

Costessey Town Council

Internal Audit Report: 2021-22 (Final Update)

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for Auditing Solutions Ltd

Background and Scope

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

This report sets out the results of our final audit visit in relation to 2021-22, which was undertaken on 27th April 2022. We wish to thank the Town Clerk and her colleagues for their assistance in helping us complete our work.

Internal Audit Approach

In carrying out our internal audit work for the year, we have had regard to the materiality of transactions and their susceptibility to potential mis-recording or mis-representation in the year-end Statement of Accounts, operating a mix of 100% substantive or 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 material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Annual Internal Audit Report' in the AGAR, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

On the basis of the programme of work we have undertaken, we have concluded that the Council continues to maintain an adequate and effective system of internal control. The records held in support of the accounting transactions continue to be of a high standard and provide an effective audit trail, with clear cross-referencing of all relevant documentation. We have completed and signed the 'Annual Internal Audit Report' in the 2021-22 AGAR, having concluded that, in all significant respects, the internal control objectives as set out in that report were 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 formal recommendation for further action. We ask that Members consider the content of this report.

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Detailed Report

Accounting and Banking Arrangements

Our objective in this area 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.

As in previous years, the Rialtas Omega accountancy package is used to maintain the financial records, with accounting support provided by DCK Accounting Solutions Ltd. We note that the Council has purchased the phased budget module for the Rialtas accounts package, which will be fully implemented for the 2022-23 financial year.

The Council's main banking services continue to be provided by Barclays Bank Plc, with a Business Current Account and a Business Premium (instant access savings) Account supplemented by a separate Salaries Current Account and two small imprest accounts for administrative and grounds maintenance "operational" expenditure.

During 2021-22, the Council opened a current account with Unity Trust Bank to facilitate the introduction of on-line banking for hall hire deposits. This account came into use in December 2021. We note that at the Council meeting on 8th March 2022, Councillors agreed to the setting up of a second Unity Trust account, to be used for the on-line payment of regular suppliers.

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

- The financial ledger remained in balance throughout the year;
- The cost centre and nominal ledger coding structure continue to remain appropriate for the Council's needs;
- For a sample review of four months (May and October 2021, plus February and March 2022), the detailed transactions and inter-account "sweep" transfers in the Omega combined cash book for the Business Current Account and Business Premium Account agreed to the supporting bank statements;
- The detailed transactions in the Salaries Current Account cashbook also agreed to the supporting bank statements for those sample months, as did the transactions for the new Unity Trust account for the months of February and March 2022;
- Bank reconciliations continue to be prepared regularly at the end of each month and independently reviewed. We reviewed the bank reconciliations as at 31st October 2021 and 31st March 2022 for all of the accounts, confirming these were accurate and that there were no long-standing uncleared cheques or deposits, or other anomalous entries, and
- The Rialtas accounts and booking system continue to be backed up regularly to the Council's server, which is itself backed-up to the 'Cloud' each evening by the Breakwater IT Support Team.

Conclusion

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

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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 meetings), all meetings are conducted in an appropriate manner and no actions of a potentially unlawful nature have been, or are being, considered for implementation.

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

- Our review of the minutes of the Council and Committee meetings for the year did not identify any issues that we consider may have an adverse effect, through litigation or other causes, on the Council's future financial stability;
- The Financial Regulations continue to be the subject of periodic review. They were revisited by the Finance Committee meeting on 10th December 2021, following our suggestion that the formal tendering limits be brought into line with NALC guidance, and a revised version was adopted by the Council on 11th January 2022.
- The Standing Orders were revisited and updated at end of the 2020-21 financial year and formally approved by the Council on 6th April 2021. The 'Covid Appendix' to the Standing Orders was subsequently amended on 12th October 2021 to reflect changes to Government guidance, and
- Following the 2019 local government elections, the Council formally re-adopted the General Power of Competence at its meeting on 14th May 2019 and this continued to be applicable throughout 2021-22.

Conclusion

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

Expenditure

Our objective in this area is to ensure that:

- Council resources are released in accordance with 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;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct expense codes have been applied to invoices when processed; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have completed our testing of expenditure for 2021-22. In total, we examined a sample of 70 payments across the year. Our sample included all individual payments in excess of £2,000, together with a more random sample of every 20th cash book transaction, as recorded in the accounts. The total value of items in our sample was £403,936, including VAT, which equated to 72%, by value, of non-pay related expenditure in the financial year.

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Our testing included a sample of transactions relating to the charge cards which are used by the Clerk and the Head Groundsman to assist with urgent and/or immediate purchases via the internet. Separate Omega “cashbooks” are used to record the transactions on each card. We did not identify any issues with either the level or type of expenditure incurred.

We have confirmed that VAT returns continue to be completed in a timely and accurate manner, with electronic “on-line” submission in place, in line with current HMRC requirements. We checked the reclaims for the year, confirming that the quarterly submissions agreed to the Omega VAT control account.

We also considered the approach followed in the award of the contract for play equipment to replace the Breckland Park trim trail. The minutes confirm that the Council was satisfied that the contract met the requirements of the Financial Regulation 11.1 (a) (vi) [i.e., it was for the purchase of goods which are proprietary articles and/or only sold at a fixed price] and, as such, did not require formal tendering as set out in the Public Contracts Regulations 2015. In our view, this appears reasonable.

Conclusion

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

Assessment and Management of Risk

Our objective is to confirm that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health & safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks in order to minimise the opportunity for their coming to fruition.

From our review of the arrangements in this area, we confirmed that.

- The Financial Risk Assessment (FRA) was reviewed and approved by the Council, at its meeting on 9th November 2021, following scrutiny by the Finance Committee. This is in line with the regulatory requirement to consider risk management arrangements in each financial year;
- In May 2020, the Council entered into a 4-year agreement with Zurich Municipal for the provision of insurance cover. We examined the insurance schedule for the year to May 2022, which was updated in November 2021 to include new play equipment at Breckland Park. This includes Public Liability of £15 million; Employer’s Liability of £10 million, Fidelity Guarantee at £1 million and Loss of Revenue at £200,000 loss of income, all of which appear appropriate to the needs of the Council.
- Zurich Municipal also continues to be contracted to undertake 6-monthly inspections of the Council’s play equipment each year to confirm compliance with health and safety requirements. We noted that inspections completed in October 2021 were reported to the Property & Environment Working Group on 23rd November 2021, and the inspection reports continue to be published on the Council’s website. We confirmed that there were no high-risk matters arising from those inspections. (NB Further inspections were completed at the end of March 2022 and are due to be reported to the P&E Working Group in May 2022. We have not reviewed the resultant reports), and
- In addition, Council staff continue to carry out a visual check of the playgrounds as they undertake litter picking and deal with issues as they arise. They also complete

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inspection reports on a weekly basis throughout the year, which are submitted to the Town Clerk with timesheets and signed off as reviewed, with action taken, as appropriate.

Conclusion

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

Budget setting, budgetary control and reserves

Our objectives are to confirm that the Council has robust procedures in place for identifying and approving its future budgetary requirements and the level of Precept to be drawn down from District Council: also, that an effective reporting and monitoring process is in place. We also aim to confirm that the Council retains sufficient funds in earmarked and general reserves to finance its ongoing spending plans and to cover any unplanned expenditure that might arise.

From our review of the minutes, we confirmed that Members continue to be provided with budget monitoring reports and formal bank reconciliations during the year, with the detail considered by the Finance Committee and summary information then provided to the full Council, for approval. The reports included forecasts of the impact of Covid-19 on budgetary performance and updates on the use of earmarked reserves and income arising from the Community Infrastructure Levy (CIL).

The Covid-19 pandemic made budget forecasting for 2021-22 very difficult, with the impact on both income and proposed expenditure in the year hard to predict. We note that the Council had a surplus £33,000 for the year, having originally budgeted for a deficit of £53,000, which was to be funded from a surplus in 2020-21.

The budget and Precept for 2022-23 were approved at the Council meeting on 11th January 2021, following detailed consideration by the Finance Committee. The Precept demand was set at £706,681, compared to £659,026 for 2021-22, with the average Band D rate increasing by 5.78% to £127.65. We are satisfied that Members were provided with an appropriate level of information to inform the decision-making process.

At 31st March 2022, the Council's overall reserves were £758,681. Whilst this is significantly lower than the balance at the previous year end (£899,106), it reflects delays in capital spending during 2020-21, which have impacted on 2021-22. The overall reserve level remains above that for the end of 2020-21, when they stood at £703,637.

Of the total reserves held at the year end, earmarked reserves (EMRs) amounted to £461,431. The main EMRs are the Major Projects Reserve of £135,733, the New Cemetery Fund (£120,000) and the Streetlight Maintenance Reserve of £31,403, together with a commuted sum of £50,459 retained for Queen's Hills drainage. During the year, £50,000 was set aside from the revenue budget towards set up costs and professional fees for the new community hall at Lodge Farm, which is being constructed by Taylor Wimpey.

During 2021-22, significant capital expenditure was incurred on the purchase of new play equipment at Breckland Park and Queens Hills. This was funded from the Major Projects Reserve and from the utilisation of all of the unutilised balances of funds obtained in recent years from developers, either under s106 agreements or the Community Infrastructure Levy.

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The remaining reserves are held as a ‘General Reserve’, which is available for contingency purposes. At 31st March 2022, the General Reserve balance stood at £264,149, which is consistent with the prior year-end. As noted in previous years, there is no ‘hard and fast’ rule as to the amount of General Reserve that should be retained, as this will depend on the circumstances of individual authorities and the risks they face. However, a ‘yard-stick’ of between 25% and 50% of revenue spend is often cited, with the former being possibly more realistic for larger authorities, where other funds are available to be called upon in an emergency. The Council’s General Reserve balance remains within those parameters and does not appear unreasonable.

Conclusion

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

Income

In considering the Council’s income streams, our objective is to confirm that robust systems are in place to ensure the identification of all income due to the Council from its various sources, that invoices are raised in a timely manner and that effective procedures are in place to pursue recovery of any outstanding monies due to the Council.

In the course of our audit, we undertook the following work:

- We confirmed that the Council formally reviewed its fees and charges for 2021-22 as part of the budgetary process for the year and that those for 2022-23 were agreed at the Council meeting on 14th December 2021;
- As noted earlier in this report, we have checked and agreed four sample months’ receipts transactions from cashbooks to relevant bank statements;
- We examined the Cemetery-related activity (interments, grants of exclusive rights of burial and memorials/inscriptions) for the period 1st April to 31st October 2021, by reference to the detailed Burial Register and associated records. We confirmed that all of the appropriate records were held, that the invoices raised were in order and that the income due was received and banked on a timely basis;
- We examined a sample of hall hires for the week commencing 27th September 2021, by reference to the diary entries for the halls and the sales ledger invoicing, confirming that the rates charged were in accordance with the published scales and that, as required, fees had been paid in advance; and
- We examined the Sales Ledger “Aged Debtors Report” as at the time of our interim audit and at the year-end. We were pleased to note that the overall value of long-standing debts remains very low and confirmed that effective control arrangements remain in place, with appropriate action being taken in relation to all outstanding payments.

Conclusion

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

Petty Cash

When completing the ‘Annual Internal Audit Report’ in the AGAR, we are required to confirm that there are effective controls over the petty cash account operated by the Council.

The Council operates a limited petty cash scheme, with a maximum Imprest holding of £300 which is “topped up” monthly. A small Excel control sheet is maintained and acts as both the Omega nominal ledger posting document and the approval for re-imburement “invoice”. We confirmed that the petty cash is subject to regular independent review and that this review is evidenced. During our interim audit and at our final audit, we undertook a physical check of the petty cash held and reconciled this to the underlying records, confirming that everything was in order.

At our final audit, we also confirmed that the year-end balance of £300 is included correctly in the ‘total value of cash and short-term investments’ reported in Section 2, Line 8 of the AGAR.

Conclusion

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

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) legislation are satisfied regarding the deduction and payment over of income tax and NI contributions and that the requirements of the local government pension scheme are met.

The Moneysoft “Payroll Manager” package continues to be used to compute the four-weekly payroll (i.e., 13 Pay Periods in the year), which includes the production of the pay slips.

To check compliance with the above criteria, we reviewed the salary payments made for Pay Period 8 (paid in October 2021), confirming:

- The amounts paid to employees agree to the approved pay scales on the council’s establishment list;
- Tax and National Insurance deductions for all employees have been made by applying the appropriate PAYE code and NIC Table;
- The correct local authority pension scheme percentage deductions are being applied, where applicable (both for employees and the Council);
- Any variations to standard payments, such as overtime and mileage, have been subject to formal timesheet records and approval by senior officers;
- The net payments to staff were in accordance with the payslips and the summary BACS settlement reports; and
- The payments to HMRC and the Norfolk Pension Fund were correct and were made on a timely basis.

The national Local Government Services pay agreement for 2021-22, applicable from 1st April 2021, was finally agreed by all parties at the end of February 2022. At our final audit visit, we confirmed that the payment of arrears due to staff was made in Pay Period 13 and that the appropriate revised pay scale rates were applied in all cases. We did not have time during our audit work to check the accuracy of the calculation of any additional PAYE and National Insurance payments that required to be made to HMRC, or of any additional employer and employee contributions due to the Norfolk Pension Fund.

Conclusion

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

Asset Register

In the AGAR, councils are required to report the value of each asset at purchase cost, or at a suitable proxy where that value is not known, and for community assets to be valued at a nominal £1. The value of individual assets should not change from one year to another, with the only changes being the inclusion of new assets or removal of assets disposed of.

A basic asset register is maintained by the Council's accountants, DCK Accounting Solutions, as a note to the detailed accounting statements they produce. This register records the original cost of all assets held, as required for the AGAR. We have confirmed that the asset register has been updated for assets acquired and disposed of in the year and that the total updated value of £4,768,288 has been reported in the AGAR (Section 2, Line 9).

Conclusion

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

Investments and Loans

Our objective is to confirm that an appropriate investment/treasury management policy 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.

The Council has a 'Treasury Strategy and Treasury Management Policy' in place. The latest version of the Policy was adopted at the Council meeting on 23rd February 2021, following consideration by the Finance Committee,

At present, the Council does not hold any long-term investments, with all "surplus" funds currently held within the Barclays Business Premium account, which is an instant access account. From our discussions with the Town Clerk, we understand that the Council does not intend to consider any longer-term investments until there is an improvement in the interest rates available.

We have checked and agreed the half-yearly repayments of principal and interest on the Council's three Public Works Loans Board (PWLB) loans to the third party "demand" notices. At the final audit, we also confirmed that these repayments and the overall balance outstanding at the year-end have been reported correctly in the AGAR (Section 2, lines 5 and 10, respectively).

Conclusion

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

Statement of Accounts and AGAR

We have examined the detailed accounting statements prepared by DCK Accounting Solutions Ltd using the RBS Omega system and also checked the draft of the statutory "Accounting Statements 2021-22" that the Council is required to complete and approve (Section 2 of the AGAR) to the supporting accounting records and other related documentation. We identified one error in the draft statutory accounts, which was subsequently amended.

Conclusions

There are no matters arising from this area of our review that require any 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 completed and signed the Annual Internal Audit Report in the AGAR on 27th April 2022, assigning positive assurances in all areas of internal control.