

## Internal Audit Report for Felixstowe Town Council for the year ending 31st March 2021

Clerk: Ash Tadjrishi	RFO: (if different)	Chairperson: Cllr Mark Jepson
2020/21 Precept: £600,570 2021/22 Precept: £600,570	Income: Budget: £762,990 Actual: £766,706	Expenditure: Annual Budget £740,957 Actual: £668,135
General reserves: £449,926 as at 31/3/2021	Earmarked reserves: £680,229 as at 31/3/2021	Auditor: Colin Poole
Audit type: Year End		

### Introduction

The primary objective of internal audit is to review, appraise and report upon the adequacy of internal control systems operating throughout the council. To achieve this SALC adopt a predominantly systems-based approach to audit.

The council's internal control system comprises the whole network of systems established within the council to provide reasonable assurance that the council's objectives will be achieved, with reference to:

- the effectiveness of operations
- the economic and efficient use of resources
- compliance with applicable policies, procedures, laws and regulations
- the safeguarding of assets and interests from losses of all kinds, including those arising from fraud, irregularity and corruption
- the integrity and reliability of information, accounts and data

## Methodology

When conducting the audit, the internal auditor may:

- carry out a selective assessment of compliance with relevant procedures and controls expected to be in operation during the financial year in order to be able to complete the Annual Internal Audit Report 2020/21 of the Annual Governance and Accountability Return (AGAR)
- review the reliability and integrity of financial information and the means used to identify, measure, classify and report such information
- review the means of safeguarding assets and, as appropriate, verify the existence of such assets
- appraise the economy and efficiency with which resources are employed, identify opportunities to improve performance and recommend solutions to problems
- review the established systems to ensure compliance with those policies, procedures, laws and regulations which could have a significant impact on operations, and determine whether the council complies
- review the operations and activities to ascertain whether results are consistent with objectives and whether they are being carried out as planned

<b>Section 1 – proper bookkeeping</b> The internal auditor will look at the methods and processes used to manage the council’s accounts and in particular that it provides clear data for reporting and monitoring purposes. This includes checking information is accurate, kept up to date, referenced and verified.		
<b>Evidence</b>		<i>Internal auditor commentary</i>
<i>Is the ledger maintained and up to date?</i>	Yes	The council uses the Omega accounting package which produces reports on an Income and Expenditure basis. Council follows Proper Practices in ensuring that its accounting procedure gives a more accurate presentation of an authority's true financial position by focusing on the balance of economic benefits that it has under its control, rather than just its bank balance.
<i>Is the cash book up to date and regularly verified?</i>	Yes	Cash books are reconciled on a monthly basis and the Town Council is registered for VAT, both sales and purchase ledgers are implemented via the Omega Accounting system. Reports including bank reconciliation goes to council meetings.
<i>Is the arithmetic correct?</i>	Yes	
<b>Additional comments:</b>		

Section 2 – Financial Regulation and Standing Orders		
The internal auditor will check the date the Council carried out its annual review of both Standing Orders and Financial Regulations and in particular check if these are based on NALC'S latest model which include legislative changes.		
Evidence		<i>Internal auditor commentary</i>
Have Standing Orders been adopted, up to date and reviewed annually?	Yes	Standing Orders were reviewed at the meeting held 20/05/2020 (min5b), and 09/09/2020 (min206)
Are Financial Regulations up to date and reviewed annually?	Yes	Finance Regulations were reviewed at the meeting held 20/05/2020 (min9c), and 09/09/2020 (min206)
Has the Council properly tailored the Financial Regulations?	Yes	
Has the Council appointed a Responsible Financial Officer (RFO)? <sup>1</sup>	Yes	Within the contract of the Town Clerk
<b><i>Additional comments:</i></b>		

<sup>1</sup> Section 151 Local Government Act 1972 (d)

Section 3 – Payment controls		
The internal auditor will specifically check bank reconciliation including credit/debit cards and management approval processes and evidence that internal Financial Regulations (FO) are being followed. The internal auditor will examine how regular payments are managed and specifically seek evidence that these have been brought back to the Council for verification purposes especially where the actual payment made differs from the amount previously agreed. VAT should be clearly identified including evidence that claims have been correctly managed. The internal auditor will check if the Council has a clear understanding on eligibility in relation to the General Power of Competence and that s.137 has been correctly applied and managed.		
Evidence		<i>Internal auditor commentary</i>
Is there supporting paperwork for payments with appropriate authorisation?	Yes	A random sample of recent transactions was selected at this audit and at previous interim audits, following the paper trail from the minutes, purchase order through invoice, bank payment and cash book. There is a very well-evidenced support trail for all payments.
Where applicable, are internet banking transactions properly recorded and approved?	Yes	
Is VAT correctly identified, recorded and claimed within time limits?	Yes	A VAT return for Q3 was submitted 06/10/20 for £3,942.86 A VAT return for Q4 was submitted 08/04/21 for £4,351.86
Has the Council adopted the General Power of Competence (GPOC) and is there evidence this is being applied correctly? <sup>2</sup>	Yes	Yes, at the meeting held 15-05-2019.
Are payments under s.137 <sup>3</sup> separately recorded, minuted and is there evidence of direct benefit to electorate?	<i>Not applicable</i>	
Where applicable, are payments of interest and principal sums in respect of loans paid in accordance with agreements?	Yes	PWLB ref 08288: Renovation of Town Hall £17,365.97 was paid 21/09/20. Outstanding balance as at 31/3/21 = £320,873.85
<b>Additional comments:</b>		

<sup>2</sup> Localism Act

<sup>3</sup> Section 137 of the Local Government Act 1972 (“the 1972 Act”) enables local councils to spend a limited amount of money for purposes for which they have no other specific statutory expenditure. The basic power is for a local council to spend money (subject to the statutory limit – of £8.12 per elector) on purposes for the direct benefit of its area, or part of its area, or all or some of its inhabitants.

Section 4 – Risk management		
The internal auditor will expect to find evidence of the management of risks from identification of what those are for each individual Council through to how these will be managed and the controls in place to mitigate these and that these have been approved by the Council.		
Evidence		Internal auditor commentary
<i>Is there evidence of risk assessment documentation?</i>	Yes	The risk management policy and register were reviewed at the meeting held 20/05/2020 (min9d).
<i>Is there evidence that risks are being identified and managed?</i>	Yes	The Council reviewed its investment policy and strategy on 10/03/2021(min521)
<i>Does the Council have appropriate and adequate insurance cover in place for employment, public liability and fidelity guarantee <b>and</b> has been reviewed on an annual basis?</i>	Yes	The Council’s Insurance document was seen, insurances expiring 31/03/2022. Public liability cover is £15 million Employer’s liability cover is £10 million Fidelity Guarantee cover is £2 million The insurances were reviewed by the Full Council on 22/09/20 (min416) and again on 10/03/2021(min520)
<i>Evidence that internal controls are documented and regularly reviewed<sup>4</sup></i>	Yes	The Statement of Internal Controls was reviewed at the meeting held 10/06/2020 (min60)
<i>Evidence that a review of the effectiveness of internal audit has been carried out during the year<sup>5</sup></i>	Yes	The Effectiveness of Internal Audit was reviewed at the meeting held 10/06/2020 (min61)
<b>Additional comments:</b>		

<sup>4</sup> Accounts and Audit Regulations

<sup>5</sup> Governance and Accountability Guide

Section 5 – Budgetary controls		
The internal auditor will seek verification that budgets are properly prepared, agreed and monitored. In particular they will look for evidence of good practice in that the key stages of the budgetary process have been followed		
Evidence		Internal auditor commentary
<i>Verify that budget has been properly prepared and agreed</i>	Yes	The 2020/21 budget was approved by the full council held 08/01/2020 (min401). The 2021/22 budget was approved by Full Council on 13/01/2021 (min424(ii)) In accordance with good practice the minute records the budget figures clearly setting out budgeted income and expenditure.
<i>Verify that the precept amount has been agreed in full Council and clearly minuted</i>	Yes	The precept was approved at the full council meeting held 08/01/2020. In accordance with good practice the minute records the total amount, percentage increase and implications for Band D council taxpayers (min401) The precept for 2021/22 was approved at the full council meeting held 13/01/2021 (min 424(ii)) In accordance with good practice the minute records the total amount, percentage increase and implications for Band D council taxpayers.
<i>Regular reporting of expenditure and variances from budget</i>	Yes	Budget monitoring reports are received by Finance and Governance Committee at each of their meetings.
<i>Reserves held – general and earmarked<sup>6</sup></i>	Yes	General Reserves £449,926 as at 31st March 2021, representing just under 10 months net revenue expenditure. Earmarked Reserves £680,229 as at 31 <sup>st</sup> March 2021
<b>Additional comments:</b> <i>The EMR “VE75 Event” holds funds for a replacement event at some point in the near future, as the Felixstowe VE75 event in May 2020 was cancelled due to the pandemic. (Civic &amp; Community Committee 17/06/2020(min70), adopted by full council 08/07/2020(min128)</i>		

<sup>6</sup> In accordance with proper practices, the generally accepted minimum level of a Smaller Authority’s General Reserve is that this should be maintained at between three (3) and twelve (12) months of Net Revenue Expenditure

Section 6 – income controls		
The internal auditor will seek evidence to ensure income is correct managed – recorded, banked and reported and test mechanisms used to achieve this.		
Evidence		Internal auditor commentary
<i>Is income properly recorded and promptly banked?</i>	Yes	Two random sample items of income were cross checked against cash book, bank statement and invoices. No inconsistencies were found.
<i>Is income reported to full council?</i>	Yes	Within the context of main financial reporting and reporting by the Finance and Governance Committee
<i>Does the precept recorded agree to the Council Tax Authority’s notification?</i>	Yes	The demand served on East Suffolk Council dated 09/01/2020 was for £600, 570. Tranche 1 was banked on 29/04/2020 £300,285 Tranche 2 was banked on 30/09/2020 £300,285
<i>If appropriate, are CIL reporting schedules in accordance with the Regulations?<sup>7</sup></i>	Yes	with the next submission due in December 2021, this audit refers to the report submitted for the year ending 31/03/2020.
<i>Is CIL income reported to the council?</i>	Yes	
<i>Does unspent CIL income form part of earmarked reserves?</i>	Yes	CIL 2018/19 EMR = 4,057.15 CIL 2019/20EMR = £30,245.03 CIL received to 31/03/2021 = £17.291.40
<i>Has an annual report been produced?</i>	Yes	The report to 31/03/2020 was found on the website.
<i>Has it been published on the authority’s website?</i>	Yes	
<b>Additional comments:</b> The regulations require the 2021 report to be published by 31 <sup>st</sup> December 2021.		

<sup>7</sup> Community Infrastructure Levy Regulations 2010



Section 8 – petty cash		
The Internal Auditor will seek evidence that the Council has followed its own policies, procedures and verification processes and that these are up to date.		
Evidence		Internal auditor commentary
<i>Is petty cash in operation?</i>	Yes	A balance of £230.00 in cash and £20 in receipts was found to be in the tin
<i>If appropriate, is there an adequate control system in place?</i>	Yes	Members approved topping up petty cash up to the value of £250 monthly, at the meeting held 20/05/2020 (min12). As the audit was carried out remotely due to Covid 19 restrictions, it was not possible to verify that the petty cash tin, receipt, and petty cash book reconcile.
<b>Additional comments:</b>		

<b>Section 9 – Payroll controls</b>		
<p>The Internal Auditor will check salaries are approved in accordance with PAYE, NI, Pension and that there is a clear understanding that the clerk is not self-employed. If the Clerk was recruited after 1<sup>st</sup> April 2001, evidence will be required to show compliance with the new requirements for the statement of employment, Induction, probation periods and training requirements. The Internal Auditor will also review how payroll is managed including evidence of approval of payslips.</p>		
Evidence		Internal auditor commentary
<i>Do all employees have contracts of employment?</i>	Yes	There were twelve employees listed on payroll as at 31/03/21, plus the mayor to allow proper tax treatment of the Mayoral allowance.  A sample of payments were tested and found to match between the RTI submission and bank.
<i>Has the Council approved salary paid?</i>	Yes	
<i>Minimum wage paid?</i>	Yes	
<i>Are arrangements in place for authorising of the payroll and payments to the council? Does this include a verification process for agreeing rates of pay to be applied?</i>	Yes	The Council reviewed terms and conditions for all staff are revised the 2020/21 budget at the meeting held 09/09/2021
<i>Do salary payments include deductions for PAYE/NIC? Is PAYE/NIC paid promptly to HMRC?</i>	Yes	In accordance with Proper Practices, PAYE taxes and employee and employer National Insurance contributions (NIC) are calculated and recorded for every employee. Deductions are paid to HM Revenue and Customs and Suffolk County Council on or before the dates prescribed.
<i>Is there evidence that the Council is aware of its pension responsibilities? Are pension payments in operation?<sup>8</sup></i>	Yes	As at 31/03/21, 7 staff were members of LGPS, 4 are members of NEST
<i>Are there any other payments (eg: expenses) and are these reasonable and approved by the Council?</i>	Yes	The pay uplift implemented in September 2020 was verified during the interim audit.
<b>Additional comments:</b>		

<sup>8</sup> The Pension Regulator – [website click here](#)

<b>Section 9 – Asset control</b>		
<p>The Internal Audit will be seeking to establish if there is a list of assets in accordance with proper practices including the date of acquisition, location and value. This extends to checking policies (with evidence of review) and that the Council has applied the documented approach in practice. The Internal Auditor will check not only valuation processes but the existence of reserve budgets for depreciation and adequacy of insurance. A clear audit trail should be available when items are purchased including minutes to evidence approval.</p>		
<b>Evidence</b>		Internal auditor commentary
<i>Does the Council maintain a register of material assets it owns and manage this in accordance with proper practices?<sup>9</sup></i>	Yes	The Asset register ‘as at’ 31/03/2021 was seen.
<i>Are the value of the assets included? (note value for insurance purposes may differ)</i>	Yes	Total of fixed assets for 31/03/2021 is £70,489.23
<i>Are records of deeds, articles, land registry title number available?</i>	Not tested	
<i>Is the asset register up to date and reviewed annually?</i>	Yes	The asset register is scheduled for review at the May 2021 Annual Meeting of the Council
<i>Cross checking of insurance cover</i>	Yes	The asset register clearly identifies the insurance and asset valuations to enable cross-checking of insurances.
<b>Additional comments:</b>		

<sup>9</sup> Governance and Accountability for Smaller Authorities in England – March 2019

Section 10 – bank reconciliation		
The internal auditor will seek to establish that the Council understands and can evidence good practice and internal control mechanisms in relation to bank reconciliation.		
Evidence		Internal auditor commentary
<i>Is bank reconciliation regularly completed and reconciled with the cash book and cover every account?</i>	Yes	Reconciliations are done monthly. A councillor has been receiving emailed copies of the bank statement and cashbook to confirm the reconciliation, due to coronavirus restrictions.
<i>Do bank balances agree with bank statements?</i>	Yes	The auditor was provided with copies of bank accounts up to 31/03/21, evidencing the following balances match the cashbook 31/03/21 Town Council account 0687: £50,738 20/07/20 Close Brothers 9955: £500,000 31/03/21 Base rate reward 6831: £410,839.21 31/03/21 Business Premium Account 5315: £163,343.33
<i>Is there regular reporting of bank balances at Council meetings?</i>	Yes	Very full reports are provided to each regular full council meeting and on the website.

Section 11 – year end procedures		
Evidence		<i>Internal auditor commentary</i>
<i>Are appropriate accounting procedures used?</i>	Yes	Accounts are produced on an income and expenditure basis.
<i>Financial trail from records to presented accounts</i>	Yes	
<i>Has the appropriate end of year AGAR<sup>10</sup> documents been completed?</i>	Yes	As Council is a smaller authority with gross income and expenditure exceeding £25,000 but not exceeding £6.5million it has completed Part 3 and Section 1 Accounting Statements of the AGAR. The Full council discussed and approved the completed AGAR at the meeting 11//11/2020 (min328) and confirmed the completion of audit was publicly advertised for the required period.
<i>Did the Council meet the exemption criteria and correctly declared itself exempt?</i>	Not applicable	
<i>During the period in question did the small authority demonstrate that it correctly provided for the exercise of public right as required by the Accounts and Audit Regulations 2015?</i>	Yes	
<i>Have the publication requirements been met in accordance with the Regulations?<sup>11</sup></i>	Yes	Yes - Finance and Governance Committee noted that the notice of conclusion of audit was displayed from 16th October to 2nd November 2020.
<b>Additional comments:</b>		

<sup>10</sup> Annual Governance & Accountability Return (AGAR)

<sup>11</sup> Accounts and Audit Regulations 2015

<b>Section 12 – internal audit</b>		
The internal auditor will revisit weaknesses and recommendations previously identified to see if these have been addressed. They will also check if any changes introduced require further verification to ensure effectiveness of the corrective action taken.		
<b>Evidence</b>		<i>Internal auditor commentary</i>
<i>Has the previous internal audit report been considered by the Council?</i>	Yes	The interim internal audit report for the first half of 2020-21 was considered by finance committee at the meeting held 09/12/2020 (min375). <b>Recommendation: The full council needs to consider internal audit report and this be recorded in the minutes.</b>
<i>Has appropriate action been taken regarding the recommendations raised?</i>	Yes	
<i>Has the Council confirmed the appointment of an internal auditor?</i>	Yes	SALC was appointed as the internal auditor at the full council meeting held 10/06/2020 (min61ii)
<b>Additional comments:</b>		

<b>Section 13 – external audit for the period under review</b>		
The internal auditor will revisit the external audit so that previous weaknesses and recommendations can be taken into account.		
<b>Evidence</b>		<i>Internal auditor commentary</i>
<i>Has the previous external audit report been considered by the Council?<sup>12</sup></i>	Yes	The External audit report dated 08/10/2020 was found on the website and reported to Full Council on 11/11/2020
<i>Has appropriate action been taken regarding the comments raised?</i>	<i>Not applicable</i>	No issues or concerns were raised
<b>Additional comments:</b>		

<sup>12</sup> Regulation 20 Accounts and Audit Regulations 2015 – following completion of an audit the Council should note that it is the Council as a whole (ie. All members) and not a committee that should receive and consider the audit letter (including Annual Return and Certificate) from the local auditor as soon as reasonably practicable and the minutes should reflect that these have been received.

<b>Section 14 – additional information</b>		
The internal auditor will look for some additional evidence of good record keeping, compliance with data protection regulations, freedom of information and website accessibility regulations.		
<b>Evidence</b>		<i>Internal auditor commentary</i>
<i>Was the annual meeting held in accordance with legislation?</i> <sup>13</sup> <i>(note to auditor- emergency Regulations as a result of the COVID-19 pandemic)</i> <sup>f14</sup>	Yes	The Annual Council meeting was held 20/05/2020 online. Councillor Jepson was elected Mayor as the first item of business.
<i>Is there evidence that Minutes are administered in accordance with legislation?</i> <sup>15</sup>	Yes	
<i>Is there a list of members' interests held?</i>	Yes	This was found on the website
<i>Does the Council have any Trustee responsibilities and if so are these clearly identified in a Trust Document?</i>	Not applicable	The Mayor of Felixstowe Charity Fund, registered charity no. 1184138, has recently been registered with the Charity Commission to separate the responsibility of stewarding charitable funds from the Town Council. Naturally at the moment there remains a strong connection between the charity and the Town Council, but the auditor has been assured that the town council no longer exerts stewardship over the funds.
<i>Has the Transparency Code been correctly applied and information published in accordance with current legislation?</i>	Yes	Information on payments above £500 were found to be on the website up to March 2021
<i>Has the Council registered with the Information Commissioner's Office (ICO)?</i> <sup>16</sup>	Yes	Reference Z4979399
<i>Is the Council compliant with the General Data Protection Regulation requirements?</i>	Yes	

<sup>13</sup> The Local Government Act 1972 Schedule 12, paragraph 7 (2) and Schedule 15 (2)

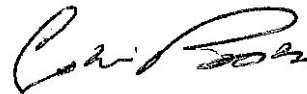
<sup>14</sup> The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020

<sup>15</sup> Public Bodies (Admission to Meetings) Act 1960, Local Government Act 1972 and the Localism Act 2011

<sup>16</sup> Data Protection Act 2018

<i>Has the Council published a website accessibility statement on their website in line with Regulations?<sup>17</sup></i>	Yes	The Council adopted a website accessibility statement 09/09/2021 (min209) and created an action plan to address any shortfall.
<i>Is there evidence that electronic files are backed up?</i>	Yes	FTC uses cloud-based systems backed up through Sharepoint, which is GDPR compliant.
<i>Do terms of reference exist for all committees and is there evidence these are regularly reviewed?</i>	Yes	The Finance and Governance Committee considered the terms of reference for all committees on 24/03/2021 to recommend to the Annual Meeting in May 2021
<i>Do the following policies exist, have they been formally adopted and are these regularly reviewed?</i>  <ul style="list-style-type: none"> <li>• <i>Health and Safety</i></li> <li>• <i>Equality Opportunities</i></li> </ul>	Yes	These documents were found on the website. They do not show review dates, but the Personnel Committee reviewed all policies 07/04/2021 (min577). This matter was taken in closed session.  <b>Note: Unless there is a specific reason, reviews of general employment policies would not normally need to be in closed session.</b>
<b>Additional comments: Thank you to Felixstowe's Deputy Clerk for her assistance with completing this year end audit.</b>		

Signed: Colin Poole, on behalf of SALC



Date of Internal Audit Visit: 06 May 2021

Date of Internal Audit Report: 19 May 2021

On behalf of Suffolk Association of Local Councils

<sup>17</sup> Website Accessibility Regulations 2018