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## **Watton Town Council**

*Internal Audit Report 2018-19 (Final update)*

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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 was appointed to provide this service to Watton Town Council for 2018-19.

This report sets out the results of our final audit visit in relation to 2018-19, which took place on 31<sup>st</sup> May 2019. It updates the report that we issued following our interim audit visit 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 internal audit programme 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 the Council has continued to maintain an adequate and effective system of internal control. We have completed and signed the 'Annual Internal Audit Report' in the 2018-19 AGAR, having concluded that the internal control objectives as set out in that report were being achieved throughout the financial year to a standard adequate to meet the needs of the Council.

During the course of our audit visit, we followed up on the progress made to address matters raised at our interim audit and the results are summarised in this report. In a number of instances, the agreed actions remain outstanding and, consequently, we have carried our recommendations forward. We are pleased to report that there were no additional recommendations arising from the work undertaken during the final audit visit. The results of our audit work are set out in the body of this report, with the carried forward recommendations 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.

In the year, the Council had 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'. It had also opened a current account with Unity Trust Bank to facilitate the introduction of on-line banking. However, as at 31<sup>st</sup> March 2019, all transactions were still being made through Barclays Bank, with the majority of payments made by cheque. We note that the first instalment of the Precept for 2019-20 was paid into the Unity Trust account and have been informed by the Town Clerk that the move to BACS payments was in the process of being introduced at the time of our final audit visit.

In order to confirm the appropriateness and accuracy of the recording of transactions, we have:

- Checked that there was an accurate roll forward of the prior year closing balances to 2018-19;
- Verified that the accounting ledger remained "in balance" as at 31<sup>st</sup> March 2019;
- Confirmed that the coding structure in place for the 2018-19 financial year provided sufficient detail to enable effective budget monitoring to be undertaken;
- Checked the detail of all receipts and payments recorded on the Scribe system for three sample months (August 2018, November 2018 and March 2019) to the supporting bank statements;
- Confirmed that regular bank reconciliations continue to be undertaken and are reported at each Council meeting, along with bank account details, lists of receipts and payments in the preceding period and the accounts requiring approval;
- Verified the detail of the bank reconciliations as at 27<sup>th</sup> November 2018 and 31<sup>st</sup> March 2019, confirming their accuracy,
- Confirmed the accurate disclosure of the overall year-end bank balances in the 2018-19 AGAR (Section 2, Line 8), and
- Confirmed that the Council's IT systems, including Scribe, continue to be backed up on 'File cloud' by Anglia IT Solutions.

In our interim audit report, we recommended that, as part of the independent verification of the monthly bank reconciliation, the Member responsible should initial the relevant bank statements as evidence that the balances had been checked and agreed to those shown on the bank reconciliation produced from the Scribe accounting system (i.e. less any unrepresented cheques or unbanked receipts) and should also review the schedule of "uncashed payments" to ensure there are no anomalies. At our final visit, we confirmed that this is now being done.

In that audit report, we also recommended that the reasons for the non-presentation of two cheques raised in January 2017 and January 2018 respectively, should be investigated. We have confirmed that this has been done and appropriate action taken.

### **Conclusion**

*At our final audit visit, we found the controls in this area to be adequate and to be operating effectively. There were 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; 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 audit visits, we have confirmed the following:

- Our review of the Council's minutes 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 Council's Financial Regulations and Standing Orders were both 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 audit report, we recommended 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 whether they need to be addressed by the full Council or can be delegated to a committee or officers. The Town Clerk has confirmed that she is maintaining 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.

In this year's interim audit report, we recommended that 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). At our final audit visit, we confirmed that this is now being done.

### ***Conclusion and recommendation***

***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, there is one matter raised in our previous report where we consider that further action is required. This is the need to develop detailed financial procedures to underpin the Council's Financial Regulations. Whilst, as noted above, these are in place for certain areas (such as the management of allotments and the cemetery), at present there are no documented procedures in relation to several other key areas, including the use of the Scribe software for accounting and budgeting purposes, and the Council's payroll arrangements.***

***R1 As previously recommended, 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.***

## **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 completed our review of the procedures in place, selecting a sample of 38 non-pay related payments across the financial year, 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 £140,249, which equates to approximately 60% 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. During our final audit visit we agreed a minor adjustment to the year-end accounts to reflect this transaction.

## **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 & 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 Plan was 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 & safety training, 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.
- In 2018-19, the Council was in the final year of a three-year agreement with Zurich Municipal for the provision of insurance services (which ended in May 2019). The insurance cover included 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 consider whether the Council is retaining sufficient funds in earmarked and general reserves to finance its ongoing spending plans and 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 were 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 2018-19, of which £41,000 was subsequently used to support the 2018-19 budgeted spend. This left earmarked reserves - under the umbrella heading of the "Community Improvement Fund" (CIF) - of £117,000, with a General Fund balance of £208,000. During 2018-19, the Council agreed to the release a further funds from the CIF to support expenditure in the current year.

At 31<sup>st</sup> March 2019, the total reserves amounted to £407,816, compared to the previous year-end balance of £366,084. From our discussions with the Town Clerk, we understand that the main reason for the increase was that "contingency" sums included within the budgets for each cost centre were not required, which resulted in an underspend of some £40,000 in the year. Of the total reserves, the balance retained in the CIF has been reduced to £79,150, with the remaining balance of £327,666 being held in the General Fund, for contingency purposes.

### **Conclusion**

*We found the controls in this area to be adequate and to be operating effectively. The one matter we would highlight is the relatively high level of the General Fund.*

*Whilst there is no formal guidance on what constitutes an appropriate level of General Fund balance, as this will vary from one council to another depending on the risks faced and future expenditure plans, between 50% and 100% of the Precept might be considered reasonable. In that context, the level of the General Fund balance as at 31<sup>st</sup> March 2019 compared to the Precept for 2019-20 is very much at the higher end (at 89%). It will be important for the Council to keep the position under review, going forward.*

## **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 confirm 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:

Fees and charges: We confirmed that the Council continues to consider the levels of fees and charges on an annual basis, in accordance with its Financial Regulations.

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 1<sup>st</sup> July 2018 to the date of our interim audit visit, 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.*

*The 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. During 2017-18, the Office Support Clerk was appointed to assist with the task and progress has now been made in identifying and mapping details of graves. At the date of our final audit visit, we confirmed that the work in relation to documenting the registration of graves is continuing, but that no progress has yet been made in updating the register of burials.*

*In view of the legal imperative to maintain accurate registers of burials and of graves, we are carrying forward our recommendation from previous audit reports. There needs to be a clear understanding of the steps that need to be taken to create the required records, including how any re-created records will be reviewed for accuracy, and a timescale set for completion of the task.*

R2 *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 we 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. We have confirmed with the Town Clerk that there have been no acquisitions or disposals in the year and, consequently, the asset value remains unchanged at £1,0109,280. We have confirmed that this has been included correctly in the AGAR (Section 2, Line 9)

## **Conclusion**

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

## **Investments and Loans**

At present, the Council does not hold any long-term investments. As noted above, at the 2018-19 year-end, the majority of funds were 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 our interim audit 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.*

**R3** *As previously recommended, 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.*

*R4 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.*

## **Statement of Accounts and AGAR**

We have examined the detailed Income and Expenditure accounts prepared by the Town Clerk and the draft of the statutory Accounting Statements that the Council is required to complete as Section 2 of the AGAR. With one minor accounting adjustment required for a VAT item (referred to earlier in the report), we have agreed the detail to the supporting accounting records and other related documentation.

### **Conclusions**

*No matters have arisen from this area of our review that require a formal comment or recommendation. We look forward to receiving a copy of the finalised Annual Return (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 have completed and signed the 'Annual Internal Audit Report' in the AGAR, assigning positive assurances in all areas of internal control.*

## Recommendation

## Response

### Review of Corporate Governance

R1 As previously recommended, 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.

### Income

R2 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 we consider that it would be appropriate for this Group to provide Member oversight of this project).

### Investments

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