



Swaffham Town Council

Internal Audit Report 2018-19 (Final)

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for Auditing Solutions Ltd

Background and Scope

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 Swaffham Town Council for the 2018-19 financial year.

This report sets out the results of our final audit visit in relation to 2018-19, which took place on 17th April 2019. It updates the report that we issued following our interim visit in November 2018.

Internal Audit Approach

In undertaking our internal audit work, 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' in Section 2 of the 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 audit programme is designed to afford appropriate assurance that the Council's financial systems 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 '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, we have concluded that, in overall terms, the Council has maintained adequate and effective internal control arrangements. We have completed and signed the 'Annual Internal Audit Report' on Page 3 of the 2018-19 AGAR, having concluded that, in all significant respects, the control objectives set out in that report were achieved throughout the financial year to a standard adequate to meet the needs of the Council.

We have identified one area where we consider that action is required. The matter arising is set out in the body of the report, with our recommendation included in the appended Action Plan. During the audit, we reviewed the progress made to address matters raised in our interim audit report. We found that appropriate action has been taken in a number of cases, but there were three instances where the agreed actions remained outstanding and we have carried our recommendations forward in this report. 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.

This report has been prepared for the sole use of Swaffham 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, for any reason whatsoever, on this report, its contents or conclusions.

Detailed report

Accounting Records and Bank Reconciliations

The Council continues to maintain its accounting records using the RBS Omega software. This software, which has recently been subject to a major upgrade, affords an effective basis to record financial transactions and to report on budget performance during the year.

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.

Our objective in this area is to ensure that the accounting records are being maintained accurately and kept up to date, and that no anomalous entries appear in cashbooks or financial ledgers. To that end, we have confirmed that:

- the prior year's closing balances were accurately rolled-forward to 2018-19 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 2018-19 financial year;
- from a sample review of three months' transactions (May and June 2018, plus March 2019), 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 30th September 2018 and 31st March 2019 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, Line 8);
- appropriate controls are in place over the preparation and review of accounting journals; and
- effective IT back-up arrangements remain in place – noting that during the year, the Council changed its IT support provider from Netmatters to ICO.Systems.

Conclusion

We found that the controls in place in this area were adequate and were operating effectively. There are no matters arising from our final audit visit that require a formal comment or recommendation.

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 or Committee meetings) all meetings are conducted in accordance with the adopted Standing Orders and no actions of a potentially unlawful nature have been, or are being, considered for implementation.

In the course of our audit visits, we have confirmed that:

- our review of Council and committee minutes for the year has not identified any issues that we consider 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.
- the Standing Orders and Financial Regulations were both considered at the Full Council Finance meeting in July 2018, in accordance with the review programme for key policies and procedures which is now in place. In both cases, the documents take into account the latest national guidance from NALC.
- at the November 2017 Full Council meeting, the Council formally adopted the "General Power of Competence", having satisfied itself that it meets the necessary criteria and this has applied throughout 2018-19;
- detailed financial and operational procedures documentation is in place for key areas, underpinning the Financial Regulations.

During our interim audit visit, we reviewed the approach followed with regard to tendering of the contract for refurbishment of the Buttercross and related work, and confirmed that this was undertaken in accordance with the Council's Financial Regulations.

We have also discussed with the Town Clerk the current position regarding the future of Day's Field. We note that a decision on the action to be taken has been deferred for consideration by the new Council following the May 2019 elections.

In our interim audit report, we highlighted that a number of the policies shown in the 'Governance' section of the Council's website had not been updated to reflect reviews undertaken during 2018-19 and some others were not reported. In following up at our final audit visit, we were pleased to be able to confirm that appropriate action has been taken to address this matter and the website was up to date.

Conclusion and recommendation

On the basis of our audit work in this area, we consider that, in general, the Council has adopted a sound approach to its responsibilities in relation to corporate governance. However, further action does need to be taken regarding the approval of minutes.

In our interim audit report, we drew attention to several instances where the formal minutes of Council and committee meetings had either not been signed, or individual pages not initialled.

In following up on this matter at our final audit visit, we confirmed that the majority of the omissions previously identified had been rectified. However, we identified further instances where the minutes were either not signed or initialled (e.g. for the Full Council meetings of December 2018 and February 2019) and one instance where only draft minutes are held on file (Finance Full Council meeting of April 2018).

RI As previously recommended, in accordance with the requirements of the Local Government Act 1972 (Schedule 12), the Chairman of the meeting at which the minutes of Council or committee meetings are approved must ensure that the last page of the minutes is signed and all other pages are initialled.

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 appropriate, for any expenditure not the subject of a formal contract;
- 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 44 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 £2,500, together with a more random selection of every 35th cashbook transaction, totalling £319,530 and equating to 82% of non-pay expenditure.

The Council makes use of a Lloyds Corporate Credit Card, for internet payments. As part of our expenditure testing, we reviewed the payments made in months 5 and 6 and confirmed that all were supported by appropriate documentation and that effective controls were in place.

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. We examined the first three quarterly reclaims submitted in 2018-19, noting that repayment has been made in full by HMRC.

Conclusion

There are no matters arising from this area of our audit work to date 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 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.

There is a regulatory requirement for the Council to formally review and approve its risk management arrangements during each financial year. We have confirmed that the risk register was updated and reviewed at the Full Council Finance meeting on 16th April 2018, thus satisfying the requirement for 2018-19.

The Council reviewed its insurance arrangements in 2016, when it entered into a five-year agreement with Zurich Municipal. The level of insurance cover for 2018-19 includes Public Liability of £15 million, Employer's Liability of £10 million and Fidelity Guarantee of £500,000, all of which we consider to be appropriate to meet the needs of the Council.

As noted last year, the Council continues to ensure that health and safety inspections are undertaken on a regular basis for its offices and facilities. Annual inspections of playground equipment are undertaken by PlayMaintain, 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.

In our interim report, we had recommended that the action plan developed to monitor playground inspections should be further expanded to record the date each matter was originally identified, its significance, the action required and the planned/actual date of completion, together with responsibility (where this is someone other than the Works Manager). In following up on this matter at our final audit, we were pleased to note that this has been done.

Conclusion and recommendation

On the basis of our audit work in this area, we consider that, in general, the Council has adopted a sound approach to its responsibilities in relation to risk management. However, there is one further recommendation from our interim report in relation to playground inspections that has not yet been addressed. This is the need for the Council to formally determine its own inspection frequency and ensure that this is adhered to.

R2 *As previously recommended, the Council should determine the frequency with which its staff are to undertake inspections of playgrounds and play equipment during the course of the year. A formal timetable for these inspections should be agreed and monitored.*

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

As highlighted in our interim report, we are pleased to note that Members continue to be provided with sound budget monitoring reports throughout the year, as recorded in the Council minutes, and with detailed reports on key areas of activity.

The Precept and budget for 2019-20 were formally agreed at the Full Council Finance meeting on 28th January 2019. The Precept was set at £407,500 (compared to £393,500 in 2018-19), which equates to a 1% increase for Band D properties. From our review of the budget setting process, we confirmed that, as in previous years, the Town Clerk prepared comprehensive budget reports to assist Members with their budget and Precept deliberations.

During the course of the budget setting process, consideration was given to the level of earmarked and general reserves that are required going forward. At that time, it was anticipated that the total reserves at 31st March 2019 would stand at £364k (compared to £368k at the previous year end). These would comprise Capital Reserves (earmarked and unearmarked) of £12k, Revenue Earmarked Reserves of £127k and a General Reserve balance of £225k.

This forecast envisaged the receipt of developers' contributions (s106 monies) of £193,000, held by Breckland Council; of which £140k relates to the Town Centre project and £53k had been allocated to the Public Toilet project. However, neither sum was received by 31st March 2019 and, as a result the total reserves at the year-end were significantly lower than anticipated, amounting to £200k. From our discussions with the Town Clerk, we understand that the s106 monies relating to the Town Centre project are due to be handed over by Breckland Council in May 2019, but that there is currently a dispute regarding the release of the remaining s106 monies.

Until the s106 monies are received, the General Reserve is being utilised to meet the element of the capital project costs that could not be funded from existing capital reserves. As a consequence, the General Reserve balance at 31st March 2019 was only £85k (compared with £236k as at the previous year-end), with Earmarked Revenue Reserves of £115k and nil Capital Reserves.

Conclusion and recommendation

In general, the controls in this area were found to be adequate and to be operating effectively. However, until the Council receives the outstanding s106 monies, it is relying on the General Reserve to help fund the costs of the various capital projects undertaken in 2018-19. As a

consequence, the balance available for contingency purposes at the year-end is significantly below the sum agreed as reasonable by the Council (6 months of the Precept).

R3 Once the outstanding s106 monies relating to the Town Centre project are received, the Council should undertake a thorough review of its capital, revenue and general reserve requirements and ensure that it has sufficient resources to meet its future commitments and aspirations.

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:

- confirming with officers our understanding of the procedures in place in relation to various income streams, in particular markets, the cemetery and allotments;
- confirming that the Council formally reviewed its fees and charges as part of the 2018-19 budget setting process;
- examining the controls in place over the identification, invoicing and recovery of allotment rents and deposits. Rents fall due from the beginning of October annually, with payment required by mid-October. At our interim audit, we found that good progress had been made in collecting the rents due and deposits required, and that appropriate action had been taken to follow-up on the few outstanding invoices. At the time of our final audit visit, we confirmed that there were no outstanding invoices;
- reviewing the invoicing and payment of cemetery and associated fees for the period 1st April to 16th November 2018;
- reviewing the arrangements for collecting market rent income, examining in detail the rents collected in one sample month (October 2018), and
- confirming that the overall level of outstanding debtors at the year-end was very low.

Conclusion

There are no matters arising from this area of our audit work 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. 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.

The Council operates a petty cash account on an imprest basis with a “float” of £400, with monthly expenditure reimbursed to bring the cash holding back to that value. During the course of our interim audit, we reviewed the account and confirmed that it is being managed effectively and that the balance held as at the date of the audit visit agreed to the underlying accounting records. We also checked the physical cash held, agreeing the detail to the Omega cash book record as at 30th September 2018, less subsequent transactions and reimbursements. At the final audit visit, we confirmed that the correct year-end balance of £355.84 is included in the ‘total cash and investments balance of the accounts (Section 2, line 8 of the AGAR).

Conclusion

There are no matters arising from this area of our audit work to date 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 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 test compliance with the above criteria, we have:

- confirmed that the “BrightPay” software continues to be used to compute the monthly payroll, which includes the production of independent monthly pay slips;
- confirmed that the Council had approved the employees’ gross pay rates for the financial year (and those subsequently agreed following the staff appraisal process), and that these have been duly and accurately applied;
- checked the detail of payroll transactions for a sample month (Month 8: November 2018);

- checked to ensure that appropriate PAYE tax codes and NIC table deduction rates, depending on whether the employee was a member of the pension scheme or not, have been applied;
- checked to ensure that the appropriate percentage pension deductions, based on the most recent LGPS salary bandings, have been applied to those staff in the pension scheme;
- verified that the net salaries, paid by BACS, were in line with the relevant payslips and were reviewed and approved;
- confirmed that when approving the monthly salary and wages payments and the payments to HMRC and the Norfolk Pension Fund, the Members involved continue to agree the payments to the salary, tax and pension information produced by the payroll software.

During 2018-19, a formal agreement has been entered into with Watton Town Council for a jointly funded Project Officer post. The employee is paid through Swaffham Town Council's payroll, with half of the overall staff and related costs recharged to Watton Town Council each month. We have confirmed that the costs of this employee are being accounted for correctly

At the time of our interim audit visit, the Council was providing a payroll service for the local branch of Age Concern and we recommended that a formal agreement was put in place, clearly setting out the responsibilities of both parties. In following up on this matter, we have confirmed that this payroll service is no longer provided. We also confirmed that the costs relating to the Age Concern staff had been accounted for correctly in the Council's accounts.

Conclusion and recommendation

On the basis of our audit work in this area, we consider that the controls over payroll are adequate and are operating effectively. However, there is one recommendation from our interim report that has not yet been addressed, in relation to staff contracts.

During the course of our interim audit testing, we established that no signed contracts of employment were held for four members of staff, including the jointly funded project officer, and the contract for another employee needed to be amended for a change in contracted hours. In following up on this matter, we confirmed that these contracts have not yet been finalised. From our discussions with the Town Clerk, we have been informed that this will be done in the near future, together with amendments required to the contracts of other staff to reflect recent changes to the nationally agreed NJC pay scales.

R4 As previously recommended, the Council must ensure that it holds signed contracts of employment for all staff and that these are fully up to date.

Asset Register / Inventory

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 now has a photographic asset register in place. We have confirmed that the asset register has been updated for additions and disposals in the year and that the updated value of £4,715,762 has been recorded in the draft AGAR (Section 2, line 9).

Conclusion

No matters have arisen from this area of our review that require a formal comment or recommendation.

Investments and Loans

Our objective is to confirm 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.

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. In last year’s report, we recommended that consideration should be given to investing some of the funds in longer term fixed rate accounts or bonds and confirmed with the Town Clerk that this would be done at the point when the future of Council-owned land at Day’s Field is resolved. This point has still not yet been reached.

We also recommended last year that, in accordance with the revised statutory guidance on local government investments, a formal investment policy/strategy should be put in place, as it is now a requirement for all councils with reserves of more than £100k (either long or short term). We note that an Investment Strategy was formally approved by the Full Council Finance meeting on 23rd July 2018.

We have checked and agreed the instalment repayments (principal and interest) on the Council’s existing PWLB loans to their third party “demand” notices for the current financial year. We have also confirmed the total repayment of £10,473 is correctly stated in the draft AGAR (Section 2, line 5). The outstanding capital balance as at 31st March 2019 (to be reported in Section 2, Line 10) is £88,125.

Conclusion

There are no matters arising from this area of our audit work to date that require a formal comment or recommendation.

Statement of Accounts and AGAR

We have examined the detailed Income and Expenditure accounts and the draft of the statutory Accounting Statements that the Council is required to complete as Section 2 of the AGAR.

Conclusions

At the time of our final audit visit, the statutory Accounting Statements had not yet been finalised. However, as noted above, we have confirmed the accuracy of a number of the key entries (namely; in relation to the PWLB loans (lines 5 and 10), total cash and investments (line 8) and total fixed assets (line 9). We have also confirmed that the salary costs of the Age Concern staff formerly paid through the Council's payroll have been treated correctly (i.e. netted off against the reimbursement and agency fee received from Age Concern and not shown within payroll costs).

No matters have arisen from this area of our review that require a formal comment or 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' on Page 3 of the AGAR, assigning positive assurances in all areas of internal control.

Action Plan

Rec. Recommendation No.	Response
Corporate governance	
R1	As previously recommended, in accordance with the requirements of the Local Government Act 1972 (Schedule 12), the Chairman of the meeting at which the minutes of Council or committee meetings are approved must ensure that the last page of the minutes is signed and all other pages are initialled.
Assessment and management of Risk	
R2	As previously recommended, the Council should determine the frequency with which its staff are to undertake inspections of playgrounds and play equipment during the course of the year. A formal timetable for these inspections should be agreed and monitored.
Budget setting, budgetary control and reserves	
R3	Once the outstanding s106 monies relating to the Town Centre project are received, the Council should undertake a thorough review of its capital, revenue and general reserve requirements and ensure that it has sufficient resources to meet its future commitments and aspirations.
Review of Salaries	
R4	As previously recommended, the Council must ensure that it holds signed contracts of employment for all staff and that these are fully up to date.

