

Stowmarket Town Council

Internal Audit 2021-22 (2nd 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 2021-22 financial year.

This report sets out the results of our second interim audit in relation to 2021-22, which was undertaken on 9th and 10th February 2022. We were pleased that, following relaxation of Covid-19 restrictions, we were able to visit the Council on this occasion. We wish to thank the Corporate Support Manager and her colleagues for their assistance in enabling us to complete our audit work. We also wish to thank the Events and Theatre Manager for explaining the financial and operational controls currently in place at the Regal Theatre.

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 '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 continue to be of a high standard and provide an effective audit trail, with clear cross-referencing of all relevant documentation.

In the sections below, we have explained the objectives of each area of our audit, summarising the work undertaken and our findings. We are pleased to report that, once again, there are no matters arising that require a formal 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 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 arrangements, including on-line payments, with a TSB current account being used for cash handling. At the time of our audit visit, funds not required for immediate use were held with NatWest Bank (instant access saver, 35-day notice and 95-day notice accounts).

In our first interim report we noted that, with the completion of the Regal Theatre Re-development Project, consideration was due to be given to the future investment strategy. From our discussions with the Town Clerk and Corporate Support Manager, we understand that, at this point, there is still a need for greater clarity regarding future cash flows and, consequently, no changes have yet been made.

During the course of our interim audits, we have confirmed that:

- The opening trial balance on Omega for 2021-22 agreed to the closing balances in the 2020-21 AGAR;
- The ledger remained “in balance” as at 30th September 2021 and 31st December 2021 (the latest completed months’ accounts on Omega at the time of each audit);
- The cost centre and nominal ledger income and expenditure coding structure remains appropriate for purpose;
- The detail of the accounting entries in the Omega cash books for three sample months (May, September and December 2021) agreed to the supporting bank statements;
- From review of detail of the bank reconciliations as at 30th September 2021 and 31st December 2021, 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;
- Remote back-ups of the Council’s IT systems continue to be made by the Council’s IT providers on a daily basis and
- The External Auditors completed their work on the Council’s 2020-21 AGAR and issued their certificate on 13th September 2021, 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 interim audit, we confirmed the following:

- Our review of the minutes of the meetings of the Council and its standing committees for the year to date 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 considered by the Audit & Governance (A&G) Committee on 22nd September 2021 and adopted by the Council on 26th October 2021;
- Emergency governance and decision-making arrangements to apply during the Covid-19 pandemic were approved at the Council meeting in June 2020 and continued to be applied, when necessary, during 2021-22;
- 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, and
- During 2021-22, the Council continued to monitor the progress of the Regal Theatre Redevelopment Project, through to its successful completion.

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;
- 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 (to the end of December 2021) 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 reviewed totalled £953,688, equating to 70% by value of all non-pay transactions in the year to date. This included all major payments made in respect of the Regal Theatre Redevelopment Project.

With limited exceptions, the Council is required to follow formal tendering procedures for proposed contracts over £25,000. During our interim audits, we reviewed the approach followed for the award of a three-year contract for Christmas Lights installation (2021-23) and the contract for re-surfacing of the Community Centre Car Park. On the basis of the information provided to us, we were pleased to confirm that the tendering approach complied fully with the Council's Financial Regulations and Standing Orders.

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 second interim audit, we reviewed the controls in place regarding the use of the credit cards during November 2021. In that period, the credit cards were used by twelve members of staff, each of whom has an individual card and assigned credit limit. We confirmed that supporting receipts were provided in all but a very few instances and that all 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

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 areas of significant risk, of both a financial and health and safety nature, and also 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 interim audit, we confirmed that:

- The overall Risk Management Strategy and detailed Risk Register were considered by the A&G Committee on 22nd September 2021 and adopted at the Full Council meeting on 26th October 2021. (As noted above, a separate risk register developed by external consultants continued in place throughout the course of the Regal Theatre Redevelopment Project);
- The Council's insurance cover with RSA expired at the end of January 2022. From our discussions with the Corporate Services Manager, we understand that RSA have

now withdrawn from the local government market and that a number of other insurers who were approached were not prepared to insure the Regal Theatre. We confirmed that a one-year contract has been entered into with Hiscox, from 1st February 2022. The levels of Public Liability and Employers Liability have been set at £10m, with Fidelity Guarantee of £1m. Whilst two of these limits are less than had been offered by RSA, the 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;

- Separate insurance policies remain in place for vehicles and cyber risk;
- Annual play area inspections continue to be undertaken by PlaySafety Ltd. The detailed reports on the latest inspections were received shortly after our first interim audit. We have confirmed that appropriate steps are being taken to address the matters raised, with a spreadsheet of actions required maintained and monitored by the Deputy Town Clerk; 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 is to confirm that the Council has robust processes for identifying and approving its 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. The most recent report (for Quarter 3), was considered by the Council at its meeting on 1st February 2022. The report indicated that, with the completion of the Regal Re-development Project, the total reserves at 31st March 2022 will be approximately £215,000 lower than at the previous year-end, which is in with the forecast in the Medium-Term Financial Plan.

At our second interim visit, we reviewed the Council's arrangements for determining its budget and Precept requirements for 2022-23. The budget was formally approved at the Council meeting on 1st February 2021, following detailed consideration by the Financial Strategy Group. The Precept was set at £1,217,536.97 (compared to £1,108,578.76 in 2021-22), which equates to an increase of 6.99% for a Band D Property.

As in previous years, the budget book developed by the Town Clerk (as Responsible Financial Officer), in consultation with the Financial Strategy Group, provided Members with very clear and detailed information to inform the decision-making process. This included an assessment of the likely impact of various cost pressures, both external and internal, facing

the Council, such as the risk of the loss of the financial support received through the Government's Cultural Recovery Fund, which had helped to offset the impact of Covid-19 on the Regal Theatre following its reopening. During the budget process, consideration was also given to the level of general and designated (earmarked) reserves which the Council needs to maintain to achieve the Medium-Term Financial Plan.

In our first interim report, we responded to a request by the A&G Committee to comment on the Council's policy regarding the level of general reserves it should hold. We note that this matter was discussed further by the Committee at its meeting on 30th November 2021 and that the reserves policy is due to be reviewed in the next few months.

Conclusion

There are no matters arising that require a formal comment or recommendation. We will consider the revenue out-turn for 2021-22 and the year-end reserves position at our final audit visit.

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 burial and associated activities, and allotment rentals. However, a number of these income streams were reduced in the first half of 2021-22, 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.

During our interim audits, we have confirmed the following:

- **Fees and charges:** During the 2021-22 budget setting it was agreed that the fees and charges would stay the same as 2020-21;
- **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 July 2021, through to the receipt and banking of monies due. There were no matters arising;
- **Market trader rents:** We reviewed the market records for two dates (Thursday 7th and Saturday 9th October 2021, confirming that all traders (casual, monthly and quarterly payers) had paid the correct amounts on a timely basis. There were only a few minor issues arising;
- **Regal Theatre:** During our second interim audit, we visited the Theatre and reviewed the controls in place over cinema ticket sales, café sales and the hire of the theatre. Both the cinema and café sales are processed through the Oscar Box Office software, developed by Savoy Systems Limited, which is widely used across the entertainments sector.

From a brief review of the operation of the system, we confirmed that sound controls are in place over its operation, with a procedures manual available for all staff. Payments made by cash or card (from the purchase of tickets, gift vouchers, “Royalty” cards and café sales are recorded on the system and independently reconciled to bankings, by the Corporate Support Team;

There have been two external hires of the theatre in the year to date (the most significant being for the Christmas pantomime). We confirmed that the arrangements for these hires were agreed by email exchange, that the ticket sales were recorded on the Oscar Box Office software and that net payments to the hirers were in accordance with the agreements. From discussion with the Events and Theatre Manager, we understand that, as external use of the theatre increases, more formal booking arrangements are to be introduced.

- Community Centre income: We reviewed the Community Centre booking diary for a sample fortnight (1st to 14th November 2021) and confirmed that all users had been invoiced at the appropriate rate and that there were no outstanding hire fees;
- Allotment income: The Council’s allotments are rented out on a three-year basis, with the next renewal date being 1st October 2023. Where any changes occur within the three-year period, the new allotment holder is charged a proportion of the overall rent. We checked two cases where there had been a change of allotment holder in 2021-22 and confirmed that the new allotment holders had been charged the correct rent and that the income was received and banked on a timely basis;
- Receipt and banking 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: We reviewed the level of outstanding debtors as at 31st October 2021 and 31st December 2021 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

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 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:

- At our first interim audit, we confirmed that appropriate signed contracts of employment are held for new members of staff recruited during 2021-22 (we

reviewed a sample of the contracts for new staff taken on for the Regal Theatre). During our second interim audit, we reviewed the contract of a further recent starter and confirmed this was in order;

- Agreed the gross amounts paid to all individuals in October 2021, 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.

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.

Conclusion

We have confirmed that no petty cash has been used in the year to date.

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.

Conclusion

We will review the adjustments made to the asset register during 2021-22 at our final audit visit and agree the total asset value reported in Section 2, Box 9 of 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.

During our audit work, 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, 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 22nd September 2021 and ratified at the Council meeting on 26th October 2021.
- 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 two tranches in October and December 2020. The first repayment is due to be made during 2021-22.

Conclusion

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