



Stowmarket Town Council

Internal Audit Report 2020-21 (Final Update)

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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 undertake this function on behalf of Stowmarket Town Council for the 2020-21 financial year.

This report sets out the results of our final audit work in relation to 2020-21, which was completed in May 2021. It updates the report issued in March 2021, following the completion of our second interim audit. Once again, due to the Covid-19 pandemic, we have undertaken our audit remotely. We wish to thank the Corporate Support Manager and her colleagues for providing the documentation required to enable us to complete the audit.

Internal Audit Approach

In carrying out our internal 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.

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 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 Council's 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 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 2020-21 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 records & 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.

At present, a NatWest Bank current account is used for the majority of the day to day banking transactions, including on-line payments, with a TSB current account being used for cash handling. At the start of the financial year, funds not required for immediate use were held with NatWest Bank (instant access saver, 35-day notice and 95-day notice accounts), Barclays Bank (instant access account) and the Nationwide Building Society (one-year fixed interest bond).

With the commencement of the Regal Theatre Redevelopment Project, the balances held in the two NatWest notice accounts were transferred to the current account to provide flexibility and liquidity for the Council in advance of the receipt of a grant and loan from the District Council. The Nationwide bond matured in July 2020 and the balance was also transferred to the NatWest current account. At our second interim audit, we confirmed that, following the receipt of the grant and loan, the investment position was reviewed, with the majority of funds transferred back to the interest-bearing accounts.

During the course of our audits, we confirmed that:

- the opening Omega trial balance details for 2020-21 agreed to the closing balances in the 2019-20 AGAR;
- the ledger remained “in balance” throughout the year;
- the cost centre and nominal ledger income and expenditure coding structure remains appropriate for the Council’s budget reporting and control requirements;
- the detail of the accounting entries in the Omega cash books agreed to the supporting bank statements for three sample months (September 2020, January 2021 and March 2021);
- the bank statement balances as at 30th September 2020, 31st January 2021 and 31st March 2021 reconciled to the Omega cash books and there were no long-standing uncleared cheques or other anomalous entries;
- appropriate arrangements are in place for raising, processing and reviewing journal entries made in the Omega accounts;
- the overall cash balance has been reported correctly in the draft AGAR (Section 2, Line 8), and
- remote backups of the Council’s IT systems continue to be made on a daily basis by the IT support providers (CFT).

We also confirmed that the external audit certificate on the 2019-20 AGAR was issued on 23rd October 2020, with no matters arising.

Conclusion

There are no matters arising 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 Financial Regulations and that no actions of a potentially unlawful nature have been or are being considered for implementation.

During the course of our audits, we noted the following:

- Our review of the minutes of the meetings of the Council and its standing committees 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 Standing Orders and Financial Regulations continue to be kept under regular review, with the latest versions of both documents re-adopted at the Council meeting on 16th December 2020 without amendment, following consideration by the Audit & Governance (A&G) Committee;
- Emergency governance and decision-making arrangements to apply during the Covid-19 pandemic were approved at the Council meeting on 10th June 2020;
- The Council has continued to exercise the General Power of Competence, which was re-adopted at the Council meeting on 15th May 2019.
- The A&G Committee continues to monitor the Council's governance arrangements at each meeting. A report from the Town Clerk providing an update on audit and governance arrangements was considered by the A&G Committee on 7th October 2020, with a number of recommendations made to the Council for revision to the arrangements, and
- Progress on the Regal Theatre Redevelopment Project has been reported to the Council on a regular basis and a separate risk register remains in place for the Project, which has been kept under regular review.

Conclusion

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

Expenditure and VAT

Our objective in this area is to ensure that:

- Council resources are released in accordance with its 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;
- Purchase orders are raised on every occasion when one would be expected;
- 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 VAT control account for periodic recovery.

To test compliance with the above criteria, we reviewed a sample of 60 non-pay related payments made during 2020-21. Our sample included all payments in excess of £3,500, together with a more random selection of every 40th payment as recorded in the accounts. The total value of the sample tested was approximately £3.4m, including VAT, which equates to 90% of non-pay expenditure in the financial year. The sample included all of the major payments made in respect of the Regal Theatre Redevelopment Project. There were no matters arising.

The Council makes use of a NatWest corporate credit card. This has a monthly credit limit of £12,500, with settlement by direct debit on a monthly basis. Individual cards are issued to named members of staff, each of whom has their own credit limit. During the course of our second interim audit, we reviewed the payments made for a sample month (December 2020), and confirmed that all payments made were of an appropriate nature and were supported by receipts.

We have confirmed that VAT Returns continue to be submitted quarterly in electronic format, as required by extant legislation, with the detail being reconciled to the Omega financial ledger.

Conclusion

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

Assessment and Management of Risk

Our aim here is to confirm that the Council has appropriate arrangements in place to identify all areas of risk of both a financial and health & safety nature, whilst also ensuring the risks are monitored and managed in order to minimise them. In the course of our audits, we confirmed that:

- The detailed Risk Register was considered by the A&G Committee on 7th October 2020 and adoption by the Council at its meeting on 28th October 2020. (As noted above, a separate risk register developed by external consultants is also in place for the Regal Theatre Redevelopment Project);
- The Council's general insurance continues to be provided by RSA through WPS Brokers under a three-year agreement running until 31st January 2022, with vehicle insurance provided by ERS over the same period. The insurance cover includes Public

Liability of £15m, Employers Liability of £10m and Fidelity Guarantee of £2m. We consider these levels of cover to be adequate to meet the needs of the Council;

- Separate Cyber Risk insurance is provided by Travellers Insurance Company;
- Annual play area inspections continue to be undertaken by Play Safety Ltd and the results are reported to the Operations & Services Committee, and
- A wide range of health & safety, outdoor working, specific event and other related risk assessments remain in place, details of which are formally reviewed and updated on a regular basis.

Conclusion

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

Budget Setting, Budgetary Control and Reserves

Our objective here is to confirm that the Council has robust processes in place for identifying and approving its future budgetary requirements and the level of Precept to be drawn down from Mid Suffolk District Council, and also that there are effective budget monitoring arrangements. We also consider whether 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 our review of the minutes and discussions with officers, we confirmed that periodic budget monitoring reports and accompanying variance analyses continue to be considered by the Council. This remains in line with the sound approach adopted in previous years, with quarterly reports made to the Council, which include a commentary on variances.

We noted that during the year consideration was given to the impact of Covid-19 on projected income from commercial activities (Regal Theatre, Community Centre and Markets), and that both the 2020-21 budget and the Council's Medium-Term Financial Plan were updated to reflect revised financial forecasts.

At our second interim visit, we reviewed the approach followed by the Council in determining its budget and Precept requirements for 2021-22. The Council formally approved the budget at its meeting on 2nd February 2021, with the Precept being set at £1,108,578.76 (compared to £1,108,710.75 in 2020-21). With a slight reduction in the tax base, due to the economic impact of Covid-19, this equated to an increase of 1.2% for Band D Properties.

As in previous years, the budget book developed by the Town Clerk (as Responsible Financial Officer), in consultation with the Council's Financial Strategy Group, provided Members with very clear and detailed information to inform the decision-making process. This included a detailed assessment of the likely impact of various cost pressures, both external and internal, facing the Council, in particular the final costs of the Regal Theatre Redevelopment Project and the ongoing financial impact of Covid-19. During the budget process, consideration was given to the level of general and designated (earmarked) reserves which the Council needs to maintain.

As at 31st March 2021, the Council's overall reserves amounted to £1.386m, an increase of £79k on the previous year-end. Of the total reserves, £350k has been set aside as a General Reserve. This equates to approximately 30% of the annual Precept which, in our view, is reasonable for the size and complexity of the Council.

The remaining reserves, totalling £1.035m (£980k at the previous year-end), are earmarked for a range of projects, in particular the Regal Theatre Redevelopment Project. The earmarked reserves remain high as the Regal Theatre Redevelopment Project was still ongoing at the year end, with £500k set aside in the Regal Frontage Reserve. During the course of the 2020-21, the Council received £38k from the Community Infrastructure Levy (CIL) and, as previously, this has been used to offset the initial costs relating to the Regal Theatre Redevelopment Project that had been met from the General Reserve.

Conclusion

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

Review of Income

The Council receives income from a wide variety of sources including market trader rentals, hire fees for use of the Regal Theatre, cinema ticket sales, lettings of Community Centre facilities, fees from cemetery and related income, and allotment rentals. However, a number of these income streams have been impacted upon in 2020-21, either as a result of the closure of the Regal Theatre for redevelopment, or the impact of Covid-19.

Our objective is to confirm that the Council has effective procedures in place to ensure that all income due is identified; that it is charged for at the approved Council rates; that income is recovered appropriately and within a reasonable time span and that the Council is adhering to relevant legislation and charging VAT where appropriate for services provided.

In the course of our audits, we confirmed the following:

- **Fees and charges:** The fees and charges for 2020-21 were agreed at the Council meeting held on 18th December 2019. We have confirmed that no increases are to be made for 2021-22;
- **Cemetery and related income:** We checked documentation in respect of interments in the cemetery, purchases of grave plots and memorials for the period 1st April to 8th October 2020 through to the receipt and banking of monies due. There were no issues arising;
- **Allotments:** We reviewed the allotments register and the details of rental payments received, confirming that all allotment holders had been billed at the appropriate rate (for full or half plot) for the latest year and that there were no outstanding rents;
- **Community Centre:** We reviewed the Community Centre booking diary for a sample fortnight (28th September to 11th October 2020) and confirmed that all users had been invoiced at the appropriate rate and that there were no outstanding hire fees;
- **Market traders:** We reviewed the market records for two dates (Saturday 5th and Thursday 10th September 2020, confirming that all traders (casual, monthly and quarterly payers) had paid the correct amounts on a timely basis;

- Receipt of income: As noted earlier in this report we have checked and agreed two sample months' cashbook receipt transactions to the relevant bank statements, and
- Outstanding debts: We reviewed the level of outstanding debtors during the year and at 31st March 2021. We were pleased to note that, as a result of the continuing action by the Corporate Team, the number of unpaid debts of three months or over has remained very low, with monthly repayment plans set up in a few instances to ensure payment.

Conclusion

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

Review of Salaries and Wages

In examining the Council's payroll function, our objective is to confirm that extant employment legislation is being appropriately observed, 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, and that the requirements of the local government pension scheme are met.

The Council continues to manage the payroll service "in-house" using bespoke Sage software. Payments to staff are made electronically via the NatWest bank BACS facility.

To meet our audit objective, we have:

- Confirmed that the Council reviews and approves pay scales for staff annually;
- Confirmed that an appropriate signed contract of employment is held for one new member of staff recruited during 2020-21;
- Agreed the gross amounts paid to all individuals in September 2020, by reference to the Council's approved pay points on the NJC annual schedule of rates payable;
- Checked to ensure that tax and NI deductions have been made applying the appropriate tax code and NI Table, also ensuring that appropriate amounts are paid over to HMRC regularly each month;
- Confirmed that the appropriate employee and employer contributions to the pension scheme have been determined and paid over to the County's Pension Fund Administrators, and
- Verified the net payments due to staff from their copy payslips to the bank transfers for the same sample month.
- Confirmed, for a sample month (January 2021), the accuracy of the claim for furlough support.

Conclusion

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

Petty Cash Account

We are required, as part of the internal audit review and the reporting requirements in the AGAR, to assess the effectiveness of controls in place over any petty cash account in use, ensuring that all payments are appropriately supported, that transactions are made in respect of appropriate items in connection with the Council's functions and that any recoverable VAT is identified appropriately.

Normally, the Council operates an office petty cash account at Milton House, which is used for administrative purposes, with additional till floats held on the Milton House reception and at the Regal Theatre. However, neither of the till floats were used during 2020-21, due to the Covid-19 restrictions and the Regal Theatre closure, respectively, whilst the office petty cash was used very infrequently.

As a consequence, we did not undertake any detailed audit work in relation to petty cash during 2020-21. However, at our final audit, we checked to confirm that the office petty cash balance as at 31st March 2021 had been subject to internal review. We also confirmed that this balance, together with the carry-forward balances from the previous year-end for both the Milton House reception and Regal Theatre tills had been included correctly within the bank reconciliation as at 31st March 2021 and in the total cash and bank figure reported at Section 2, Line 8 of the AGAR.

Conclusion

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

Asset Register

Councils are required to maintain an Asset & Investment Register and to report the overall value of fixed assets and long-term investments held in the AGAR (Section 2, Box 9). Whilst the "Practitioners' Guide" does not specify a particular basis of accounting for fixed assets, it stresses that the approach taken from year to year should be consistent and that the value of individual assets held should not normally change from one year to another - with the only changes being the inclusion of new assets purchased or removal of assets disposed of. In most cases, assets are recorded at their purchase cost, or at a suitable proxy where that value is not known. However, assets gifted at nil cost or other assets held which have no intrinsic value (often referred to as community assets) are normally included at a nominal £1.

The Council uses the 'Asset4000' asset register, designed by Real Asset Management, to record details of all assets held.

At our final audit visit, we reviewed the adjustments made by the Corporate Support Manager to the asset register as at 31st March 2021 and agreed the total asset value of £2,704,244, reconciling the movements from the previous year end. We also confirmed that the total asset value has been reported correctly 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 objectives are 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. We also confirm, where appropriate, that any loan repayments due to, or payable by, the Council are transacted in accordance with appropriate loan agreements.

At present, the Council does not hold any long-term investments (i.e., investments of over 1 year). As noted earlier in the report, funds are held in a range of instant access current or deposit accounts, plus a 35-day notice account and a 95-day notice account with NatWest.

In response to the ‘Statutory Guidance on Local Government Investments, the Council has an Investment Policy in place, which is reviewed annually. The latest review was undertaken by the A&G Committee at its meeting on 7th October 2020 and subsequently approved by the Council on 16th December 2020.

During 2019-20, the Council obtained Government approval to borrow £1m from Mid Suffolk District Council towards the costs of the Regal Theatre Redevelopment Project. The loan was drawn down in full during 2020-21 and is repayable over 30 years, with the first annual repayment instalment due to be made in June 2021. In addition, the District Council has provided grant funding of £1.65m for the Project. This was drawn down in three instalments between July and September 2020.

We have confirmed that the outstanding balance of the loan from Mid Suffolk District Council has been reported correctly in Section 2, Line 10 of the AGAR.

Conclusion

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

Statement of Accounts/AGAR

We have examined the detailed accounts produced by the RBS Omega system and also the draft of the statutory “Accounting Statements 2020-21” that the Council is required to complete and approve (Section 2 of the AGAR). We have agreed the detail to the supporting accounting records and other related documentation.

We have confirmed that a minor change in the reporting basis for staff costs has been taken on board for 2020-21 and, as required, the comparative year figures in Section 2, lines 4 and 6 have been restated to reflect this change.

Conclusions

There are no matters arising 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.