

Swaffham Town Council

Internal Audit Report: 2021-22 (Interim)

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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 has been appointed to provide this service to Swaffham Town Council for the 2021-22 financial year.

This report sets out the results of our interim audit in relation to 2021-22, which was undertaken on 23rd and 24th November 2021. We wish to thank the Town Clerk and his colleagues for their help in providing the documentation and explanations required to enable us to complete our audit work.

Internal Audit Approach

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

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 formal recommendation. We ask that Members consider the content of this report.

Detailed Report

Accounting and Banking arrangements

Our objective is to confirm that the accounting records are 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. At the start of the financial year, there were two accounts in use, a Current Account and instant access Deposit Account.

In the course of our interim audit work, we confirmed that:

- the prior year’s closing balances were accurately rolled-forward to 2021-22 in the Omega accounting system;
- an appropriate cost centre and nominal ledger structure is in place;
- the financial ledgers remained in balance at the time of our interim audit;
- from a sample review of two months’ transactions (May and September 2021), the details recorded in the Omega cash books reconciled to the bank statements. We also verified inter-account transfers in the year to date;
- bank reconciliations are being undertaken at the end of each month, using the Omega software and are independently checked by a Councillor on a periodic basis. We reviewed the bank reconciliations as at 30th September 2021, to confirm that these were accurate and that there were no long-standing uncleared cheques or deposits, or other anomalous entries, and
- effective IT back-up arrangements remain in place – through the Council’s IT support provider, ICO Systems.

We also confirmed that the external audit for 2020-21 has been completed, with the external auditors’ report issued on 4th November 2021. During their work, the external auditors raised a minor issue regarding the accounting treatment of the credit card balance at the year end and the cash balance in the accounting statements (Section 2, Line 8 of the AGAR) was subsequently adjusted to take this into account.

Conclusion

There are no matters arising to date 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 the following:

- Our review of the minutes of Council and its standing committees to early November 2021 has not identified any issues that we consider may have an adverse effect, through litigation or other causes, on the Council's future financial stability;
- The Council has appropriate Standing Orders and Financial Regulations in place. The Standing Orders, incorporating the latest NALC guidance, were approved by the Full Council at its meeting on 8th July 2020, with the Financial Regulations last updated in May 2018. We have confirmed with the Town Clerk that both documents will be reviewed at the Full Council Finance meeting on 21st December 2021;
- The Council has a wide range of other policies and procedures in place, which are kept under regular review. The Town Clerk has confirmed that, due to the continuing impact of the Covid-19 pandemic and other pressures on staff time, there have been some delays in the review programme during 2021-22, but it is anticipated this will be back on track by the year-end, and
- The Council continues to exercise the General Power of Competence, which was re-adopted in May 2019, following the last Council elections.

Conclusion

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

Review of Expenditure

Our objective is to ensure that:

- Council resources are released in accordance with approved procedures and budgets;
- Orders have been raised for the 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 commenced our review of the procedures in place in this area, selecting a sample of 27 non-pay related payments across the first seven months of the financial year for examination, to check compliance with the above criteria. Our test sample included all payments in excess of £1,200, together with a more random selection of every 25th cashbook transaction, totalling £432,000 and equating to 94% of non-pay expenditure. The higher than usual percentage coverage in our sample this year is due to the inclusion of the invoice for the purchase of the Sacred Heart Barn Theatre and Swimming Pool (The Barn).

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 will review the operation of this card at our final audit.

We confirmed that VAT Returns continue to be prepared and submitted quarterly in electronic format, as required by extant legislation, with the detail being reconciled to the Omega financial ledger control account. The first two quarters returns had been submitted by the time of our interim visit.

During the year to date, the Council has awarded one contract (for consultants to undertake a feasibility study and business plan for The Barn and an Asset Review) where the contract value has required a formal tendering process to be followed. From our review of documentation relating to the tender process and our discussions with the Town Clerk, we are satisfied that the approach followed was in line with the Council's financial regulations.

Conclusion

There are no matters arising 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 & 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. The Financial Risk Assessment (FRA) was last updated and approved, by the Finance Committee, on 17th August 2020 and at that time it was minuted that work was being undertaken to develop a revised format for the FRA. We have confirmed with the Town Clerk that it is the intention to review and update the FRA, as necessary, at the Full Council Finance meeting on 21st December 2021.

Earlier this year, the Council entered into a new long-term agreement (5 years) with Zurich Municipal, which expires at the end of May 2026. From review of the current year's policy, we have confirmed it includes Public Liability cover of £15 million, Employer's Liability of £10 million and Fidelity Guarantee of £500,000, which appear appropriate for the needs of the Council. We note that the policy was updated in October 2021, following the acquisition of The Barn.

The Council continues to ensure that health & safety inspections are undertaken on a regular basis for its offices and facilities. Annual operational inspections of the four play areas operated by the Council were undertaken by Fenland Leisure in June 2021 and we confirmed that Council staff continue to carry out their own detailed checks throughout the year.

Reports on the results of the annual play area inspections were only received recently. They highlighted some "High Risk" issues at the Haspalls Road Recreation Ground, where a number of items of wooden play equipment were identified as suffering from rot. Similar issues were identified at the Merryweather Play Area, although these were only classified as "Medium Risk". The Town Clerk has confirmed that most of the urgent work identified has now been repaired, although the Works Manager is still waiting for some replacement parts.

The remaining priority work will be completed as soon as the parts are available. The remainder of the work identified in the reports is to be scheduled at a later date and will be included in the budget discussions in December & January. A full report on the action taken is to be taken to the Assets & Open Spaces Committee on 31st January 2022.

As in previous years, the Council continues to receive support from external consultants on a range of other health and safety matters.

Conclusion

In general, the controls in this area were found to be adequate and operating effectively. However, as noted above, action still needs to be taken to address some of the matters highlighted by the external play area inspections. We will review the progress made at our final audit visit.

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 to date, with quarterly budget monitoring reports with variance analyses being taken to the Full Council Finance and detailed reports made on key areas of activity.

The draft budget for 2022-23 will be considered at the Full Council Finance meeting on 21st December 2021, with the Precept and budget determined at the meeting on 24th January 2022.

Conclusion

There are no matters arising to date that require a formal comment or recommendation. We will review the process followed in setting the 2022-23 budget and determining the Precept, together with the 2021-22 budget outturn and overall reserves position, at our final audit.

Review of Income

In considering the Council's income streams, our objective is to confirm that robust systems are in place to ensure the identification of all income due to the Council from its various sources, to ensure that it is invoiced in a timely manner and that effective procedures are in place to pursue recovery of any outstanding monies due. In addition to the Precept and any grants received, the main sources of income for the Council are allotment rents, cemetery and related fees, market trader rents, rental of offices and hire fees for use of the Town Hall Chamber.

At our interim audit, we undertook the following work:

- Fees and charges: We confirmed that Members continue to review the Council's scales of fees and charges annually, in accordance with the Financial Regulations. Those for 2021-22 were agreed at the Full Council Finance meeting on 16th December 2020, as part of the budget setting process.
- Banking of income: As noted earlier in this report, we have checked and agreed two sample months' receipts transactions from cashbooks to relevant bank statements.
- Cemetery-related income: We examined the Cemetery-related income for the period 1st April 2021 to 30th September 2021, by reference to the detailed Burial records and associated supporting documents, confirming that the correct fees were charged for interments, exclusive rights of burial and memorials, and that income due was received and banked on a timely basis.
- Allotments: From review of the records maintained on the Rialtas Allotments system, we have confirmed that almost all of the allotment rents due for the year commencing 1st October 2021 had been received by the time of our interim audit. The four cases where rents were outstanding were in the process of being followed up. We also noted that, whilst updated signed agreements had been requested from all allotment holders, these were still being returned at the time of the audit. We will review the completeness of these records at the final audit.
- Market income: We reviewed the attendance sheet for one sample market (9th October 2021), checking and agreeing the record of permanent market traders to invoices raised and for casual traders to the details of income received on the day, through to the banking records. There were no issues identified.
- Other income: We reviewed other income code nominal ledger transactions for the year to date, to ensure that there were no obvious errors or omissions where income could have reasonably been expected, such as monthly property lettings and quarterly bank interest (which is minimal), with no issues identified.
- Outstanding debts: We reviewed the aged-debtor position, confirming that sound management arrangements remain in place. At the time of our interim audit, the overall level of debt remained very low and appropriate follow-up action is being taken where debts remain outstanding for any length of time.

Conclusion

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

Petty Cash

As part of the Internal Audit certification process in the AGAR, we are required 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. A detailed schedule of petty cash payments is maintained and reconciled on a monthly basis to the Omega cash book. At our interim audit we checked the petty cash, confirming that the

cash held, plus the vouchers/receipts held for payments made since the previous reconciliation agreed to the float balance. We also confirmed that VAT is being identified and separated at the time of the monthly reconciliation and that the petty cash records are subject to periodic review by a nominated Councillor.

At the final audit, we will confirm 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 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.

All Council staff continue to be paid on a monthly basis. The detailed payroll is produced in-house by the Deputy Town Clerk, using with the bespoke "Brightpay" software.

To meet our objectives, we have:

- Confirmed that the Council continues to approve the staff pay rates annually;
- Noted that at the time of our audit visit the National Joint Council for Local Government Services (NJC) award for 2021-22 had yet to be agreed;
- Confirmed, for a sample month (November 2021), that;
 - The gross monthly payments made to staff are in accordance with the approved scale rates and contractually agreed hours;
 - Tax and National Insurance deductions have been made applying the appropriate PAYE code and NIC Table;
 - The correct local authority pension scheme percentage deductions (for employees and employer) are being applied, where applicable;
 - The net payments to staff, as shown on the payslips, agree to the summary settlement report; and
 - The correct monthly payments have been to HMRC and the Norfolk Pension Fund.

Conclusion

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

Investments and Loans

Our objective is to confirm that an appropriate investment strategy is in place, that any funds not required for immediate use, whether temporarily or on a longer-term basis are

invested in line with that strategy and that interest earned is brought to account correctly and appropriately in the accounting records. We also confirm that any loan repayments due to or payable by the Council are transacted in accordance with the relevant loan agreements

A formal Investment Strategy was adopted by the Council in July 2018 and re-approved at the Finance Committee meeting in August 2020. We have confirmed with the Town Clerk that this will be revisited in January 2022, following approval of the 2022-23 budget.

As noted earlier in this report, at present the Council does not hold any long-term investments, with all “surplus” funds being held in the Unity Trust Bank deposit account. Previously, we have recommended that consideration should be given to investing some of the funds in longer term fixed rate accounts or bonds. The Town Clerk has confirmed that it remains the case that no investment decisions will be made until the funding arrangements for current projects - in particular, development of The Barn - have been determined and the sale of Day’s Field is finalised.

In last year’s final update report, we noted that the Secretary of State’s approval had been obtained in February 2021 for a £500,000 loan from the PWLB which may be drawn down in full, or in part, to provide funding for the purchase of The Barn. Whilst the purchase has now been made, effectively by means of internal borrowing from the General Reserves, a decision has still to be made on whether or not the loan will be required in full or in part to support the purchase and future development of the site. As it currently stands, the loan offer is due to expire in February 2022.

The funding position has been further complicated by the timing of the sale of the Day’s Field site. Whilst this sale will provide significant funding for the Council, the date of receipt of these funds will not be known until the purchaser has been able to obtain the necessary planning consent for the site. The Town Clerk has confirmed that he is currently exploring the various options for consideration by the Council in due course. We will review the position at our final audit.

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, to date.

Conclusion

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