



Stowmarket Town Council

Internal Audit 2023-24 (Second Interim Report)

Stephen Christopher

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 second interim audit for the year, which was undertaken on 21st and 22nd February 2024. It updates the report issued following our first interim audit, in November 2023. Once again, 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 in the year to date and our findings. During the course of this audit visit, we reviewed the action taken to address the two matters raised in our first interim report and we were pleased to confirm that these had been addressed in an appropriate manner. We identified one further area where we consider the internal control arrangements could be further improved, which is detailed in this report, together with our recommendation for action. We ask that Members consider the content of this report and respond to our recommendation in due course.

.

This report has been prepared for the sole use of Stowmarket Town Council. To the fullest extent permitted by law, no responsibility or liability is accepted by Auditing Solutions Ltd to any third party who purports to use or rely, for any reason whatsoever, on this report, its contents or conclusions.

Detailed Report

Accounting records & 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).

In our first interim audit report, we noted that the Council’s banking arrangements had been considered in detail by the Audit & Governance (A&G) Committee in June 2023, when it was resolved to make a number of additional short-term investments with appropriate financial institutions, in order to diversify the Council’s holding of funds. At the time of our second audit visit, this work was just being completed and three new accounts with the Nationwide Building Society were due to be opened by the end of February 2024.

During the course of our audit work to date, we have 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 10;
- 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 three sample months (May, September and December 2023) agreed to the supporting bank statements;
- From review of the detail of the bank reconciliations as at 30th September and 30th December 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;
- 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, and
- Remote back-ups of the Council’s IT systems continue to be made by the Council’s IT providers on a daily basis.

In our first interim report, we highlighted the need to ensure that all reconciled bank statements are taken to Council at least quarterly, in addition to the year-end, in accordance with Financial Regulation 2.2. From our review of the minutes, we were pleased to note that this is now being done, with the reconciliations for the quarter ending 31st December 2023 approved at the Council meeting on 7th February 2024.

Conclusion

There are no matters arising from our second interim audit 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 interim audits, 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 continued with 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 £633,392, equating to approximately 42% of total non-pay transactions to the end of January 2024.

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 first interim audit, we reviewed the controls in place regarding the use of the credit cards during September 2023. Whilst we were able to confirm that all of the payments made appeared appropriate to the Council's functions, we identified a number of instances where expenditure items that had been subject to VAT were not supported by a VAT receipt. This had resulted in VAT not being identified and recorded/reclaimed. We followed up on this matter at our second audit visit and, from a review of the payments made in December 2023, were pleased to confirm that VAT receipts are now being obtained, where required.

We have also 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.

As part of our testing of expenditure, we reviewed the approach followed in relation to the formal tender for the refurbishment of the Community Centre toilet block and lobby area. We confirmed that a sound approach was taken to the management of the tender process, with approved capital authorisation for the project being given by the Council at its meeting on 15th May 2023. In accordance with the national regulatory requirements, the tender opportunity was published on the Government's Contracts Finder website.

Conclusion

There are no matters arising from our second interim audit 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 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 3-year policy, which runs until 31st January 2026. The levels of Public Liability and Employers Liability in the policy 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 RoSPA Play Safety. The latest ones were completed on 18th October 2023, 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

In general, the controls in this area were found to be adequate and to be operating effectively. However, there is one matter we would draw to Members' attention.

At the time of our first interim audit, we had understood that the results of the annual playground inspections by RoSPA Play Safety, together with the remedial action to be taken, were due to be reported to the Operations & Services Committee in February 2024. However, in following up on this matter at our second interim audit, we confirmed that, due to an oversight, this was not done.

R1 In view of the Council's corporate responsibility to ensure that its playgrounds are maintained in accordance with appropriate national health and safety standards, the results of the annual inspections undertaken by RoSPA Play Safety should be formally reported to Members on a timely basis, together with an explanation of actions being taken to address the matters raised.

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, in-year budget monitoring reports continue to be considered by the Council on a quarterly basis and include a commentary on

variances. The third quarter report for 2023-24 was presented to the Council meeting on 7th February 2024.

At our second interim audit, we confirmed that the budget and the Precept requirement for 2024-25 were formally determined by the Council at the meeting on 7th February 2024. As in previous years, a Budget Book was produced by the Town Clerk, in consultation with the Financial Strategy Group, setting out the revenue requirements and capital programme for 2024/25, and the reserve levels required to deliver the Medium-Term Financial Plan. This provided Members with very clear and detailed information to inform the decision-making process. The Precept required for 2024/25 was set at £1,380,558.66, which equates to an increase of 4.9% (or £0.177 per week per Band D property) on the previous year.

We will review the revenue outturn for 2023-24 and the year-end reserves position at our final audit visit.

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 interim audits, 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 and a similar approach has recently been followed for 2024-25;
- **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;
- **Community Centre:** We reviewed the Community Centre booking diary for a sample week (w/c 6th November 2023) and confirmed that users had been invoiced at the appropriate rate and that there were no outstanding hire fees;
- **Market Traders:** We reviewed the market records for a sample of two market dates (Thursday 2nd and Saturday 4th November 2023), confirming that all traders had been invoiced for the correct amounts and payments had been received on a timely basis. There were no matters arising.
- **Regal Theatre:** For a sample month (January 2024), we confirmed that the payments made by cash or card (from the purchase of tickets, gift vouchers, “Royalty” cards and café sales) and recorded on the Theatre’s box office system are being

independently reconciled to the relevant bank statements by the Corporate Support Team. There were no matters arising;

- Receipt of income: As noted earlier in this report, we have checked and agreed a sample of three months' cashbook receipt transactions to all relevant bank statements; and
- Outstanding debts: At our two interim audits, we reviewed the level of outstanding debtors as at 30th September 2023 and 31st January 2024 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.

Conclusion

The controls in place in this area were found to be adequate and to be operating effectively. The only area where we identified scope for further development of the control arrangements is in relation to the retention of user agreements and other related documentation for users of the Community Centre. At present, these are held as paper documents in the Community Centre office, where there are restrictions on the amount of available space.

R2 *In line with practices followed elsewhere within the Council for the retention of documentation, consideration should be given to holding signed user agreements and other related documentation relating to Community Centre users as scanned documents.*

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;
- Verified the net payments due to staff from their copy payslips to the bank transfers for the same sample month, and

- Confirmed that payment of the backdated national pay award (applicable from 1st April 2023) was correctly calculated and was paid with the November 2023 payroll.

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 these are independently reviewed by the Corporate Support Team as part of the year end procedures.

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 will review the adjustments made to the asset register during 2023-24 at our final audit visit and agree the total asset value reported in the AGAR.

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.
- In 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 two half-yearly repayments of principal and interest due in 2023-24 has been made in accordance with the loan agreement.

Conclusion

At the final audit, we will confirm that these repayments and the overall balance outstanding at the year-end are reported correctly in the 2023-24 AGAR.

Rec. No.	Recommendation	Response
Assessment and management of Risk		
R1	In view of the Council's corporate responsibility to ensure that its playgrounds are maintained in accordance with appropriate national health and safety standards, the results of the annual inspections undertaken by RoSPA Play Safety should be formally reported to Members on a timely basis, together with an explanation of actions being taken to address the matters raised.	Report submitted to council 13th March 2024
Review of Income		
R2	In line with practices followed elsewhere within the Council for the retention of documentation, consideration should be given to holding signed user agreements and other related documentation relating to Community Centre users as scanned documents.	The venue manager will implement a system to scan hires documentation to the P:Drive