

## **Swaffham Town Council**

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

15<sup>th</sup> July 2020

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## **Background and Scope**

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 was appointed to provide this service to Swaffham Town Council for 2019-20.

This report provides detail of the areas examined and the results of our final audit work in relation to 2019-20, which was completed in July 2020. It also updates the findings from our interim audit visits which took place on 5<sup>th</sup> November 2019 and 10<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 audit review for the year was undertaken remotely. We wish to thank the Town Clerk and deputy Town Clerk for providing the additional documentation required, in electronic format. 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, summarising the work undertaken and our findings. We are pleased to report that there are no matters arising that require a recommendation for further action. We ask that Members consider the content of this report.

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# Detailed Report

## Accounting and Banking arrangements

Our objective is to confirm that the accounting records are being maintained accurately and kept up to date, that no anomalous entries appear in cashbooks or financial ledgers and that appropriate banking arrangements are in place.

The Council continues to maintain its accounting records using the RBS Rialtas ‘Omega’ software, which is generally acknowledged as a market leader for this tier of local government.

Banking services are provided by Unity Trust Bank. As in the previous year, there are four accounts in use, with the main current and deposit accounts supplemented by a separate account for the ‘SK8 Park & MUGA’, together with a Capital Reserve account both of which are instant access saver accounts.

To meet our objectives in this audit area, we have confirmed that:

- the prior year’s closing balances were accurately rolled-forward to 2019-20 on the Omega accounting system;
- an appropriate cost centre and nominal ledger structure remains in place;
- the financial ledgers remained in balance at the end of the 2019-20 financial year;
- from a sample review of three months’ transactions (April and September 2019, plus March 2020), the details recorded in the Omega cash books reconcile to the bank statements. We also verified all inter-account transfers;
- bank reconciliations are being undertaken at the end of each month, using the Omega software. We checked and agreed the bank reconciliations as at 30<sup>th</sup> April 2019, 30<sup>th</sup> September 2019 and 31<sup>st</sup> March 2020 on all four accounts, to confirm that these were accurate and that there were no long-standing uncleared cheques or deposits, or other anomalous entries;
- the combined cash and bank account balances are disclosed accurately in the draft AGAR accounts as produced at the date of our final audit visit (Section 2, Box 8);
- appropriate controls are in place over the preparation and review of accounting journals, and
- effective IT back-up arrangements remain in place – through the Council’s IT support provider, ICO.Systems.

### **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 or Committee meetings), all meetings are conducted in accordance with the adopted Standing Orders and Financial Regulations 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 that the Council has appropriate Standing Orders and Financial Regulations in place. Both documents were reviewed and updated in July 2018, with revised Standing Orders, incorporating the latest NALC guidance, approved by the Full Council at its meeting on 8<sup>th</sup> July 2020. We understand that the Financial Regulations will be re-considered by the Finance Committee in the near future;
- Completed our review of the minutes for 2019-20, examining those for the meetings of the Full Council and its standing committees. We are pleased to record that we have not identified any issues that we consider may have an adverse effect, through litigation or other causes, on the Council's future financial stability. We note that confidential negotiations with Breckland Council regarding potential land transfers were on-going at the year-end;
- Noted that the Council undertook a review of its corporate and committee structure during the year and introduced a number of changes designed to improve the overall governance arrangements, and
- Noted that, following the 2019 local government elections, the Council formally re-adopted the General Power of Competence at its meeting on 8<sup>th</sup> May 2019, having satisfied itself that it continued to meet all of the necessary criteria.

### ***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 Council's approved procedures and budgets;
- An official order has been raised for supply of goods and services on each occasion where one would be anticipated;
- 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;
- Any discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct expense codes have been applied to invoices when processed; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have completed our review of the procedures in place in this area, selecting a sample of 53 non-pay related payments across the financial year for examination, to check compliance with the above criteria. Our test sample included all payments in excess of £1,500, together with a more random selection of every 20th cashbook transaction, totalling £194,879 and equating to 66% of non-pay expenditure.

The Council also holds a Lloyds Bank corporate charge card with an overall credit limit of £10,000. This is mainly used for internet purchases, with settlement made in full by monthly direct debit. We tested the operation of the card by reference to the expenditure transactions in August 2019, verifying that payments were properly supported by appropriate documentation and that the goods and services were relevant to the Council's activities

We confirmed that VAT Returns continue to be prepared and submitted quarterly in electronic format, as required by extant legislation, with detail being reconciled to the Omega financial ledger control account. At our final audit, we confirmed that the repayment due for the final quarter is correctly recorded as a debtor in the year-end accounts.

### ***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 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 those risks identified in order to minimise them.

There is a regulatory requirement for the Council to formally review and approve its risk management arrangements during each financial year. We confirmed that the risk register was updated and reviewed at the Full Council Finance meeting on 29<sup>th</sup> April 2019, thus satisfying the requirement for 2019-20.

The Council's insurance is provided under a long-term agreement with Zurich Municipal, which runs until 2021. The policy for the year to May 2020 included Public Liability cover of £15 million, Employer's Liability of £10 million and Fidelity Guarantee of £500,000, which appears appropriate for the needs of the Council.

The Council continues to ensure that health & safety inspections are undertaken on a regular basis for its offices and facilities. During 2019-20, annual inspections of playground equipment were undertaken by Apertus, to check compliance with relevant health and safety standards, with Council staff carrying out their own detailed checks throughout the year. We also note that the Council continues to receive support from external consultants on a range of other health and safety matters.

### ***Conclusion***

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

## **Budget Setting, Budgetary Control and Reserves**

Our objectives are 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 also that an effective reporting and monitoring process is in place. We also aim to confirm that the Council retains appropriate funds in general and earmarked reserves to finance its ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

From examination of Council and Committee minutes we confirmed that appropriate budget monitoring arrangements were in place during the year, with quarterly budget monitoring reports with variance analyses considered by the Finance Committee and detailed reports made on key areas of activity.

The Precept and budget for 2020-21 were formally agreed at the Council meeting on 15<sup>th</sup> January 2020, following detailed consideration by the Finance Committee and at the previous Council meeting. The Precept was set at £419,500 (compared to £407,500 for 2019-20), which, with the revised tax base for the year represented a 0% increase for Band D properties. We confirmed that, as in previous years, the Town Clerk prepared a comprehensive budget report to assist Members with their budget and Precept deliberations.

During the course of the 2020-21 budget setting process, consideration was given to the level of earmarked and general reserves. A decision was taken to amalgamate all of the earmarked revenue reserves under one cost centre as a 'General Reserve'. A separate Earmarked Capital Reserve will continue to be maintained, to identify the balance of unutilised Developer Contributions received under Section 106 planning agreements.

As at 31<sup>st</sup> March 2020, the total reserves stood at £359,450, compared to £200,230 at 31<sup>st</sup> March 2019. The overall increase in reserves is due, principally, to the receipt of outstanding Section 106 contributions towards the Town Centre and Public Toilets projects. In advance of the receipt of this funding, a significant proportion of the costs of those projects had been met from the General Reserves and this was reimbursed during 2019-20. At the year-end the General Reserves had increased to £310,374, compared to £85,171 at the previous year-end. In addition, the Council held unutilised s106 contributions of £48,577 in the Capital Earmarked Reserve.

The General Reserves equate to approximately 74% of the Precept demand for 2020-21. Whilst there is no definitive guidance on the level that should be maintained, as this will vary depending the circumstances facing individual councils, the current level of the General Reserves is in line with the frequently quoted "yardstick" of between 6 and 12 months of the Precept value.

### ***Conclusion***

***There are no matters arising that require a formal comment or recommendation. However, it will be important for Members to keep the level of its General Reserves under review, in the light of potential future projects.***

## **Review of Income**

The Council receives income from a variety of sources; in particular, allotment rents, cemetery and associated fees, market trader rents, rental of offices and hire fees for use of the Town Hall Chamber.

Our objective is to ensure that robust procedures are in place to help ensure that all income due to the Council is identified and invoiced appropriately, with recovery effected within a reasonable timespan.

Our audit work focused on the various income streams, as follows.

- We confirmed that Members continue to review the Council's scales of fees and charges annually. Those for 2019-20 were agreed in the previous financial year, with

subsequent revisions to Cemetery charges with effect from May 2019;

- As noted earlier in this report, we checked and agreed three sample months' receipts transactions from cashbooks to relevant bank statements;
- We examined a sample of Cemetery activities (for the period May to October 2019) by reference to the detailed Burial Registers and other records maintained by the Council, and relevant entries in the Omega nominal ledgers, to confirm that the fees charged for each interment were in accordance with the published scales and that there was no undue delay in settlements of funds;
- We reviewed the arrangements for collecting market rent income, examining in detail the rents collected for two sample months (October and November 2019), by reference to the sales ledger invoicing and the registers maintained which detail the pitch size, funds charged, date and the method of payment;
- We reviewed all other income code nominal ledger transactions for the year to 31<sup>st</sup> December 2019 to ensure that there were no obvious errors or omissions where income could have reasonably expected, such as monthly property lettings and quarterly bank interest and no such cases were identified, and
- We reviewed the year-end debtor position, confirming that the overall level of debt remains very low and that appropriate follow-up action is being taken where debts remain outstanding for any length of time.

We had planned to undertake a sample review of allotment income during at our final audit visit, but we were not able to undertake the necessary testing as our work had to be carried out remotely. However, historically, this has been an area of low risk, with no matters arising in recent audits. We propose to cover allotments at our first interim visit in 2020-21.

### ***Conclusion***

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

## **Petty Cash**

We are required, as part of the Internal Audit certification process in the AGAR to assess and give a view on the effectiveness of control over any petty cash account used by the Council.

The Council operates a limited petty cash account with an Imprest "float" of £400. We tested a sample month's transactions (December 2019) to confirm that each was supported by appropriate invoices or till receipts, that any recoverable VAT had been separated and that the cashbook re-imburement was posted correctly.

At the final audit, we confirmed that the correct petty cash balance has been included in the total cash and short-term investments balance in Section 2, Box 8 of the AGAR.

### ***Conclusion***

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

## 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 in relation to employee and employer contributions.

To meet those objectives, 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;
- Noted that the Deputy Town Clerk continues to produce the payroll detail "in house" using bespoke software known as Brightpay;
- Agreed the amounts paid to employees by reference to the approved pay scales on the Council's establishment list, examining a sample of all those salary payments made in September 2019;
- Confirmed that Tax and National Insurance deductions for all employees have been made, applying the appropriate PAYE code and NIC Table;
- Checked that the correct superannuation percentage deductions are being applied, where applicable;
- Ensured that any variations to standard payments, such as overtime and sickness and mileage, have been subject to formal timesheet records and approval by senior officers;
- Verified the net payments to staff from payslips to the summary settlement reports and cashbook transactions, and
- Checked and agreed the payment of deductions to HMRC and Norfolk County Council from copy payroll reports to the cashbooks and have, as part of the supplier payments testing noted earlier, summarised the month by month total payments

### *Conclusions*

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

## Asset Register

The reporting arrangements for assets in the AGAR require councils to report the value of each asset at purchase cost or at a suitable proxy where that value is not known, and for community assets to be valued at a nominal £1. The value of individual assets should not change from one year to another, with the only changes being the inclusion of new assets purchased or removal of assets disposed of.

We are pleased to note that in addition to maintaining a comprehensive list of assets, detailing the original cost required for reporting in the AGAR and the insurance value, the Council continues to maintain a photographic asset register. We have confirmed that the asset register has been updated for additions and disposals in the year and that the updated value of £4,784,912 has been recorded in the draft AGAR (Section 2, Box 9).

### ***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 and that interest earned is brought to account correctly and appropriately in the accounting records. We also aim to ensure that any loan repayments due to or payable by the Council are processed in accordance with the respective and relevant loan agreements.

As noted earlier in this report, the Council holds no long-term investments, with all “surplus” funds being held in accounts with Unity Trust Bank, which attract only a minimal rate of interest. Previously, we have recommended that consideration should be given to investing some of the funds in longer term fixed rate accounts or bonds. We have confirmed with the Town Clerk that this is still under consideration and will be done at the point when the future of Council-owned land at Day’s Field is resolved and once the timescale for undertaking other potential projects is clearer.

As noted last year, the Council has a formal Investment Strategy in place which was approved by the Council in July 2018.

We have checked and agreed the instalment repayments (principal and interest) on the Council’s two existing PWLB loans to their third party “demand” notices for the current financial year. We have also confirmed the total repayments in the year of £10,237 are correctly stated in the draft AGAR (Section 2, Box 5), with the outstanding capital balance as at 31<sup>st</sup> March 2020, £82,128, shown in Section 2, Box 10.

### ***Conclusion***

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

## **Statement of Accounts and AGAR**

We have examined 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.

### ***Conclusions***

***There are no matters arising from this area of our audit that require a comment or formal recommendation. We look forward to receiving a copy of the finalised AGAR (Sections 1 and 2), once the document has been approved by the Council.***

***On the basis of the work undertaken during the course of our review for the year, we have completed and signed the ‘Annual Internal Audit Report 2019-20’ on Page 3 of the AGAR, assigning positive assurances in all areas of internal control.***