Newmarket Town Council

Internal Audit Report 2019-20 (Final Update)

Background and Scope

All town and parish councils are required by statute to make arrangements for an independent internal audit examination of their accounting records and system of internal control, and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR). Auditing Solutions Ltd has been appointed to undertake this function on behalf of Newmarket Town Council for the 2019-20 financial year.

This report sets out the results of our final audit work in relation to 2019-20, which was carried out in June 2020. It updates the report we issued following our interim audit visit in December 2019.

Internal Audit Approach

In undertaking our 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.

Due to the impact of the Covid-19 pandemic, our final audit review for the year was undertaken remotely. We wish to thank the Finance Manager for providing the additional documentation required, in electronic format. This has enabled us to complete our audit work for the year and sign off of the Annual Internal Audit Report in the year's AGAR.
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Overall Conclusion

On the basis of the programme of work we have undertaken for the year, 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 2019-20 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 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 recommendation for further action. We ask that Members consider the content of this report.

Detailed Report

Accounting and banking arrangements

Our objective 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.

The accounting records are maintained using the RBS Rialtas 'Omega' software. The Finance Manager, in her capacity as the Council's Responsible Financial Officer (RFO), is responsible for the accounts. As in previous years, support with the completion of the year-end closedown was provided by the software suppliers, RBS Software Solutions.

During 2019-20, the Council used a Unity Trust Bank current account for its "day to day" banking activities. A Barclays Salaries Account is still being used for the payment of staff and relevant agencies, although these activities are being transferred to a similar Unity Trust account in the new financial year. The Council also continues to operate a corporate Barclaycard, which is under the control of the RFO.

During the course of our audit work, we have:

- Checked and agreed the opening balances recorded on the Omega system for 2019-20 reflect those in the certified 2018-19 Accounts and Annual Return;
- Confirmed that an appropriate cost and nominal ledger coding structure remains in place;
- Confirmed that the ledger remained "in balance" as at 31st March 2020;
- Checked and agreed the detail of the accounting entries in the Omega cash books for three sample months (May 2019, October 2019 and March 2020) to the supporting bank statements;
- Checked the detail of the bank reconciliations as at 31st May 2019, 31st October 2019 and 31st March 2020, to confirm that there were no long-standing un-cleared cheques or other anomalous entries;
- Confirmed that appropriate arrangements are in place for raising, processing and reviewing journal entries made in the Omega accounts;
- Noted that, in accordance with our recommendation from last year, the use of BACS payments has now been introduced (with effect from March 2020);
- Confirmed that the overall cash balance has been reported correctly in the draft AGAR (Section 2, Box 8), and
- Confirmed that the accounting records are backed-up regularly by the IT support providers (N-CIS) along with the Council's other IT systems.

Conclusion

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

Corporate Governance

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

During the course of our audit work, we have:

- Completed our review of the minutes for 2019-20, examining those for the meetings of the Full Council and its standing committees. We are pleased to record that we have not identified any issues that we consider may have an adverse effect, through litigation or other causes, on the Council's future financial stability;
- Confirmed that the Financial Regulations and Standing Orders continue to be kept under regular review. Following consideration by the Finance & Policy (F&P) Committee, updated Financial Regulations, together with the Standing Orders for Contracts were adopted at the Council meeting on 28th May 2019 with the Standing Orders re-adopted at the Council meeting on 24th June 2019. We also note that the acting Town Council Manager (TCM) provided a 'Standing Orders Workshop' for Members in February 2020, as a result of which several further changes are being considered.
- Confirmed that the Council continues to ensure that its strategic aims and objectives are clearly documented, with an overarching Corporate Strategy and a Medium-Term Financial Plan supported by a wide range of policies and procedures, all of which are subject to regular review;
- Noted that detailed financial procedures remain in place, which underpin the Financial Regulations, and
- Noted that, following the local council elections in May 2019, the Council was no longer eligible to exercise the 'General Power of Competence' (GPoC), as the (then incumbent) TCM did not hold the required qualification. However, we note that the Council was able to adopt the GPoC again in April 2020, as the newly appointed Town Clerk is appropriately qualified.

Conclusion

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

Expenditure

Our objective is to confirm 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;

- Any discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct nominal codes have been applied when entering details in the cashbooks; and
- VAT has been appropriately identified and been the subject of periodic recovery.

We selected a sample of 63 non-pay related payments made during 2019-20, to test compliance with the above criteria. Our sample included all payments in excess of £1,750, together with a more random selection of every 30th payment as recorded in the accounts. The total value of the sample tested was approximately £438,000, including VAT, which equates to approximately 75% of non-pay expenditure in the financial year.

The Council makes use of a corporate Barclaycard, which is controlled by the RFO. It is used mainly for purchasing items on the internet, or that are required at short notice. The monthly statements are reconciled by the RFO and reviewed by the Chair of the F&P Committee along with the bank accounts, with details presented to the F&P committee each month. We checked the Barclaycard payments recorded on Omega for October 2019 to the Barclaycard statement and confirmed that these were in order and that there was appropriate supporting documentation. We also confirmed that the Barclaycard invoice for payments made in March 2020 agreed to Omega and is correctly recorded as a year-end creditor in the annual accounts.

We confirmed that VAT reclaims have continued to be submitted on a regular quarterly basis and reconcile to the Omega VAT control account. We also confirmed that the balance due for Quarter 4 has been disclosed as a year-end debtor in the Statement of Accounts.

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 operational/health & safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks in order to minimise the opportunity of them coming to fruition.

From our review, we noted that.

- The overall Risk Management Scheme, together with the detailed risk register - the ‘Risk Assessment and Management (Financial & Business)’ document – were revisited by the F&P Committee in September 2019 and subsequently adopted by the Council;
- Insurance cover continues to be provided by Zurich, under a five-year agreement to January 2024. During 2019-20, the insurance cover included Public Liability of £15 million, Employer’s Liability of £10 million and Fidelity Guarantee of £500,000. This is in line with councils of a similar size and does not appear unreasonable;

- The Council continues to employ Ellis Whittam to undertake a comprehensive health & safety risk assessment each year and to provide ongoing support on health & safety matters – with the F&P Committee receiving regular updates on health & safety issues, and
- Daily ‘light touch’ checks of play equipment continue to be carried out by Town Council staff, with monthly operational inspections and an annual inspection undertaken by West Suffolk Council as part of the current service level agreement, using the Play Inspection Company. Any actions required as a result of these inspections are reported to the Leisure Services Committee.

Conclusion

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

Budget setting, budgetary control and reserves

Our objective here is to confirm that the Council has a robust process in place for identifying and approving its future budgetary requirements and the level of Precept to be drawn down from the District Council, and also that there are effective budget monitoring arrangements. We also aim to ensure 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.

We have confirmed that, during the year, Members received regular reports, either to the F&P or full Council, outlining performance against the 2019-20 budget, with individual committees receiving information on their own areas of responsibility.

We have reviewed the approach taken by the Council to setting its budget and the Precept for 2020-21. The overall budgetary process continues to be underpinned by the Medium-Term Financial Plan (MTFP). From our minutes review, we confirmed that, for 2020-21, each committee gave detailed consideration to its area of budgetary responsibility, prior to the overall budget and Precept requirement being formally approved by the full Council at its meeting on 16th December 2019. We also noted that, as part of the budgetary process, the Council considered its reserve requirements and the level of fees and charges.

The Precept for 2020-21 has been set at £665,114 (£565,779 for 2019-20), an overall increase of just over 18% for a Band D property. In our opinion, Members were provided with an appropriate level of information on which to base the budget decision, with the RFO attending relevant committee meetings and the Council meeting to respond to any questions raised.

As at 31st March 2020, the Council’s overall reserves stood at £316,888, compared with £273,886 at the previous year-end. Of these reserves, £182,696 (£175,423), has been earmarked for specific purposes. The only changes from the prior year have been the introduction of a Coronavirus Support Fund of £6,263 and an increase in the Memorial Gardens Masterplan Reserve of just over £1,000.

The remaining balance of £134,192 is held in the General Fund, which is the Council’s contingency reserve; this has increased from £98,463 at the previous year end. In last year's final audit report, we stressed the need for Members to keep the level of the General Fund under review as, at that time, it equated to approximately two months of the Precept, compared to a commonly used 'yardstick' of between three and six months. As at 31st March 2020, the General Fund was still slightly less than three months of the 2020-21 Precept, but we note that the Council has budgeted to increase it by a further £20,000. From our discussions with the Finance Manager, we understand that she will be reporting to Members on General Fund requirements in the near future.

Conclusion

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

Review of Income

In considering the Council's income streams, our objective is to confirm that robust systems are in place to identify all income due, 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 this area of our audit work, our objective is to confirm that all income due to the Council is identified, invoiced (where applicable) and recovered at the appropriate rate and within a reasonable time scale, and that it is banked promptly. Other than the Precept, the most significant source of income is the hire of the venues (the Memorial Hall and Severals Pavilion) and cemetery related fees and charges.

During the course of our audit we have undertaken the following work:

- As noted earlier, we have checked and agreed three sample months' receipts recorded in the Current account cashbook to the bank statements;
- We have confirmed that, in accordance with the Financial Regulations, the scales of fees and charges applicable to all Council activities in 2019-20 were formally approved by the Council in the previous financial year. In November 2019, the Leisure Services committee recommended no increase in hiring fees for venues in 2020-21 and in March 2020, the Community Services Committee recommended increases to cemetery-related fees and charges. In both cases, these were subsequently approved by the Full Council;
- We tested income from venues' lettings by reference to the Sales Ledger invoicing day books for October 2019, confirming that fees charged for each letting were in accordance with the published scales (depending on location/times of the day) and that monies due had been invoiced and received in a timely manner, with the Omega ledgers were updated accordingly.
- Management responsibility for Newmarket cemetery, including the billing of all cemetery related fees and charges to funeral directors and other parties, is undertaken by West Suffolk Council, under a Service Level Agreement, with the Town Council responsible for meeting the net operating costs of the cemetery. In line with our recommendation from last year, the Town Council is now provided with details of the income received by West Suffolk Council, so that the completeness and accuracy of the income received from fees and charges can be checked. Whilst we have confirmed with the Finance Manager that this is being received, we have not undertaken any internal audit work in this area, and

- We examined the Sales Ledger "Aged Debtors Report" as at 31st March 2020 and confirmed that the amount of outstanding debt has remained very low, with no debts outstanding for more than two months and appropriate follow-up of late payments.

Conclusion

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

Petty Cash

We are required, in completing the Annual Internal Audit Certificate in the AGAR, to assess the effectiveness of controls over any petty cash accounts.

The Council operates a very limited petty cash account with a maximum holding of £150, topped back up on a monthly basis. We checked and agreed a sample month's transactions (October 2019) from the spreadsheet which "doubles up" as the approval document for cheque re-imbursement and cash-in-tin reconciliation to supporting supplier invoices/till receipts and found everything to be in order.

At our final audit, we confirmed the year-end balance of the petty cash float was £150 and that this had been included correctly in the 'total value of cash and short-term investments' reported in Section 2, Box 8 of the 2019-20 AGAR.

Conclusion

There are no matters arising that require a 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 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, and that the requirements of pension scheme administrators are being adhered to (where appropriate)..

The Finance Manager continues to operate a formal PAYE scheme "in house" utilising bespoke "Moneysoft" software for this purpose.

To check compliance with the above criteria, we have confirmed the following:

- The Council has approved employee pay rates for the financial year and that these have been duly and accurately applied;
- Variable hours and expenses have been applied in accord with approved timesheets and claim forms (where applicable);
- Appropriate tax codes and national insurance table rates have been applied and deductions computed accurately;
- The Council does not operate the Local Government Pension Scheme, having auto-enrolled employees into the Peoples Pension in a prior year;

- The net pay shown in the payslips agrees to the electronic payments identified in both the cashbook and relevant bank statement; and
- The monthly settlements of liabilities for PAYE and the Peoples Pension are accurate and have been paid over in a timely manner.

Conclusion

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

Asset Register

The reporting arrangements for assets in the AGAR require councils 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 purchased or removal of assets disposed of.

The Council maintains an asset register, with asset values recorded in accordance with the above requirements. During our final audit work, we reviewed the asset register as at 31st March 2020 and agreed the total asset value of £4,481,701, reconciling the movements from the previous year end. We also confirmed that the correct value has been included in Section 2, Box 9 of the 2019-20 AGAR.

Conclusion

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

Investments and Loans

Our objectives are to confirm 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, and that interest earned is brought to account correctly and appropriately in the accounting records.

At present, all of the Council's funds are held in the Unity Trust Current and Deposit accounts and the Barclays Salaries Account. Last year we were informed that consideration was to be given to moving some of the Council's funds to interest bearing accounts. However, this had still not happened as at 31st March 2020.

In accordance with the Statutory Guidance on Local Government Investments, an investment policy (Treasury Management Policy) is in place and this was re-approved by the Council in July 2019.

The Council has four outstanding loans with the Public Works Loans Board (PWLB). We checked and agreed the detail of the instalment repayments (capital and interest) made in June and December 2019 to third-party confirmation letters received from the PWLB. At our final audit visit we confirmed that total repayments made to the PWLB in the year (£89.878) and the balances outstanding at the year-end (£889,349) have been reported correctly in the 2019-20 AGAR (Section 2, Boxes 4 and 10).

Conclusion

No significant issues arise in this area to warrant formal recommendation currently.

Statement of Accounts and AGAR

We have examined the detailed accounting statements prepared by the RFO using the Omega software and also the draft of the statutory "Accounting Statements 2019-20" that the Council is required to complete and approve (Section 2 of the AGAR). We have agreed the detail to the supporting accounting records and other related documentation.

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 have completed and signed the Annual Internal Audit Report in the AGAR, assigning positive assurances in all areas of internal control.