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# **Watton Town Council**

*Internal Audit Report 2018-19 (Interim)*

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*Stephen Christopher*

*for Auditing Solutions Ltd*

## **Background and Scope**

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 provided this service to Watton Town Council since 2015-16.

This report provides detail of the areas examined and the results of our interim audit visit in relation to the 2018-19 financial year, which took place on 18<sup>th</sup> December 2018.

## **Internal Audit Approach**

In undertaking our internal audit work, we have had regard to the materiality of transactions and their susceptibility to potential misreporting or misrepresentation in the year-end 'Statement of Accounts' in the AGAR. We have employed a combination of selective sampling techniques (where appropriate) and 100% detailed checks in a number of key areas in order to gain sufficient assurance that the Council's financial and regulatory systems and controls are appropriate and fit for the purposes intended.

Our programme of cover has been designed to afford appropriate assurance that the Council's financial systems are 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' on Page 3 of 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, in general, the Council has continued to maintain an adequate and effective system of internal control.

We have identified a number of areas where we consider that action needs be taken. These include several matters raised in the previous year's audit, where the agreed actions remain outstanding. Details of the matters arising from our audit are set out in the body of the report, with the recommendations arising drawn together in the appended Action Plan. We ask that Members consider the content of this report and respond in due course to the recommendations set out in the Action Plan, indicating, where appropriate, the actions to be taken and the likely timescale for their implementation.

**This report has been prepared for the sole use of Watton 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 and 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.

For 2018-19, the Council has continued to use the Scribe accounting software to maintain its financial records, which we consider is adequate for its needs.

The Council currently has two bank accounts with Barclays Bank Plc; the main 'Community (Current) Account' for day to day transactions and a 'Business Premium (instant access savings) Account'.

At the time of our final audit visit for 2017-18, consideration was being given to transferring the banking services to Unity Trust Bank, to facilitate the introduction of on-line banking. However, whilst a current account has been opened with Unity Trust, with a balance of £500, this account has not yet been used for any transactions and the majority of payments are still by cheque, with no use made of BACS. We will review progress on the introduction of on-line banking at our final audit visit for the year.

In undertaking our interim audit, we confirmed that:

- there was an accurate roll-forward of the prior year closing balances to 2018-19;
- the accounting ledger remained "in balance" at the time of the audit visit;
- the coding structure in place for the 2018-19 financial year provides sufficient detail to enable effective budget monitoring to be undertaken;
- the detail of receipts and payments recorded on the Scribe system for two sample months (August and November 2018) agreed to the supporting bank statements;
- the bank reconciliation produced as at 10<sup>th</sup> December 2018 reconciled to the Scribe accounts, and
- the Council's IT systems, including Scribe, continue to be backed up on 'File cloud' by Anglia IT Solutions.

### ***Conclusion and recommendations***

***In overall terms, we found the controls in this area to be adequate and to be operating effectively. However, we wish to draw Members' attention to the following matters:***

#### ***(a) Bank reconciliations***

***We are pleased to note that, following our recommendation last year, bank reconciliations are now being produced by the Town Clerk on a monthly basis using the Scribe software and are being reported to the Finance Committee. We also note that a Member is reviewing the bank reconciliations on a regular basis and signs the bank reconciliation as evidence of the review. However, there is no evidence that the verification process includes confirming that the bank balances recorded on the reconciliation agree to the bank statements. There is also no evidence to confirm that the list of unpresented cheques ('uncashed payments'), which forms part of the bank reconciliation, is being checked for reasonableness (see point b below).***

*R1 As part of the independent verification of the monthly bank reconciliation, the Member responsible should initial the relevant bank statements to confirm that the balances agree to those shown on the bank reconciliation produced from the Scribe accounting system (i.e. less any un-presented cheques or unbanked receipts). The Member should also review the schedule of “uncashed payments” to ensure there are no anomalies.*

**(b) Unpresented cheques**

*In last year’s interim and final reports, we highlighted that a cheque for £25 raised in January 2017 (relating to window cleaning) remained uncashed. We recommended that the reason for the non-presentation of the cheque should be investigated and appropriate action taken. In reviewing the bank reconciliation as at 10<sup>th</sup> December 2018, we confirmed that this cheque still remains uncashed and the matter has not been investigated and addressed. In addition, we identified that a further cheque for £72, raised on 11<sup>th</sup> January 2018 (relating to a training course) also remains uncashed.*

*R2 The reasons for the non-presentation of the cheques for £25 and £72 raised in January 2017 and January 2018 respectively, should be investigated. The cheques should be written back into the accounts and, if appropriate, new cheques should be issued.*

## **Corporate Governance**

Our objective is to confirm that the Council has robust corporate governance arrangements in place; that, as far as we may reasonably be expected to ascertain (as we do not attend Council meetings), all Council meetings have been conducted in accordance with the adopted Standing Orders and that, as far as we are able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation.

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

- Our review of the Council’s minutes 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;
- Both the Financial Regulations and Standing Orders were reapproved in June 2018 and are in line with national guidance issued by NALC. The Financial Regulations also reflect the changes to the Council’s financial arrangements following the establishment of the Finance Committee;
- Following the May 2015 election, the Council formally resolved to adopt and use the General Power of Competence and this will remain in force until the next election, and
- As noted last year, detailed financial procedures have now been put in place in a number of areas (e.g. the Cemetery and Allotments).

In last year’s final report, we recommended that consideration be given to the development of a timetable for the review of the Council’s various policies/procedures, and key actions, to help to ensure that these are undertaken on a timely basis and to confirm which actions need to be addressed by the full Council and what matters can be delegated to a committee or officers. The Town Clerk has confirmed that she continues to maintain a schedule of key actions to be

addressed each year and is confident that, with the introduction of the Finance Committee, the Council is able to ensure that these are addressed on a timely basis.

Last year, we also recommended that, in accordance with the Council's Standing Orders and with best practice, the minutes of each committee meeting (Finance and Personnel) should be reported to the Council and formally noted as "received", prior to the consideration of any recommendations made by either committee that required Council ratification. From our review of the Council minutes for 2018-19, we confirmed that this is now being done.

### ***Conclusion and recommendations***

***On the basis of our review, we consider that the Council has adopted a sound approach to its responsibilities in relation to corporate governance. However, we wish to draw Members' attention to the following matters:***

#### ***(a) Financial procedures***

***As noted above, a number of detailed financial procedures have been put in place to underpin the Council's Financial Regulations. However, as we reported last year, there are no documented procedures in relation to several areas, including the use of the Scribe software for accounting and budgeting purposes, and the Council's payroll arrangements.***

*R3 As recommended in last year's internal audit reports, financial procedures should be put in place regarding the use of the Scribe software for accounting and budgeting purposes, and the Council's payroll arrangements.*

#### ***(b) Reporting the minutes of committee meetings on the Council website***

***From our audit review, we noted that, whilst the minutes of the Council and Finance Committee meetings are reported on the website, the minutes of the HR committee meetings are not currently available on-line.***

*R4 The minutes of the Personnel Committee meetings should be reported on the Council's website. (NB: in accordance with the Council's Standing Orders, these minutes, as with other Council or committee minutes, should not disclose or otherwise undermine confidential information or personal data without legal justification).*

## **Review of Expenditure & VAT**

Our objective here is to confirm that:

- Council resources are released in accordance with approved procedures and budgets;
- Payments are supported by 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 payments are subject to review by the cheque signatories and this review is evidenced;
- Any discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;

- The correct expenditure analysis has been applied to invoices when processed; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have commenced our review of the procedures in place in this area, selecting a sample of non-pay related payments for the period to the end of October 2018, to check compliance with the above criteria. Our test sample included all payments in excess of £1,750, together with a more random selection of every 30<sup>th</sup> payment as recorded in the Scribe cashbook. The total value of the payments in our sample was £72,016, which equates to 52% of total non-pay expenditure.

We have confirmed that VAT returns continue to be completed on a quarterly basis. At last year's final audit visit, we identified a VAT underclaim of £300 relating to one item of expenditure. We have confirmed that this was subsequently reclaimed as an adjustment in the first quarter's VAT return for 2018-19.

### **Conclusion**

***On the basis of our audit review, we are satisfied that the arrangements in place for the authorisation of payments are sound, with appropriate supporting documentation present for all of the payments in our test sample, and that VAT returns agreed to the Scribe records and are being submitted on a timely basis. There are no matters 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 potential 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.

We noted the following:

- The Council has appropriate risk management arrangements in place. The risk management arrangements were updated by the Town Clerk at the start of the year and formally reviewed by Members at the Council meeting on 22<sup>nd</sup> May 2018.
- Regular weekly health and safety checks of the play areas are undertaken by the Town Operative, or in his absence by the Deputy Town Clerk, both of whom have received appropriate health and safety training and taken over this role, with the results reported to the Town Clerk. In addition, annual inspections of the three play areas are undertaken by Wicksteed Leisure to confirm compliance with relevant health and safety regulations, the results of which are reported to the Council, together with any recommendations for remedial action required, and
- The Council is now in the final year of a three-year agreement with Zurich Municipal for the provision of insurance services, which ends in May 2019. The insurance cover includes employer's liability of £10m, Public Liability of £15m, Hirers Liability of £2m

and fidelity cover of £250k. We consider that this level of cover is reasonable for the size of the Council and range of activities it undertakes.

### ***Conclusion***

***There are no matters arising from our review of the Council's risk management arrangements that require a formal comment or recommendation.***

## **Budget setting, budgetary control and reserves**

Our objective here is 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 Breckland Council, and also that an effective reporting and monitoring process is in place. We also aim to confirm that 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.

During 2018-19, Members have been provided with regular reports from the Town Clerk detailing expenditure incurred in the year and reporting on the bank balances held. They have also been provided with reports on performance against the 2018-19 budget.

Following detailed consideration by both the Finance Committee and the Council, the precept requirement and budget for 2019-20 were formally approved at the Council meeting on 27<sup>th</sup> November 2018. The precept has been set at £368,725, compared to £320,647 for 2018-19, which is an increase of 15.4%. From our discussions with the Town Clerk, we understand that the increase is due to a range of factors, principally the costs of current or planned projects, such as the joint events and promotion project with Swaffham Town Council, the Market Town initiative, increased cemetery maintenance costs, and improvements and enhancements to the play areas and associated facilities.

When setting the 2018-19 budget, consideration was given as to the level of general and earmarked reserves that are required, going forward. In line with the budget proposals, £91,000 was released from previously earmarked reserves to the General Reserve at the start of the current financial year, of which £41,000 was then used to support the 2018-19 budgeted spend. This left earmarked reserves - under the umbrella heading of the "Community Improvement Fund" - of £117,000, with a General Reserve balance of £208,000.

During 2018-19, the Council has agreed to the release a further £46,450 from the Community Improvement Fund to support expenditure in the current year, leaving a balance of £70,550. The Town Clerk has informed us that the projected outturn for the year is a surplus of approximately £27,000, which is to be added to the General Reserve in the first instance. This will result in overall year-end reserves of £305,550. We understand that the allocation of these reserves will be considered again once the year end accounts are finalised and we will review the position at our final audit visit.

### ***Conclusion***

***There are no matters arising from the work undertaken during our interim audit visit that require a formal comment or recommendation.***

## Review of Income

Our objective is to confirm that appropriate arrangements are in place to identify all income due to the Council, to arrange for its collection by way of invoicing or direct settlement and for its prompt banking. We also aim to ensure that fees and charges are levied in accordance with the Council's approved scales, where appropriate. The main sources of income for the Council, other than the precept are from the allotments, the market and cemetery related fees.

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

Allotments: We reviewed the 2018-19 allotment records and the bank receipts, to confirm that the expected income had been received in the year for the allotments at both the Church Road and Thetford Road sites, and that allotment agreements are in place for all tenants. There were no matters arising.

Market: We checked the income received against the list of market stallholders for a sample month (November 2018), to confirm completeness of income. There were no matters arising.

Cemetery: From 1<sup>st</sup> July 2018, invoices have been raised for burials and for the grant of Exclusive Rights of Burial. We reviewed the computerised registers of burials and the grant of exclusive rights from the latest entry prior to the date of our visit (15<sup>th</sup> December 2018) to confirm that the correct fees had been invoiced and that income was being received and banked promptly. We also confirmed that the correct fees were paid by undertakers for the erection of memorials.

The details recorded on the computerised registers have been revised, in response to our recommendation from last year. With a few minor exceptions, which were addressed during our visit, the records were found to be complete and accurate.

### *Conclusion and recommendation*

*In general, the controls over income were found to be adequate and to be operating effectively.*

*However, one matter that we must continue to highlight is the ongoing situation regarding historic cemetery records. Under the Local Authorities Cemeteries Order 1977, the Council is required to maintain a register of burials and a record or register of graves, which can be either in the form of the traditional ledger, or held as a computer record. Whatever form the records take, they must be held in perpetuity.*

*In 2015-16, we reported that, since taking office, the Town Clerk had been unable to locate a number of the historic cemetery records, which were believed to have been archived by her predecessor. The original 'Register of Burials' and 'Register of Graves' were subsequently retrieved from the Norwich Records Office, but were found not to have been updated since 2003 and 1996 respectively. New computerised registers were introduced from 1<sup>st</sup> January 2016, but no alternative records (either manual or computerised) could be found covering the period after the original registers were discontinued.*

*The Town Clerk considered that sufficient information was available (e.g. application forms and receipts) to enable the registers to be brought up to date, but was concerned that this*



*would take some time to complete. During 2017-18, an Office Support Clerk was appointed to assist with the task and progress has been made in identifying and mapping details of graves. However, as at the date of our latest audit visit, no progress has been made in updating either of the registers.*

*In view of the legal imperative to maintain accurate registers of burials and of graves, we are carrying forward our recommendation from previous years. Whilst administrative support is now available to assist with the task, there needs to be a clear understanding of what steps need to be taken to create the required records.*

R5 *As previously reported, in accordance with its statutory obligation to maintain accurate registers of burials and of graves, the Council must ensure that the information for all of the years since the original registers were last updated is formally recorded. Whilst, as noted above, this could be done by producing computer records alone, we recommend, in line with the practice followed by other similar sized councils, that the traditional manual ledgers are also brought up to date and maintained – providing a cross reference to any computerised records and for ease of public access. (We are aware that a Cemetery Working Group has been set up to consider wider cemetery-related issues and consider that it would be appropriate for this Group to provide Member oversight of this project).*

## **Review of Payroll**

In examining the Council's payroll function, our objective is to confirm that extant employment legislation is being appropriately observed and that the requirements of HM Revenue and Customs (HMRC) as regards the deduction and payment over of income tax and NI contributions are complied with, together with meeting the requirements of the local government pension scheme.

To confirm compliance with the above criteria, we have:

- checked that the Council had reviewed and approved the staff salaries for 2018-19 (the revised pay rates were approved at the Council meeting on 12<sup>th</sup> June 2018 and backdated to 1<sup>st</sup> April 2018);
- Reviewed the contract for the one new member of staff whose employment commenced in the current year, confirming this was in line with good practice, and
- reviewed the information produced by the external payroll provider (Arden Kendall) on behalf of the Council each month, confirming for a sample month (November 2018), that:
  - net salary payments made by the Council to staff (by standing order), agree to the extant salary/hourly rates payable and to the information provided and have been properly authorised;
  - appropriate PAYE/NI deductions have been made and that these amounts, together with employer's NI contributions are being paid over to HMRC on a timely basis, and
  - appropriate employee and employer pension contributions have been made and that these are being paid to the Norfolk Pension Fund on a timely basis.

### *Conclusion*

*There are no matters arising from this area of our audit work that require a formal comment or recommendation.*

## **Asset Register / Inventory**

Councils are required to maintain an asset register and to report the overall value of fixed assets held in the AGAR each year (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 which have no intrinsic value (often referred to as community assets) are normally included at a nominal £1.

The asset register is maintained by the Town Clerk and is updated at the year-end. Consequently, we have not undertaken any work in this area at the interim visit.

### **Conclusion**

*We will review the asset register at our final audit visit to confirm that any additions or disposals in the year have been correctly identified and accounted for, and the correct overall total value is included in the Annual Return.*

## **Investments and Loans**

At present, the Council does not hold any long-term investments. As noted above, the majority of its funds are currently held in the Barclays Community and Business Premium accounts, with a small balance in a Unity Trust current account.

The Council has no loans in place, either repayable by, or to it.

### **Conclusion and recommendations**

**In last year’s final update report, we highlighted two areas where action is required. To date, neither of these have been addressed and, consequently, we are carrying forward our recommendations.**

#### *(a) Investment strategy*

*The latest statutory guidance on local government investments issued by the Secretary of State, which came into effect on 1<sup>st</sup> April 2018, requires all parish and town councils with short-term or long-term investments totalling over £100k to formally adopt an investment strategy. (Previously this had only been required where overall investments exceeded £500k). However, at the time of our latest audit visit, no investment strategy had been put in place.*

R6 *In accordance with the requirements of the latest statutory guidance on local government investments, which came into effect from 1<sup>st</sup> April 2018, the Council must*

*formally adopt an investment strategy. The statutory guidance emphasises that a prudent investment policy will have two underlying objectives, namely the Security and Liquidity of funds, but should also give due consideration to the potential yield.*

**(b) Bank accounts**

***At present, the Council continues to hold all of its funds in bank accounts which generate nil, or very minimal, interest. In our previous report, we recommended that, in view of the significant sums held, the Council should consider whether a proportion of these funds should be invested in longer-term accounts, such as fixed-term deposits with high street banks or building societies, where a higher rate of return can be achieved. No action has yet been taken with regard to this matter.***

R7 *As part of the development of an investment strategy and as previously recommended, consideration should be given as to how best the Council's funds should be invested. For example, if funds are held that are not required in the immediate future (e.g. the next 12 months), it may be financially beneficial to move these to a longer-term savings account (e.g. three months or more), or to a fixed period deposit or savings bond (e.g. one-year bond), rather than the current instant access savings account.*

Recommendation	Response
<b>Review of accounting and banking arrangements</b>	
R1 As part of the independent verification of the monthly bank reconciliation, the Member responsible should initial the relevant bank statements to confirm that the balances agree to those shown on the bank reconciliation produced from the Scribe accounting system (i.e. less any unpresented cheques or unbanked receipts). The Member should also review the schedule of “uncashed payments” to ensure there are no anomalies.	
R2 The reasons for the non-presentation of the cheques for £25 and £72, raised in January 2017 and January 2018 respectively, should be investigated. The cheques should be written back into the accounts and, if appropriate, new cheques should be issued.	
<b>Review of Corporate Governance</b>	
R3 As recommended in last year’s internal audit reports, financial procedures should be put in place regarding the use of the Scribe software for accounting and budgeting purposes, and the Council’s payroll arrangements.	
R4 The minutes of the Personnel Committee meetings should be reported on the Council’s website. (NB: in accordance with the Council’s Standing Orders, these minutes, as with other Council or committee minutes, should not disclose or otherwise undermine confidential information or personal data without legal justification).	
<b>Income</b>	
R5 As previously reported, in accordance with its statutory obligation to maintain accurate registers of burials and of graves, the Council must ensure that the information for all of the years since the original registers were last updated is formally recorded. Whilst, as noted above, this could be done by producing computer records alone, we recommend, in line with the practice followed by other similar sized councils, that the traditional manual ledgers are also brought up to date and maintained – providing a cross reference to any computerised records and for ease of public access. (We are aware that a Cemetery Working Group has been set up to consider wider cemetery-related issues and consider that it would be appropriate for this Group to provide Member oversight of this project).	

Recommendation	Response
<b>Investments</b>	
R6	In accordance with the requirements of the latest statutory guidance on local government investments, which came into effect from 1st April 2018, the Council must formally adopt an investment strategy. The statutory guidance emphasises that a prudent investment policy will have two underlying objectives, namely the Security and Liquidity of funds, but should also give due consideration to the potential yield.
R7	As part of the development of an investment strategy and as previously recommended, consideration should be given as to how best the Council's funds should be invested. For example, if funds are held that are not required in the immediate future (e.g. the next 12 months), it may be financially beneficial to move these to a longer-term savings account (e.g. three months or more), or to a fixed period deposit or savings bond (e.g. one-year bond), rather than the current instant access savings account.