
Sprowston Town Council

Internal Audit Report: 2021-22 (Final update)

Stuart J Pollard

*Director
Auditing Solutions Ltd*

Background and Scope

Statute requires all town and parish councils to arrange for an independent Internal Audit (IA) examination of their accounting records and systems of internal control and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR).

This report sets out the work undertaken in relation to the 2021-22 financial year both at our office in advance of and during the course of our interim and final update visits to the Council which took place on 10th January and 3rd May 2022. We thank the Town Clerk and his staff for their help in the process, providing documentation in both hard copy and electronic format to facilitate our review for the year.

Internal Audit Approach

In undertaking our review, we have again paid due regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end AGAR. Our programme of cover, as applied to all clients, is designed to afford appropriate assurance that the Council's financial systems and governance controls are robust and operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the IA Certificate in the Council's AGAR, which requires independent assurance over a selection of internal control objectives.

Overall Conclusion

On the basis of the work undertaken this year, we are pleased to conclude that the Council continues to maintain generally adequate and effective systems of internal control. We have, however, identified a few areas where we consider that some action is required to further strengthen controls, protect the Council and improve audit trails: detail of these issues is identified in the body of the report with resultant recommendations further summarised in the appended Action Plan. Where issues were raised at our interim review, we have incorporated detail of the current position as advised by officers during the course of this final update review in this report.

We have duly signed off the IA Certificate in the year's AGAR assigning positive assurances in each relevant section.

We take this opportunity to draw the Clerk's attention to the guidance notes in the preface to the year's AGAR in relation to the documentation that should be displayed on the Council's website together with the need to ensure compliance with the timing requirements for publication of the Notice of Public Rights to examine the Council's documentation for the financial year.

Detailed Report

Accounting and banking arrangements

Our objective here is to ensure that the accounting records are being maintained accurately and kept current, 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 (FAO) using Sage accounting software, which we consider adequate for the Council's purposes.

The Council operates five bank accounts currently with Barclays Bank Plc including the General, Drawings and Salaries Accounts in use for day-to-day transactions, with "surplus" funds held in two instant access savings accounts (Active and Business Saver).

We have: -

- Ensured that the opening balance for 2021-22 in the Sage accounting software agrees with that in the 2020-21 Statement of Accounts and AGAR;
- Ensured that the financial ledger remains "in balance" at the financial year-end;
- Examined the nominal ledger coding structure which we consider remains appropriate;
- Examined six months' transactions (April to June and November 2021, plus January and March 2022) as recorded in Sage for the Current account, agreeing detail to the supporting bank statements;
- Reviewed transactions for the full financial year on all other accounts agreeing detail to the underlying bank statements;
- Reviewed and agreed bank reconciliations on all accounts as of 30th June & September 2021 and 31st March 2022;
- Noted that bank reconciliations continue to be reviewed by the Town Mayor quarterly, in accordance with our previous recommendation; and
- Ensured the accurate disclosure of the combined cash and bank balances in the year's AGAR at Section 2 Box 8.

Conclusions

We are pleased to record that we have identified no issues warranting formal comment or recommendation in this review area this year.

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

We have reviewed the Council's minutes for the financial year and to date in 2022-23 as posted on the Council's website, to ensure that no issues exist or appear likely to develop affecting the Council's present or future financial stability, through litigation or other causes.

We note that both SOs and Financial Regulations (FRs) were reviewed and re-adopted at the Council meeting in May 2021, with an amendment to the Clerk's delegated spending authority, increasing it to £5,000.

We have recorded previously the existence of a range of detailed financial procedures underpinning the FRs, which we consider an example of best practice.

We are also pleased to note that the external auditors signed-off the 2020-21 AGAR with no qualification or other adverse comments.

Conclusions

No matters arise in this area: we shall continue to assess the Council's approach to governance issues at future reviews, also continuing our review of minutes.

Review of Expenditure & VAT

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.

We have selected an extended sample of payments processed in the financial year for compliance with the above criteria. Our test sample includes all individual payments over £2,500, together with a more random selection of every 30th "cashbook" transaction irrespective of value comprising 70 payments totalling £667,130 and equating to 57% by value of all non-pay related payments processed during the year.

The Council also has 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 used primarily 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. Our above test sample includes 6 such credit card purchases with no issues arising.

We again note that VAT reclaims are prepared and submitted to HMRC quarterly and have agreed their detail to the relevant nominal ledger control account balance.

Conclusions and recommendations

Whilst no significant issues arise in this area with all payments in our test sample appropriately supported, we have experienced some difficulties in matching invoices to the selected sample of payments as no effective means of cross-referencing the invoices to the Sage data is in place: consequently, we suggest that consideration be given to an appropriate means of allocating unique and consecutive transaction reference numbers to invoices when paid with those numbers recorded on the invoices and included in the Sage accounts transaction detail.

Additionally, in examining the extended test sample at this final review, we note that the previously acquired and used certification / coding stamp is not being affixed to all invoices and urge that this control is reimplemented with members reviewing and signing-off the invoices when approving payments for release each month.

We noted in our interim report that the Council approved the engagement of DCK Accounting to provide VAT advice following the Council's acquisition of the former Viking Public House: we note that this work is continuing and will monitor the outcome of their work at future visits.

- R1. Consideration should be given to the implementation of sequential numbering of payments through the Sage accounts recording that number on each invoice and also in Sage to afford an easier means of identifying the documentation supporting individual payments.*
- R2. All invoices should be stamped with the certification stamp and be completed including the Sage account code and ideally, the initials of the member(s) reviewing and approving the payments for release demonstrating the effective discharge of their fiduciary responsibilities in approving expenditure.*

Assessment and Management of Risk

Our objective here 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.

The Council's insurance cover is provided by Zurich under a long-term agreement to 1st April 2024. We have examined the policy schedule for the year to 31st March 2022 noting that Public and Employer's Liability cover stand at £15 million and £10 million respectively, together with Fidelity Guarantee (FG) cover now set at £2 million following our interim report recommendation: we also note the existence of Business Interruption– Loss of revenue cover at £113,000, which we consider generally appropriate for the Council's present requirements, although with funds currently held in excess of £600,000, we suggest that consideration be given to increasing the value of the existing FG cover – the former Audit Commission used to recommend that this cover should be set at the year-end closing balance plus 50% of the subsequent year's precept, which would indicate a required and increased insurance value of approximately £1.1 million.

We are pleased to note that the Financial Risk Assessment was reviewed and re-adopted at the Council meeting on 26th May 2021 and have reviewed the document and consider it appropriate for the Council's ongoing requirements.

Periodic inspections of play areas and equipment continue to be undertaken by Zurich, supplementing weekly reviews undertaken by the Compliance and Administration Officer who maintains a record of issues identified and ensures appropriate action is taken.

Conclusions and recommendation

Whilst no significant concerns arise in this area, we suggested in our interim report that the Council consider increasing the level of Fidelity Guarantee cover to a more appropriate level based on the funds held currently. We shall continue to monitor the Council's approach to risk management at future visits.

R3. The Council should review the current level of Fidelity Guarantee cover in place ideally increasing it as a minimum to reflect the value of retained funds in the Council's bank accounts. The value has been increased as suggested to £2 million.

Budgetary Control and Reserves

Our objective here is to ensure 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, also 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.

We are pleased to note that, following due deliberation, the Council has agreed its budgetary and Precept requirement for 2022-23 adopting the latter at £743,973 at the full Council meeting held in December 2021.

We are pleased to note that members continue to be provided with appropriate financial and budget monitoring reports each quarter, affording members the opportunity for questioning any apparent anomalies, over or under spends that may have occurred in the year to date. We have reviewed the content of the most recent report presented to members as of 30th September 2021 seeking and acquiring appropriate explanations for the one or two significant variances that existed at that date.

At the year end, the Council's reserves amounted to £992,456 (£745,871 on 31st March 2021). Of the total, £347,697 (£372,018 previously) has been earmarked for specific purposes. The remaining balance of £644,760 (£380,664 on 31st March 2021) is held as a General Reserve, which remains appropriate for the current level of spending.

Conclusions

We are pleased to record that no issues arise in this area warranting formal comment or recommendation.

Review of Income

In this review area we aim to ensure that income due to the Council is identified, invoiced (where applicable), recovered at the appropriate rate and banked within a reasonable timescale in accordance with the adopted FRs.

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. Obviously, the Covid pandemic had an adverse effect on income from both the hire of the Diamond Centre and sports pitches in 2020-21, with a similar impact in the early months of 2021-22.

We note that members continue to review the schedule of fees and charges annually, in accordance with the FRs with those for 2021-22 approved as part of the budget setting process, where it has also been agreed to increase the annual allotment rent by £1.00, decrease water charges by £0.20 and implement a one-off administration fee for new tenants.

We have examined the Burial Register selecting a sample of 15 interments in October and November 2021 ensuring that each is supported by an undertaker's application, together with the legally required burial / cremation certificates, also that the appropriate fees have been charged and recovered in a timely manner with no issues arising.

We have also examined a week's (that commencing 15th November 2021) bookings at the Diamond Centre ensuring that appropriate booking forms were held and that the appropriate fees were charged in accordance with the published scales and that they have been settled in a timely manner.

We have also reviewed the allotment register ensuring that appropriately priced invoices were raised for all allotment holders for the year commencing 1st October 2021 also ensuring that the fees have been settled appropriately and in a timely manner.

We have also examined the files of sales invoices raised since 1st October 2021 noting that they do not identify the dates of receipt of the fees charged in each case. Whilst we appreciate that the Sage Sales Ledger provides a record of the outstanding unpaid accounts at any point in time, we have suggested to the Town Clerk and FAO that, to further enhance the ease of identifying unpaid accounts and provide a clear audit trail as to the settlement of the accounts, the top righthand corner of settled invoices be cut off and that the settlement date also be recorded thereon.

We also examined the Aged Debtors report generated by the Sage accounts at our interim review noting that there were a number of unpaid debts raised three or more months prior to that date, together with a few "unmatched" receipts. We discussed the position with the FAO urging that appropriate action be taken to pursue all long-standing unpaid accounts whilst "clearing" the unmatched receipts.

Conclusions and recommendations

We are pleased to record that no significant concerns have been identified in this area, although we consider that improved procedures should be implemented to strengthen the audit trail and afford officers a simple visual means of identifying any unpaid accounts: we also consider that positive action is required to pursue outstanding debts and clear any "unmatched" receipts.

- R4. Consideration should be given to clipping the top right-hand corner off of sales invoices also recording the payment receipt date to provide a simple means of identifying those unpaid accounts, whilst also affording a clear audit trail to the dates of receipt. Officers have decided to not do this at the moment but may look to do it in the future.***
- R5. Positive action should be taken to pursue all outstanding unpaid debts at regular intervals, especially those issued more than three months previously. The FAO will chase customers more to make sure debts are paid on time.***
- R6. The few "unmatched" receipts in existence should also be pursued to either reimburse the payees or clear them from the Sage Sales Ledger. These will be tidied up by the FAO and, if appropriate, refund the customers.***

Petty Cash Account

We are required, as part of the IA Certification process, to confirm that effective controls are in place and operated over any petty cash accounts in use at the Council.

As noted earlier in this report, the Council's petty cash account has, to a large extent, been superseded by the use of the Barclaycard. We have, however, reviewed the few petty cash account transactions for the year to date ensuring that all payments processed were appropriately supported: we have also checked the physical cash holding at the time of this review visit noting a surplus holding of 20p.

Conclusions

No issues have been identified in this review area this year warranting formal comment or recommendation, although the identified minimal cash surplus should be rectified with the next reimbursement.

Review of Staff Salaries

In examining the Council's payroll function, we aim to ensure that extant employment legislation is being adhered to, that the requirements of 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 also met.

The Clerk has provided us with detail of each member of staff NJC Spinal Point, together with their basic weekly contracted hours, and, where they are paid on a non-NJC scale point at a fixed hourly rate, that detail.

To confirm compliance with the above criteria, we have examined detail of staff salaries processed in December 2021, together with those for March 2022 when the 2021-22 nationally agreed pay award was implemented, together with arrears backdated to 1st April 2021 ensuring that: -

- The amounts paid to employees agree to the approved employee pay rates applicable from 2020-21 together with the national pay award for 2021-22;
- PAYE tax codes and National Insurance contribution tables are being accurately applied;
- The correct local authority pension scheme percentage deductions are being applied, noting one instance where a part time worker's deduction has been erroneously calculated at 6.5% based on the full-time equivalent salary rather than 5.5%, which should be applied based on her actual monthly / annual salary;
- 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.

Conclusions and recommendation

Whilst no significant concerns have been identified in this area, the incorrectly applied pension percentage contribution for the one staff member referred to above will require amendment going forward together with consideration of whether the preceding months' contributions should also be amended: this will potentially impact on the tax deducted to date in the year as tax is calculated on gross pay less the individual's pension contribution.

*R6. The incorrectly applied pension contribution rate for one of the two part time staff should be amended appropriately with further consideration of the tax implications if the prior month contributions are amended. **The correct percentage is now being applied.***

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. Consequently, the only changes should be the inclusion of new assets purchased each year at net price (i.e., without VAT) less the previously recorded value of any 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 zero cost or other assets held which have no intrinsic value (often referred to as community assets) should be included at a nominal £1.

The Council’s asset register is maintained by the FAO and is updated on a regular basis for purchases and disposals. Due to an IT issue during this final audit review, the FAO was unable to access the asset Register and provide documentary evidence of the revised year-end value, following the purchase of the former Viking Public House. Consequently, we have agreed with her that she will provide the evidence once she is again able to access the Register and enter the value in the AGAR at Section 2, Box 9 accordingly.

Conclusions

There are no matters arising that require a formal comment or recommendation at this stage, although we reserve the right to make further comment once we have received the Asset Register detail.

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 (i.e. deposits with a maturity term longer than 12 months) with all funds currently held in accounts with Barclays Bank: whilst we appreciate the adverse effect that the Covid situation has had on interest rates and the availability of investment accounts generating a reasonable rate of interest, the retention of all funds in one account leaves the Council potentially exposed to significant financial risk should, albeit improbable, Barclays “fail”. Whilst we cannot act as financial advisors, we have previously provided the Town Clerk with details of a few banking institutions being used by several of our other clients to generate a degree of interest.

We noted in last year’s final report, that a revised Treasury Management Strategy was approved by the Council at its meeting in March 2021, with the Clerk providing various options for future investments.

The Council currently has a number of PWLB loans in place with detail of repayments made during the financial year verified as part of our above referenced expenditure review. We have also, at this final review verified the outstanding loan liability to be disclosed in the year's AGAR at Section 2, Box 10 by reference to the UK Debt Agency's formal advice of that value.

Conclusions and recommendation

No matters of concern arise in this area currently, although we urge the Council to give further and urgent consideration to the diversification of the placement of surplus funds to reduce the risk of financial loss should Barclays ever "fail".

R7. The Council should give further urgent consideration to the placement of surplus funds in alternative banking institutions to reduce the potential risk of loss should Barclays ever "fail". The Clerk will look at alternative banking and propose suggestions for members' consideration.

Statement of Accounts and AGAR

Section 2 of the AGAR now forms the Council's formal Statement of Accounts subject to external audit review and certification. We have verified the accuracy of the detail to be disclosed therein by reference to the Sage Trial Balance and FAO's working paper, other than in relation to the asset value to be disclosed as referred to in the previous section of this report: As above, we will ensure its accuracy once the FAO has been able to access the software and provide detail for our examination.

Conclusions

There are no matters arising from this area of our review that require a formal comment or recommendation for further action. We ask that we be provided with a copy of the certified Sections 1 & 2 of the 2021-22 AGAR once adopted by the Council.

On the basis of the work undertaken during the course of our review for the year, we have duly completed and signed-off the Annual IA Certificate in the year's AGAR, assigning positive assurances in all areas.

Rec. No.	Recommendation	Response
Review of Expenditure and VAT		
R1	Consideration should be given to the implementation of sequential numbering of payments through the Sage accounts recording that number on each invoice and also in Sage to afford an easier means of identifying the documentation supporting individual payments.	
R2	All invoices should be stamped with the certification stamp and be completed including the Sage account code and ideally, the initials of the member(s) reviewing and approving the payments for release demonstrating the effective discharge of their fiduciary responsibilities in approving expenditure.	
Assessment and Management of Risk		
R3	The Council should review the current level of Fidelity Guarantee cover in place ideally increasing it as a minimum to reflect the value of retained funds in the Council's bank accounts.	<i>The value has been increased as suggested to £2 million.</i>
Review of Income		
R4	Consideration should be given to clipping the top right-hand corner off of sales invoices also recording the payment receipt date to provide a simple means of identifying those unpaid accounts, whilst also affording a clear audit trail to the dates of receipt.	<i>Officers have decided to not do this at the moment but may be something they look to do in the future.</i>
R5	Positive action should be taken to pursue all outstanding unpaid debts at regular intervals, especially those issued more than three months previously.	<i>The FAO will chase customers more to make sure debts are paid on time.</i>
R6	The few "unmatched" receipts in existence should also be pursued to either reimburse the payees or clear them from the Sage Sales Ledger.	<i>These will be tidied up by the FAO and, if appropriate, refund the customers.</i>
Review of Staff Salaries		
R7	The incorrectly applied pension contribution rate for one of the two part time staff should be amended appropriately with further consideration of the tax implications if the prior month contributions are amended.	<i>The correct percentage is now being applied.</i>
Investments & Loans		
R8	The Council should give further urgent consideration to the placement of surplus funds in alternative banking institutions to reduce the potential risk of loss should Barclays ever "fail".	<i>The Clerk will look at alternative banking and propose suggestions for members' consideration.</i>