

**Watton 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 for an independent internal audit examination of their accounting records and system of internal control each year, and for the conclusions to be reported in the Annual Governance and Accountability Return (AGAR). Auditing Solutions Ltd was appointed to provide this service to Watton 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 13<sup>th</sup> June 2022. It updates the report we issued in January 2022, following our interim audit. We wish to thank the Town Clerk for providing the information required to enable us to complete the audit.

## **Internal Audit Approach**

In carrying out our internal audit work, 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 financial regulations 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 that we have undertaken, we consider that the Council has maintained an adequate and effective system of internal control throughout the year. 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 2022-22 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.

In the sections below, we explain the objectives of each area of our audit, summarising the work we have undertaken and the key matters arising. We identified two areas where we consider that the controls currently in place need to be strengthened. These matters and our recommendations for action are set out in the report. We ask that Members consider the content of this report and respond in due course to the recommendations, as set out in the appended 'Action Plan', indicating the action to be taken.

**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 on, for any reason whatsoever, this report, its content or conclusions.**

# Detailed Report

## Accounting and Banking Arrangements

Our objective is to confirm that the Council's 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 use the Scribe accounting software to maintain its financial records, which we consider is appropriate for its needs.

In 2021-22, the Unity Trust current account has been used as the Council's main 'day-to-day' bank account, which facilitated the introduction of BACS online banking. Two Barclays accounts are also held - a "Business Current Account", which is used mainly for direct debit and standing order payments and a "Business Premium (instant access savings) Account".

In last year's final update report, we noted that in February 2021, as part of its investment strategy, the Council agreed to invest £150,000 of funds that were not required for immediate use in the CCLA Public Sector Deposit Fund. We confirmed that this investment was made on 5<sup>th</sup> October 2021 and remained in place at the year end.

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 2021-22;
- Verified that the accounting ledger remained "in balance" as at the time of our interim and final audits;
- Confirmed that the coding structure in place for the 2021-22 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 (June and December 2021, plus March 2022) to the supporting bank statements\*;
- Confirmed that regular bank reconciliations continue to be undertaken and are reported each month to either the Finance Committee or the Full Council, 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 at 13<sup>th</sup> December 2021 and 31<sup>st</sup> March 2022, as reported to the Finance Committee, confirming their accuracy. We also confirmed that the overall year-end bank balances have been recorded correctly in Section 2, Line 8 of the AGAR (total value of cash and short-term investments), and
- Confirmed that the Council's IT systems, including Scribe, continue to be backed up on 'File cloud' by Anglia IT Solutions.

\* NB In the case of the Barclays Current Account, the latest bank statement available at the time of our interim audit covered the period to 13<sup>th</sup> December 2021.

## 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 have been conducted in accordance with the adopted Standing Orders and no actions of a potentially unlawful nature have been, or are being, considered for implementation.

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

- Our review of the minutes of the Council and Committee meetings for the year did not identify any issues that we considered might have an adverse effect, through litigation or other causes, on the Council's future financial stability;
- The Council's Standing Orders were reviewed by the Council on 25<sup>th</sup> January 2022 when Members decided that no amendments were required. The Financial Regulations were revisited on 22<sup>nd</sup> February 2022, at which time they were updated to reflect an agreed increase in the level of expenditure that can be delegated to the Clerk;
- A wide range of other policies and procedures are in place and are reviewed on a regular basis - although the review programme had been delayed earlier in the year due to the Covid-19 pandemic, and
- The Council continues to apply the General Power of Competence, which was re-adopted at its meeting on 14<sup>th</sup> May 2019, with all relevant criteria continuing to be met.

### **Conclusion**

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

## Expenditure

Our objective is to ensure that:

- Council resources are released in accordance with the Council's 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;
- An official order has been raised for all purchases and service delivery where one would be expected;
- Any 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 Scribe for periodic recovery.

We have completed our testing of expenditure for 2021-22. We reviewed a sample of 55 payments across the year, together with the payment of the Council's business rates. 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 Scribe accounts. The total value of items in our sample was £169,187, including VAT, which equated to approximately 60%, by value, of non-pay related expenditure in the financial year.

The Council operates a Lloyds commercial credit card for on-line purchases. At our interim audit, we examined the statement for September 2021 and confirmed that all payments in that month were appropriate and that there was adequate supporting documentation.

Quarterly VAT recovery claims continue to be made, in accordance with regulatory requirements. We confirmed that claims for all four quarters of 2021-22 were submitted on a timely basis and reconciled to the Scribe accounts.

During the course of this year's audit, we briefly considered the process followed in relation to the award of the contracts for grounds maintenance and cemetery maintenance. From the documentation provided to us and explanations from the Town Clerk, we are satisfied that the process followed complied with the Council's Standing Orders and Financial Regulations, and that the contracts were advertised in accordance with the national regulatory requirements.

## **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 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 of their coming to fruition.

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

- Members have considered, and formally re-affirmed, the Council's risk management arrangements, with the Risk Assessment re-adopted by the Full Council at its meeting on 12<sup>th</sup> October 2021;
- During 2021-22, the Council's insurance cover was provided by BHIB. We noted that the policy included Public Liability and Employer's Liability cover of £10 million, with a Fidelity Guarantee of £250,000, which, in our view, is reasonable for the size of the Council.
- Regular weekly health and safety checks of the play areas continue to be undertaken by the Town Operative, or in his absence by the Deputy Town Clerk, both of whom have received appropriate health and safety training, with the results reported to the Town Clerk. In addition, annual inspections of the three play areas are undertaken by Wicksteed Leisure (in August 2021) to confirm compliance with relevant health and safety regulations. The results of the annual inspections were formally reported to the Finance Committee and subsequently to the full Council in September 2021.

## **Conclusion**

*There are no matters 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.

We confirmed that, during the year, Members have been provided with regular reports from the Town Clerk detailing expenditure incurred and reporting on the bank balances held. They have also been provided with reports on performance against the 2021-22 budget.

Following consideration by both the Finance Committee and the Council, the 2022-23 budget and Precept requirement were formally approved at the Council meeting on 11<sup>th</sup> January 2022. The Precept was set at £391,670 compared to £384,155 for 2021-22. Due to a slight increase in the tax base for the year, this represents a nil increase in Council Tax for a Band D property.

In determining the overall budget for 2022-23, the Council took the decision to utilise £50,000 from the General Fund to support the budget, having previously allocated £23,650 to support the 2021-22 budget.

At our final audit, we confirmed that the revenue outturn for 2021-22 was more favourable than had been anticipated, with a budget surplus for the year of £40,991 and no requirement for support from the General Fund. The main factors were underspending on the salaries budget, higher than anticipated Cemetery income, the receipt of s106 monies relating to the Bridle Road Play Area and unspent contingency sums. These savings were partly offset by an increase in donations made during the year.

As a consequence of the budget underspend, the total reserves as at 31<sup>st</sup> March 2022 increased to £568,659, from £527,668 at the previous year-end. Of the total reserves, the amount of earmarked funds, retained under the umbrella heading of the “Community Improvement Fund” (CIF), remained at £83,500, leaving an increased General Fund balance of £485,159 (£444,168 as at 31<sup>st</sup> March 2021).

## **Conclusion and recommendation**

***In general, the controls in this area are adequate and are operating effectively. The one matter we would highlight for Members’ consideration is the increasing level of the General Fund.***

***As we have mentioned in previous reports, whilst there is no formal guidance on what constitutes an appropriate level of General Fund balance to maintain as a contingency (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 for a council of Watton’s size. In that context, the level of the General Fund as at 31st March 2022 is comparatively high, being equivalent to 125% of the 2022-23 Precept demand.***

***We appreciate that, in recent years, the Council has budgeted to utilise some of the General Fund balance to support its revenue expenditure. However, we would stress the need to keep the General Fund requirement under regular review, both when setting future years’ annual budgets and also when considering the potential funding requirements of projects identified through the 3-year budget planning process.***

***R1 Going forward, the Council should assess the level of General Fund it needs to be hold as a contingency reserve. It should then consider whether there is the potential to continue to utilise any of the existing General Fund balance to support future revenue budgets and/or to be reallocated as earmarked reserves to help fund projects identified through the 3-year budget planning process.***

## 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 audit, we undertook the following work:

- Fees and charges: From our review of the previous year's minutes, we confirmed that the scales of fees and charges for 2021-22 were considered as part of the annual budget process for the year. We note that a similar approach has been followed for 2022-23, with the decision made not to increase any of the fees and charges for the coming year.
- Allotment rents: We reviewed the allotment records for both the Church Road and Thetford Road sites and confirmed that all rents due for the year had been received. We reviewed a sample allotment agreement and found this to be in order;
- Cemetery related income: We reviewed the burial records for the period from 1<sup>st</sup> June to 31<sup>st</sup> August 2021 and confirmed that all of the invoices raised were in accordance with the current fees and charges and that payments were received on a timely basis,
- Market traders: We reviewed the attendance register for Market Traders for September 2021, confirming this was properly maintained, that the invoices raised were accurate and payments were made on a timely basis and correctly recorded in the Scribe accounts;
- Banking of income: As noted earlier in this report, we have checked and agreed three sample months' receipts from cashbooks to relevant bank statements, and
- Aged debtors: We confirmed with the Town Clerk that there were no debts outstanding of over 3 months as at 31<sup>st</sup> March 2022.

## Conclusion

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

## Payroll

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 (LGPS) are met.

At the start of the 2021-22 financial year, the Council changed its payroll provider from Arden Kendall to CBR Business Solutions.

To test compliance with the above criteria, we examined the payroll information provided by CBR Business Solutions for one sample month (December 2021), to check that;

- The amounts paid to employees agree to the approved employee pay rates for the financial year, (noting that the national NJC pay award for 2021-22 had still not been approved at the time of our audit;
- Tax and National Insurance deductions for all employees have been made applying the appropriate PAYE code and NIC Table;
- The correct LGPS pension scheme percentage deductions are being applied, where applicable;
- The net payments to staff as recorded on the payslips agree to the summary BACS settlement reports; and
- The correct payments have been made to HMRC and the Norfolk Pension Fund.

Our review of the December payroll records during the interim audit identified some errors relating to the payroll (failure to apply incremental salary scale increases to two members of staff and an incorrect calculation of one member of staff's pension contribution rate). We confirmed that both of these matters were subsequently investigated by the Town Clerk and appropriate action taken. In our interim report, we recommended that the Town Clerk should check the accuracy of the information provided by the payroll provider each month and we have confirmed that this control is now in place.

At our final audit, we confirmed that the backdated arrears due to staff in relation to the delayed national Local Government Services pay agreement for 2021-22 were paid in March 2022.

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

***In general, the controls over payroll were found to be adequate and operating effectively. However, one aspect of our recommendation regarding the review of the payroll – the periodic review by a Councillor - has not yet been addressed and we are carrying this matter forward for consideration by the Council.***

*R21 As recommended in our interim report, the Council should consider whether it might be appropriate for a Councillor to undertake a periodic check of the payroll. (e.g., following the application of a national pay award or of any incremental increases to individual salaries).*

## **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. 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 reviewed the Asset Register as at 31<sup>st</sup> March 2022, confirming that it has been updated for acquisitions and disposals in the year. We have confirmed that an updated value of assets held (£1,174,854) is to be included in the AGAR (Section 2, Line 9).



## Conclusion

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

## Investments and Loans

Our objectives are to ensure that the Council is investing “surplus funds”, be they held temporarily or on a longer term basis, in appropriate banking and investment institutions, that an appropriate investment policy is in place, that the Council is obtaining the best rate of return on any such investments made, that interest earned is brought to account correctly and appropriately in the accounting records and that any loan repayments due to or payable by the Council are transacted in accordance with the relevant loan agreements.

At present, the Council does not hold any long-term investments. The majority of the Council’s funds are held in the Barclays Current and Business Premium accounts and the Unity Trust current account, with £150,000 recently invested in the CCLA Public Sector Deposit Fund.

The Council adopted an investment strategy in August 2019. At our final audit, we confirmed that this was reviewed and readopted without amendment at the Council meeting on 22<sup>nd</sup> February 2022.

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

## Conclusion

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

## Statement of Accounts and AGAR

We have examined the detailed Scribe 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, produced from the Scribe software. 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.*

Rec No.	Recommendation	Response
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## Budget setting, Budgetary control and Reserves

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R1 Going forward, the Council should assess the level of General Fund it needs to be hold as a contingency reserve. It should then consider whether there is the potential to continue to utilise any of the existing General Fund balance to support future revenue budgets and/or to be reallocated as earmarked reserves to help fund projects identified through the 3-year budget planning process

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## Payroll

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R2 As recommended in our interim report, the Council should consider whether it might be appropriate for a Councillor to undertake a periodic check of the payroll. (e.g., following the application of a national pay award or of any incremental increases to individual salaries).

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