
Stowmarket Town Council

Internal Audit 2023-24 (First Interim Report)

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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 2023-24 financial year.

This report sets out the results of our first interim audit for the year, which was undertaken during October 2023. We wish to thank the Head of Corporate Services and her colleagues for their assistance in enabling us to complete our audit work.

Internal Audit Approach

In carrying out the audit, 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 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 are of a high standard and provide an effective audit trail, with clear cross-referencing of all relevant documentation.

In the sections below, we explain the objectives of each area of our audit, summarising the work undertaken and our findings. We identified two areas where we consider the internal control arrangements could be further improved. These are detailed in the report, together with our recommendations for action. We ask that Members consider the content of this report and respond to our recommendations in due course.

Detailed Report

Accounting records & Banking arrangements

Our objective is to confirm that the accounting records are accurate and up to date, with no anomalous entries in the 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 local councils.

A NatWest Bank current account is used for the majority of the day to day banking activities, including on-line payments, with a TSB current account being used for cash handling. Funds not required for immediate use are held with NatWest Bank (instant access saver, 35-day notice account and 95-day notice account).

We note that the banking arrangements were considered in detail by the Audit & Governance (A&G) Committee on 28th June 2023, together with an updated investment strategy. At that meeting, the Committee resolved to make a number of short-term investments with appropriate financial institutions, in order to diversify the Council’s holding of funds. These investments had not been made at the time of our first interim audit.

During the course of our audit work, we confirmed the following:

- The opening trial balance on Omega for 2023-24 agreed to the closing balances in the 2022-23 AGAR;
- The financial ledgers remained “in balance” as at the end of month 6;
- The accounting code structure remains appropriate to meet the Council’s budget reporting and control requirements;
- The detail of the accounting entries in the Omega cash books for two sample months (May and September 2023) agreed to the supporting bank statements;
- From review of the detail of the bank reconciliations as at 30th September 2023, there were no long-standing un-cleared cheques or anomalous entries;
- Appropriate arrangements remain in place for raising, processing and reviewing journal entries made in the Omega accounts, and
- Remote back-ups of the Council’s IT systems continue to be made by the Council’s IT providers on a daily basis.

We also confirmed that the External Auditors completed their work on the Council’s 2022-23 AGAR and issued their certificate on 16th September 2023, with no matters arising.

Conclusion and recommendation

The overall controls in this area were found to be adequate and to be operating effectively. The one matter we would draw to Members’ attention concerns the periodic review of the bank reconciliations.

The Council’s Financial Regulations (Financial Regulations 2.2) state that “on a regular basis, and at least quarterly, all reconciled bank statements shall be taken to Council and at the end of the financial year, the Chair of Audit & Governance shall verify the bank

reconciliations for all bank accounts and shall sign the reconciliations and the original bank statements as evidence of verification.” However, whilst the Council receives a range of financial information during the year, at present, the bank reconciliations are only reported at the year-end.

R1 In accordance with the Council’s Financial Regulations, all reconciled bank statements should be taken to Council at least quarterly, in addition to the year-end.

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 interim audit, we confirmed the following:

- Our review of the minutes of the meetings of the Council and its standing committees held during the year to date has not identified any issues that we consider might 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. On 28th June 2023, the A&G Committee recommended revised Standing Orders for approval by the Council, with no change to the Financial Regulations. These recommendations were approved and adopted by the Council on 29th July 2023;
- At the Annual Council Meeting on 17th May 2023, the Council adopted the General Power of Competence, which will remain in place until the 2027 elections;
- During the summer of 2023, the Council provided the proper opportunity for the exercise of public rights in relation to the 2022-23 accounts, in accordance with the requirements of the Accounts & Audit Regulations, and
- The A&G Committee continues to monitor the Council’s governance arrangements at each meeting.

Conclusion

There are no matters arising to date 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;

- Any discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- An official ordering process is in place and operated for appropriate purchases, acknowledging that a range of goods and services are provided under contractual requirements (e.g., grass cutting) or legislation (e.g., non-domestic rates);
- 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.

We have commenced our review of the procedures in place in this area, selecting a sample of payments for examination to check that they were made in accordance with the approved working practices and complied with the above criteria. Our testing sample for the year to date covered all individual payments in excess of £3,500, together with a more random sample of every 40th cashbook expenditure transaction irrespective of value. The value of transactions examined totalled £362,365, equating to approximately 56% of total non-pay transactions to 30th September 2023.

The Council makes use of Corporate NatWest credit cards issued to certain named staff, which are settled in full every month by direct debit. During our audit, we reviewed the controls in place regarding the use of the credit cards during September 2023. In that period, the cards were used by thirteen members of staff, each of whom has an individual card and an assigned credit limit. We confirmed that all of the payments made appeared to be appropriate to the Council's functions.

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 and recommendation

Overall, the controls over expenditure were found to be adequate and to be operating effectively. The one matter we would draw to Members' attention concerns the adequacy of documentation provided in support of credit card payments.

In our sample review, we identified a number of instances where expenditure that had been subject to VAT was not supported by a VAT receipt. This had resulted in VAT not being identified and recorded.

R2 Adequate supporting documentation must be provided for all payments made using the Corporate NatWest Credit Card. This is particularly important where VAT is incurred and is refundable to the Council.

Assessment and Management of Risk

Our objective is to confirm that the Council has put in place appropriate arrangements to identify all potentially significant 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. In the course of our audit work, we have confirmed that:

- The overall Risk Management Strategy was reviewed by the A&G Committee on 28th June 2023 and subsequently approved by the Full Council at its meeting on 19th July 2023;
- The detailed Risk Register was reviewed and updated by the A&G Committee on 4th October 2023 and approved by the Council later that month;
- The Council's main insurance cover is provided by Hiscox, under a new 3-year policy, which started in 1st February 2023. The levels of Public Liability and Employers Liability are set at £10m, with Fidelity Guarantee of £1m. This level of cover is in line with other similar sized local authorities and would appear to be adequate to meet the current needs of the Council;
- A separate insurance policy remains in place for vehicles, although the Council has discontinued its cyber risk policy, having determined that the key risks are already covered under the main policy;
- Annual play area inspections continue to be undertaken by PlaySafety Ltd. The latest ones were completed on 18th October 2023. We understand that the results of the inspections and the remedial action being taken will be reported to the Operations & Services Committee in February 2024, and
- As in previous years, a wide range of health & safety, outdoor working, specific event and other related risk assessments are in place, details of which are formally reviewed and updated on a regular basis.

Conclusion

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

Budget Setting, Budgetary Control and Reserves

Our objective is to confirm that the Council has robust processes for identifying and approving future budgetary requirements and the level of Precept to be drawn down from Mid Suffolk District Council, and that effective budget monitoring and reporting arrangements are in place. 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, in line with the sound approach adopted in previous years, budget monitoring reports continue to be considered by the Council on a quarterly basis and include a commentary on variances. We understand that an income and expenditure report for the second quarter will be taken to the Council meeting on 15th November 2023, together with a detailed mid-year financial review report.

At our second interim audit, we will review the approach followed by the Council in determining its budget and Precept requirements for 2024-25.

Conclusion

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

Review of Income

The Council receives income from a wide variety of sources including market trader rents, hire fees for use of the Regal Theatre, cinema ticket sales, lettings of Community Centre facilities, fees from burial and associated activities, and allotment rents.

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.

During our first interim audit, we confirmed the following:

- Fees and charges: The fees for the current year were agreed as part of the 2023-24 budget setting process in February 2023;
- Cemetery and related income: We checked documentation in respect of interments in the cemetery, together with purchases of grave plots and memorials for the period 1st June to 31st August 2023, through to the receipt and banking of monies due. There were no matters arising;
- Receipt of income: As noted earlier in this report, we have checked and agreed a sample of two months' cashbook receipt transactions to all relevant bank statements; and
- Outstanding debts: We reviewed the level of outstanding debtors as at 30th September 2023 and were pleased to confirm that, as a result of the continuing action by the Corporate Support Team, the number and value of unpaid debts of 60 days or more has remained very low.

The other significant income areas will be considered at subsequent audits.

Conclusion

There are no matters arising to date 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 adhered to, that the requirements of HM Revenue and Customs (HMRC) 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.

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 undertaken the following:

- Confirmed, by a sample review, that appropriate signed contracts of employment are held for new members of staff recruited during 2023-24;
- Agreed the gross amounts paid to all individuals in September 2023, 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.

The national Local Government Services pay agreement for 2023-24, applicable from 1st April 2023, had not been agreed at the time of our audit. At a subsequent audit, we will confirm that the payment of arrears due to staff has been made correctly.

Conclusion

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

Petty Cash Account

As part of the internal audit review and the reporting requirements in the AGAR, we are required to assess the effectiveness of controls over any petty cash accounts in use, ensuring that payments are appropriately supported, that transactions are only made for items connected with the Council's functions and that any recoverable VAT is correctly identified.

We have confirmed that the Council's admin petty cash float is no longer in use. Till floats are required at the Regal Theatre and during our second interim visit we will confirm that these are being maintained correctly.

Conclusion

There are no matters arising to date 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, Line 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 with 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.

Conclusion

We have not undertaken any audit work in relation to the Asset Register at this stage.

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.

We have confirmed that:

- At present, the Council does not hold any long-term investments (i.e., investments of over 1 year). As noted earlier in the report, during 2023-24, all surplus funds are currently held with NatWest Bank (instant access saver, 35-day notice and 95-day notice accounts).
- In response to the ‘Statutory Guidance on Local Government Investments, the Council has an Investment Strategy in place, which is reviewed annually. The latest review was undertaken by the A&G Committee at its meeting on 28th June 2023 and subsequently approved by the Full Council.
- During 2020-21, the Council borrowed £1m from Mid Suffolk District Council, over 30 years, towards the costs of the Regal Theatre Redevelopment Project. This loan was drawn down in four tranches, between September and December 2020. We have confirmed that the first of the two half-yearly repayments of principal and interest due in 2023-24 has been made in accordance with the loan agreement.

Conclusion

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

Action Plan

Rec. No.	Recommendation	Response
Accounting and banking arrangements		
R1	In accordance with the Council's Financial Regulations, all reconciled bank statements should be taken to Council at least quarterly, in addition to the year-end.	A Quarterly Bank reconciliation will accompany the Income and Expenditure report and Payment schedules for approval by Council
Expenditure and VAT		
R2	Adequate supporting documentation must be provided for all payments made using the Corporate NatWest Credit Card. This is particularly important where VAT is incurred and is refundable to the Council.	All holders of corporate Credit Cards have received training and signed an updated policy. It includes payments must include a VAT receipt if VAT is charged and the actions that will follow for non compliance.