

## **Swaffham Town Council**

*Internal Audit Report: 2021-22 (Final Update)*

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*for Auditing Solutions Ltd*

## **Background and Scope**

There is a statutory requirement for all town and parish councils to make arrangements for an independent internal audit examination of their accounting records and system of internal control each year, and for the conclusions to be reported in the Annual Governance and Accountability Return (AGAR). Auditing Solutions Ltd was appointed to provide this service to Swaffham Town Council for the 2021-22 financial year.

This report sets out the results of our final audit visit in relation to 2021-22, which was undertaken on 19<sup>th</sup> May 2022. It updates the report that we issued in December 2021, following the completion of our interim audit. 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, 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 selective sampling techniques, where applicable.

Our audit programme is designed to afford appropriate assurance that the Council's financial systems remain robust and operate in a manner to ensure effective probity of transactions, and to afford a reasonable probability of identifying material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Annual Internal Audit Report' in the AGAR, which requires independent assurance over a number of internal control objectives.

## **Overall Conclusion**

On the basis of the programme of work we have undertaken for the year, we have concluded that the Council continues to maintain an adequate and effective system of internal control. The records held in support of the accounting transactions continue to be of a high standard and provide an effective audit trail, with clear cross-referencing of all relevant documentation. We have completed and signed the 'Annual Internal Audit Report' in the 2021-22 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 have identified a few areas where we consider the existing control arrangements could be further improved and these are set out in the report, together with our recommendations for action. The recommendations are drawn together in the appended Action Plan. We ask that Members consider the content of this report and respond, in due course, to the recommendations set out in the Action Plan.

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 on, for any reason whatsoever, this report, its content or conclusions.

# Detailed Report

## Accounting and Banking arrangements

Our objective is to confirm that the accounting records are 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 one of the market leaders for this tier of local government. Banking services are provided by Unity Trust Bank. During the year, there were two accounts in use, a Current Account and an 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 throughout the year;
- from a sample review of four months’ transactions (May, September and December 2021, plus March 2022), the details recorded in the Omega cash books reconciled to the bank statements. We also verified inter-account transfers in the year;
- 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 30<sup>th</sup> September 2021 and 31<sup>st</sup> March 2022, to confirm that these were accurate and that there were no long-standing uncleared cheques or deposits, or other anomalous entries;
- the overall cash balance as at 31<sup>st</sup> March 2022 has been reported correctly in the draft AGAR (Section 2, Line 8), and
- effective IT back-up arrangements remain in place – through the Council’s IT support provider, ICO Systems.

At our interim audit visit, we confirmed that the external audit for 2020-21 had been completed, with the External Auditors’ report issued on 4<sup>th</sup> 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 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 confirmed the following:

- Our review of the minutes of Council and its standing committees for the year did not identify any issues that we consider may have an adverse effect, through litigation or other causes, on the Council's future financial stability;
- Appropriate Standing Orders and Financial Regulations are in place. The Standing Orders, incorporating the latest NALC guidance, were approved by the Full Council at its meeting on 8<sup>th</sup> July 2020 and are due for review in the near future. The latest Financial Regulations were reviewed and adopted at the Full Council Finance meeting on 26<sup>th</sup> January 2022;
- A wide range of other policies and procedures in place and are kept under regular review. During 2021-22, the continuing impact of the Covid-19 pandemic and other pressures on staff time resulted in some delays in the review programme, but this is now back on track, 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 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 completed our review of the procedures in place in this area, selecting a sample of 50 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 £1,200, together with a more random selection of every 25<sup>th</sup> cashbook transaction, totalling £483,000 and equating to approximately 84% of non-pay expenditure. The higher than usual percentage coverage in our sample this year is due to the inclusion of the payment for the purchase of the Sacred Heart Barn Theatre and Swimming Pool ('The Barn').

The Council 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 checked and agreed the reasonableness of the transactions on this account for September 2021.

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. All returns for the year had been submitted by the time of our final audit visit.

During the year, the Council 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 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 Financial Risk Assessment (FRA) was considered at the Full Council Finance meeting on 26<sup>th</sup> January 2022, as part of the policy review programme. The minutes of that meeting record that it was agreed the FRA. The Town Clerk has confirmed that this related to the format of the FRA, rather than individual risks identified. We understand that a revised version of the FRA will be taken to the Full Council Finance meeting in July 2022.

In June 2021, the Council entered into a new long-term insurance agreement (for 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.

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

## **Conclusion and recommendations**

*In general, the controls in this area were found to be adequate and operating effectively. However, in view of their corporate responsibilities for health and safety matters, there is a need to ensure that Members are kept fully informed of the results of the annual play area inspections.*

*At our interim audit visit, we reviewed the annual play area inspections, noting that a number of “High Risk” issues were highlighted 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”.*

*At our interim visit, the Town Clerk confirmed that most of the urgent work identified had been repaired, although the Works Manager was still waiting for some replacement parts. The remaining priority work was due to be completed as soon as the parts were available, with the remainder of the work identified to be included in the 2022-23 budget discussions and scheduled at a later date. We were also informed that a full report on the action being taken in relation to the inspections was to go to the Assets & Open Spaces Committee on 31st January 2022. However, this did not happen.*

- R1 The results of the June 2021 play area inspections should be formally reported to the next Assets & Open Spaces Committee meeting, together with an explanation of the actions that have been taken to address the matters identified (especially those considered to present a high or medium risk to the Council), and any that remain outstanding. In future years, the results of the annual play area inspections should be reported to Members on a timely basis.*
- R2 The Council should also review its monitoring arrangements for ensuring that issues identified by the annual play area inspections and internal reviews are addressed on a timely basis. We recommend that issues identified from either source are recorded on a schedule/log, identifying the nature of the issue, the source and date identified, the associated level of risk, the action required and the timescale for completion. It should also identify the member of staff responsible for ensuring that appropriate and timely action is taken and should include evidence of manager review.*

## **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 including variance analyses being taken to the Full Council Finance and detailed reports made on key areas of activity.

The annual budget and Precept requirements for 2022-23 were considered at the Full Council Finance meeting on 26<sup>th</sup> January 2022, with the draft budget already having been subject to detailed consideration. The Precept has been set at £448,500, compared to £425,950 for 2021-22), which represents a 3% increase for an average Band D property. As in previous years, Members were provided with detailed reports to inform the decision-making process.

At the year end, the Council's overall reserves amounted to £554,132, compared to £353,766 as at 31<sup>st</sup> March 2021. The increase from the previous year is due mainly to the receipt of £179,335 in developer contributions under a Section 106 planning agreement in relation to the Swan's Nest housing development, which has been earmarked for a play area and open space.

The balance of £354,576 held as General Reserves at 31st March 2022 is relatively unchanged from the previous year-end (£345,399), with the increase due to a delay in planned expenditure on IT upgrading, which is now scheduled for completion in 2022-23. We have confirmed with the Town Clerk that, whilst it is the Council's aim is to retain a contingency balance within the General Reserves of approximately 50% of the Precept, the potential allocation of funds towards new projects during the coming year means that the contingency balance is likely to remain slightly below this target.

### ***Conclusion***

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

## **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.

During our audits, 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 16<sup>th</sup> December 2020, as part of the budget setting process, with a similar approach followed for 2022-23.
- **Banking of income:** As noted earlier in this report, we have checked and agreed four sample months' receipts transactions from cashbooks to relevant bank statements.
- **Cemetery-related income:** We examined the Cemetery-related income for the period 1<sup>st</sup> April 2021 to 30<sup>th</sup> 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 confirmed that almost all of the allotment rents due for the year commencing 1<sup>st</sup> October 2021 had been received by the time of our interim audit. At the final audit we confirmed that all income due for the year had been received.
- Market income: We reviewed the attendance sheet for one sample market (9<sup>th</sup> 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 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. During the year, the overall level of debt has remained very low, with appropriate follow-up action taken where debts remain outstanding for any length of time.

### ***Conclusion***

***There are no matters arising 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 confirmed that the correct petty cash balance has been included in the total cash and short-term investments balance in Section 2, Line 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 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.

The national Local Government Services pay agreement for 2021-22, applicable from 1st April 2021, was finally agreed by all parties at the end of February 2022. At our final audit visit, we confirmed that the payment of arrears due to all staff was made in March 2022 and that the appropriate revised pay scale rates were applied.

### ***Conclusion***

***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.

In the course of our final audit work, we reviewed the asset register as at 31st March 2022 and agreed the total asset value of £5,120,312 - reconciling the movements from the previous year end value of £4,784,912. The main change has been the acquisition of The Barn, at a purchase price of £325,000.

We have confirmed that the total value of assets has been correctly reported in the ‘total fixed assets and long-term investments’ value in Section 2, Line 9 of the AGAR.

## ***Conclusion***

***There are no matters arising 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 updated at the Finance Committee meeting in August 2020. From our minutes review, we note that this was formally readopted at the Full Council Finance meeting on 26<sup>th</sup> January 2022.

As noted earlier in this report, all of the Council's "surplus" funds are currently held in the Unity Trust Bank deposit account. From our discussions with the Town Clerk, we understand that consideration is to be given to moving some funds to longer term investments once the sale of Day's Field is completed. We also note that the Council is due to receive some significant amounts by way of s106 developer contributions in the near future, some of which will also require to be invested for the longer term. We will review the investment position at next year's interim audit.

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 could be drawn down, in full or in part, to provide funding for the purchase of The Barn. The purchase was completed in September 2021 and was initially paid for by means of internal borrowing from the General Reserves. A loan to the value of purchase price of £325,000 was subsequently drawn down from the PWLB in February 2022 and the General Reserves were reimbursed. The loan is due to be repaid by February 2024, from capital receipts.

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 repayments in the year of £9,767 are recorded correctly in the draft AGAR (Section 2, Line 5), with the outstanding capital balance at 31<sup>st</sup> March 2022 of £394,952, for these loans and the new loan for the purchase of The Barn, shown in Section 2, Line 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 2021-22" that the Council is required to complete and approve at Section 2 of the AGAR which is produced by the Omega software. 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 2021-22' on Page 3 of the AGAR, assigning positive assurances in all areas of internal control.***

| <b>Recommendation</b>                    |  | <b>Response</b> |
|--|--|-----------------|
| <b>Assessment and management of Risk</b> |  |                 |
| R1                                       | The results of the June 2021 play area inspections should be formally reported to the next Assets & Open Spaces Committee meeting, together with an explanation of the actions that have been taken to address the matters identified (especially those considered to present a high or medium risk to the Council), and any that remain outstanding. In future years, the results of the annual play area inspections should be reported to Members on a timely basis   |                 |
| R2                                       | The Council should also review its monitoring arrangements for ensuring that issues identified by the annual play area inspections and internal reviews are addressed on a timely basis. We recommend that issues identified from either source are recorded on a schedule/log, identifying the nature of the issue, the source and date identified, the associated level of risk, the action required and the timescale for completion. It should also identify the member of staff responsible for ensuring that appropriate and timely action is taken and should include evidence of manager review. |                 |