit, we have confirmed the following:

- Our review of the minutes of the Council for the 2020-21 financial year did not identify any matters that we consider might have had 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 2nd June 2020;
- A range of detailed financial procedures documents remain 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.

Conclusion

There are no matters 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 most 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 identified correctly and coded to the control account for periodic recovery.

During the course of our audit, we undertook a sample review of payments to check compliance with the above criteria. This included all individual payments over £2,000, together with a more random selection of every 30th cashbook transaction irrespective of

value. In all, we examined 57 payments, totalling just over £357,000, which equated to 83% of all non-pay related payments processed during the year.

The Council makes use of a commercial Barclaycard with an overall credit limit of £6,000, which has largely superseded the use of petty cash. 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 2020) to supporting invoices or till receipts and there were no matters arising.

We confirmed that VAT returns are being submitted on a timely basis, each quarter, agreeing the re-claims to the relevant nominal ledger control account balance.

Conclusion

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

Assessment and management of Risk

Our objective is to confirm that the Council has appropriate arrangements in place to identify potential areas of risk of both a financial and health & safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks in order to minimise the opportunity of their coming to fruition.

In the course of our audit work, we confirmed the following:

- The Council's insurance cover continues to be provided by Zurich, under a long-term agreement to 1st January 2023. We examined the policy schedule for the year to 31st March 2021 and noted that Public Liability cover stands at £15 million, and Employer's Liability at £10 million, with Fidelity Guarantee of £500,000, all of which would appear to be adequate to meet the needs of the Council;
- The Risk Register, Risk Management Strategy and Financial Risk Assessment were all reviewed and adopted at the Council meeting on 24th June 2020;
- Inspections of play areas and equipment continue to be undertaken by Zurich on a periodic basis, supplementing daily and quarterly reviews undertaken by grounds staff. Currently, 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. We understand that a new staff post will be created in the new financial year specifically to undertake this work.
- 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 the District Council, and that an effective budget reporting and monitoring process is in place. We also consider whether the Council is retaining 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 2020-21, which has enabled it to respond to matters arising on a timely basis.

The annual budget and Precept requirements for 2021-22 were determined at the Council meeting on 2nd December 2020. As in previous years, the Town Clerk provided a detailed report to inform the decision-making process. The Precept was set at £708,544 (£688,011 in 2020-21). This represents a 2.22% increase for Band D properties. The Council's reserve requirements have been considered during the course of the year and as part of the budget setting process.

As reported to the Council on 21st April 2021, the 2020-21 outturn position was very favourable compared to the budget, with a net underspend of £196,466. This resulted from a reduction in expenditure of £175,315 across a number of areas, in particular, Parks and the Diamond Centre, with overall income up by £19,640, principally relating to Cemetery and grant income.

At the year end, the Council's reserves amounted to £745,871, compared to £549,406 at 31st March 2020. Of the total, £365,207 has been earmarked for specific purposes. This includes a sum of £191,565 which was set aside at the year-end towards the proposed purchase of the former Viking public house.

The remaining balance of £380,664 is held as General Reserves (the General Fund and Contingency Reserve), which is in line with the target of £400,000 previously set by the Council. The General Reserves equate to approximately 54% of the Precept demand for 2021-22, which is not unreasonable for the size and complexity of the Council.

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 confirm 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. Due to the impact of the Covid-19

pandemic, income from both the hire of the Diamond Centre and the letting of sports facilities has been significantly reduced in the year.

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

- We confirmed that Members continue to review the Council's scales of fees and charges annually, in accordance with the Financial Regulations. Those for 2020-21 were approved in the previous financial year, with the 2021-22 fees determined as part of the budget setting process at the Council meeting on 2nd December 2020. At that meeting it was also agreed that the allotment rents and water charges would remain unchanged from 1st October 2021;
- As noted earlier in this report, we have checked and agreed three sample months' receipts transactions from the Sage accounts to relevant bank statements;
- We reviewed the Burial Register for a sample period (September to December 2020). We examined the related application forms and other documentation, the sales ledger invoices and Sage transactions to confirm that fees charged agreed to the published scales, and that monies had been received and banked in an accurate and timely manner;
- We examined a sample of sales ledger invoices for the various Diamond Centre room bookings for a sample week (w/c 26th September 2020), to confirm that the fees charged were in accordance with the published scales and were settled in a timely manner;
- We reviewed the allotment register and confirmed that invoices had been raised for all allotment holders for the year commencing 1st October 2020 at the correct rates and payments were received promptly, and
- We examined the Aged Debtors report during the year and at 31st March 2021 and were pleased to note that the total debts remain very low.

Conclusion

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

Petty Cash

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.

As noted above, the Council's petty cash account has, to a large extent, been superseded by the use of the Barclaycard. We reviewed the usage at our inter audit and confirmed that, at that time, only two small petty cash payments had been made.

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, Line 8 of the AGAR.

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 adhered to, that the requirements of HM Revenue and Customs (HMRC) legislation are satisfied regarding the deduction and payment over of income tax and NI contributions and that the requirements of the local government pension scheme are met.

To confirm compliance with the above criteria, we examined the salary payments made for November 2020, checking that:

- the amounts paid to employees agree to the approved employee pay rates for the financial year, noting that the NJC pay award for 2020-21 was approved and duly implemented;
- PAYE tax codes and National Insurance contribution tables are being accurately applied;
- the correct local authority pension scheme percentage deductions (for employee and employer) are being applied, where applicable;
- any variations to standard payments have been subject to formal timesheet records;
- the net payments to staff agreed to the payslip details and to the resultant electronic BACS payments made, and
- the correct payments have been made to HMRC and the Norfolk Pension Fund, 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, £4,330,395 (£4,315,495 as at 31st March 2020), has been reported correctly in the Statement of Accounts (Section 2, Line 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.

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, two six-month Barclays Fixed Term Treasury Deposits were held at the start of the financial year. However, both of these investments, which totalled £400,000, had matured by the end of July 2020 and, as at 31st March 2021, had yet to be reinvested.

In our interim audit report, we drew attention to the fact that the Council’s formal Treasury Management and Investment Strategy had not been reviewed since May 2018 and recommended that this should be done. We also recommended that, as part of the review, consideration should be given as to how best the Council’s funds should be invested. We were pleased to note, from our review of the minutes, that a revised Strategy was approved by the Council at its meeting on 31st March 2021, with the Clerk providing various options for future investments.

At the start of 2020-21, the Council had five outstanding PWLB loans, having repaid four other loans in the previous financial year. During our audit, we checked and agreed the instalment repayments made in the year to the PWLB “demand notices”. We noted that one more loan, relating to the Recreation Ground, BMX track and play equipment, has now been fully repaid. At the final audit, we confirmed that the payments of capital and interest made during the year and the outstanding loan balances as at 31st March 2021 have been reported correctly in the AGAR (Section 2, Lines 5 and 10 respectively).

No new loans have been taken out in 2020-21, but we understand that consideration is being given to taking out a further loan from the PWLB in 2021-22 towards the upgrade of the council’s streetlighting. It is currently anticipated that the loan will be in the region of £520,000 and £30,000 has been included in the “Street Scene” budget for 2021-22 to cover the expected loan repayments in the year.

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 2020-21” 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.