
Sprowston Town Council

Internal Audit Report 2015-16 (Interim)

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Background and Scope

The Accounts and Audit Regulations, effective from 1st April 2001 require all Town and Parish Councils to implement an independent internal audit examination of their Accounts and accounting processes annually. The Council has complied with the requirements in terms of independence from the Council decision making process, appointing Auditing Solutions Limited to provide this service to the Council.

This report sets out those areas examined during the course of our recent interim visit to the Council for 2015-16, which took place on 7th and 8th December 2015. It will be subject to update following our final visit to the Council at a date to be arranged subsequent to the conclusion of the preparation of the Accounts, in May or June 2015.

Internal Audit Approach

In commencing our review for the 2015-16, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts, together with considering the potential impact that may arise from any variances in income and expenditure comparing that for 2015-16 with previous years.

Our overall aim is to satisfy ourselves and provide officers, councillors and local electors with assurance, that the Council's systems of internal financial control are robust and are operating in accordance with the approved statutory and regulatory framework as set out in central government legislation and the Council's own governance arrangements and procedures.

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 certification of the internal audit certificate in the Council's Annual Return, which covers the basic financial systems and requires assurances in ten separate areas.

Overall Conclusion

We are pleased to confirm that, in the areas examined to date this year, the Council continues to operate an effective system of internal control that should help ensure that transactions are free from material misstatement and will be reported accurately in the detailed Statement of Accounts and Annual Return for 2015-16.

We are also pleased to record that no significant issues have been identified during the course of this interim visit, although we have noted one area where there is scope to further improve the internal control arrangements. This is detailed in the body of the report, with the resultant recommendation further summarised in the appended Action Plan.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Clerk and her staff have continued to use Sage software for recording financial transactions during the year. It was evident from our review that there is a good level of understanding of the functionality of the software, with downloads into Excel spreadsheets used to provide additional analysis when required.

Four principal cash books continue to be used for the various bank accounts held at Barclays Bank (General, Business Premium, Drawings and Salaries), which are supplemented by two further Business Saver and Active Saver accounts. No funds are invested in longer term savings or deposits at this time.

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. We have: -

- Checked and agreed the opening 2015-16 trial balance detail in the financial software with that in the 2014-15 Statement of Accounts and Annual Return;
- Checked to ensure that the financial ledger remains “in balance” at the present date;
- Ensured that the cost centre and nominal ledger income and expenditure coding structure remains appropriate for purpose;
- Checked and agreed detail in all the aforementioned cashbooks, verifying two sample months’ transactions (May and October 2015) to relevant bank statements, including the various inter-account “sweep” transfers between the bank accounts; and
- Checked and agreed detail on the bank reconciliations for all accounts as at the close of October 2015 (the most recent available) to ensure that no long standing, uncleared or other anomalous entries arise.

Conclusions

We are pleased to record that no issues have been identified in this area of our review process that warrant any further comment or officer’s attention at present. We will test further months’ transactions (as considered necessary) and verify the closing balance disclosures in the Annual Return at our final visit.

Review of Corporate Governance

Our objective is to ensure that the Council has robust corporate governance arrangements in place; that Council meetings are 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. We noted the following:-

- The Council’s Standing Orders and Financial Regulations have been subject to further review, with updated documents approved by the new Council at its first meeting following the elections - held on 20th May 2015;

- At the same meeting, the Council re-adopted the General Power of Competence;
- During 2015-16 the Council has formally documented its strategic aims and objectives and has approved a wide range of policies and strategic documents, which include, in particular, a five-year business plan (2015-19), supported by an outline financial plan for the period and a business plan for the Diamond Centre; and
- We have commenced our review of minutes for the year, examining those for the full Council and Standing Committee meetings to mid-October 2015. We are pleased to record that we have not identified any issues that may have an adverse effect on the Council's financial stability in the short, medium or longer term or that give us concern that the Council may either be considering, or have taken, decisions that might result in ultra vires expenditure being incurred

Conclusions

On the basis of our review, we are satisfied that the Council continues to adopt a sound approach to its corporate governance responsibilities and there are no matters arising that require any formal comments or recommendations at present. We will continue to monitor the approach at the final audit visit, also extending our review of minutes for the remainder of the financial year.

Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and approved 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;
- That an official order is raised for all relevant goods and/or services: we acknowledge that this will not be necessary for all items of expenditure, which are regularly the subject of contracts (e.g. grounds maintenance) or legal requirements (e.g. non domestic rates);
- All 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 the control account for periodic recovery.

We have commenced our review of payment transactions for the year for compliance with the above criteria, selecting a sample of all individual payments over £2,500, together with a more random selection of every 25th cashbook transaction irrespective of value, for the year to the end of November 2015. In all, we have examined 50 payments totalling £607,748 and equating to 88% of non-pay related payments processed in the year to date.

Two quarterly VAT Returns have been submitted during the current financial year: we have checked and agreed the September 2015 recovery claim to the relevant nominal ledger control account balance.

Conclusions

We are pleased to report that no issues have been identified in this review area at present with all the above criteria met. We will extend our test sample to cover the remainder of the financial year at our final visit.

Assessment and Management of Risk

Our aim here is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks in order to minimise the opportunity for their coming to fruition. We note that:-

- An updated financial risk assessment for the 2015-16 financial year was approved at the Council meeting on 10th June 2015;
- Subsequently, an overall risk management strategy, with detailed appendices setting out the mitigating controls, together with a health and safety risk register were approved at the Council meeting on 2nd September 2016; and
- The current insurance policy with Zurich Municipal (to March 2016) includes Public Liability cover of £10 million; Employer's Liability of £10 million, Fidelity Guarantee at £500,000 and Business Interruption cover of £30,000, all of which we consider to be appropriate to meet the needs of the Council.

Conclusions

We are pleased to report that no issues have arisen which warrant formal comment or recommendation in this area: we will continue to monitor the Council's approach to risk management at future visits.

Precept determination and budgetary control

We aim in this area of our work to ensure that the Council has appropriate procedures in place to determine its future financial requirements leading to the adoption of an approved budget and formal determination of the amount to be precepted on the District Council; that effective arrangements are in place to monitor budgetary performance throughout the financial year and that the Council has identified and retains appropriate funds in general and earmarked reserves to finance its ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure. To meet this objective, we confirmed that:-

- The budget and precept deliberations for 2016-17 were completed satisfactorily, with an overall precept requirement of £547,332 (inclusive of the Council Tax Support Grant, which was not separately identifiable at the time) approved at the Council meeting on 18th November 2015. A detailed budget report was provided by the Clerk to assist the Council with its deliberations, which also took into consideration the requirements of the longer term financial strategy;

- The Council is continuing to receive detailed budget monitoring reports on a quarterly basis during the year; and
- The Council's reserve requirements continue to be reviewed on a regular basis, as well as being considered as part of the budget setting process. At the end of the second quarter of 2015-16, the overall reserves stood at £939,000, with General Fund balances of £626,000 and the remainder earmarked for specific purposes, the largest element (£203,000) being set aside for the Diamond Centre Redevelopment project. From our discussions with the Clerk we understand that it is anticipated that it will be necessary for further resources to be made available from the General Fund balances to support this project, once other elements of the overall funding are finalised.

Conclusions

We are pleased to report that no issues have been identified that warrant formal comment or recommendation.

Review of Income

The Council receives income from a variety of sources including hire fees for use of the Diamond Community Centre, lettings of sports facilities, fees from burial and associated activities, allotment rentals, bank interest and recoverable VAT.

Our objective is to ensure that robust procedures are in place to ensure that all income due to the Council is identified and invoiced (where applicable) appropriately with recovery effected within a reasonable time span. We noted the following:-

- In accordance with the Financial Regulations, the Council continues to review the scales of fees and charges for all its activities annually. The latest review was completed and changes approved at the Council meeting on 18th November 2015, to take effect from 1st April 2016;
- We examined all interment records for the period 1st September to 4th December 2015, checking the application forms, sales ledger invoicing and Sage transactions to ensure that the correct fees had been levied in accordance with the published scales and that monies had been received and banked in an accurate and timely manner with no issues arising. (Some of the burial registers were not on site at the time of our interim visit and we will complete our check to these documents at the year-end audit);
- We have examined a sample of Sage sales ledger invoices for the various Diamond Centre room bookings and the indoor & outdoor facilities at the Recreation Ground, again also to ensure fees were in accord with the published scales and settled in a timely manner with no matters arising;
- We noted from the recent Allotment renewal invoices effective from 1st October 2015 that, as in the previous year, 92 were raised in total. From the Sales Ledger, Aged Debtor report as at 1st December 2015, we noted that only one payment remained outstanding at that date and confirmed that the reason for this was being investigated by officers: no further comment is considered necessary;
- From review of the aged debtors list, we noted that the total value of outstanding debtor balances of more than one month are very low (approximately £3,000), which demonstrates effective debt management; and

- As noted earlier in this report, we have checked and agreed all bank receipts arising in the sample months of May and October 2015 to relevant cashbooks and bank statements.

Conclusions

We are pleased to report that the systems for identification and recording of income appear to continue to work effectively: we will undertake any further testing that may be considered necessary, including the update of our year-on-year analysis of income arising across the various activities at our final visit.

Petty Cash and Barclaycard Accounts

A very limited petty cash scheme is operated at the Council's office, "topped up" as and when required. There have been very few transactions on this account to the end of November 2015 and we will review detail at the year-end visit.

In addition, the Council continues to make use of a commercial Barclaycard, which has largely superseded the use of the petty cash account. The Clerk is the sole holder of the card, which is used for occasional internet purchases, urgent customer catering for Diamond Centre meetings and fuel for the Council's vehicle, with settlement by direct debit in full each month. Details of the transactions on this account are presented to members for approval in the same manner as all other supplier payments. The card limit is £4,000, but from examination of the account records for the year to date, we note that only in November 2015 was the monthly spend above £1,000.

Transactions on the credit card were included within our expenditure sample testing referred to above, to confirm that expenditure was appropriate for the Council's activities; that each item was properly supported by a till receipt or supplier invoice; and that VAT, where applicable, was separately identified for recovery.

Conclusions

No issues have been identified in this area of our review at present.

Review of Salaries

In examining the Council's payroll function, we aim 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, as further revised from 1st April 2015, in relation to employee percentage bandings.

To confirm compliance with the above criteria, we have:-

- Ensured that the Council reviews and approves pay scales for staff annually, noting that there have been a number of changes to both personnel and hours of employment within the grounds management and cleaner/caretaker teams since the start of the

2015-16 financial year. All staff are on nationally agreed (NJC) pay scales and the Council had resolved to implement the annual pay award for 2015-16 at its meeting on 10th December 2014;

- Undertaken detailed testing in this area by reference to the November 2015 payroll, which continues to be produced by the Clerk using bespoke Sage software, ensuring that:
 - ❖ All gross salaries were paid in accord with the approved SCP pay rates - full and part-time;
 - ❖ PAYE tax codes and National Insurance contribution tables were being accurately applied;
 - ❖ Pension contributions were being accurately computed in accord with the revised salary bandings for employee contributions;
 - ❖ Any additional hours and/or other relevant expenses were supported by appropriate timesheets and approved claim forms;
 - ❖ All net pay computations for the month agreed to the payslip details and to the resultant electronic BACS payments made; and
 - ❖ Ensuring that the current HMRC regulations requiring monthly, electronic payroll submissions (the Real Time Initiative) were being met.

Conclusions

In overall terms, we found the controls over the processing of salaries and wages to be adequate and to be operating effectively. The one matter which we would draw attention to is the lack of evidence of any third-party review of the underlying documentation supporting the monthly payroll payments. As a minimum, we would expect evidence of review, periodically, of the payslips produced by the payroll software to confirm that these agree to the net amounts paid and similarly the information produced in support of payments to HMRC and the Norfolk Pension Fund (NPF). This would also provide a safeguard for the Clerk, who has sole responsible for the computation of salaries and wages.

R1. An independent review should be undertaken by a councillor (we would suggest by the Chairman), on a regular basis, of the salary payments made to staff, together with payments to HMRC and the NPF. This review should, as a minimum, reconcile the payments made to the salary, tax and pension information produced by the Sage payroll software. The review should be evidenced.

Investments and Loans

Our objectives here 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.

All of the Council's funds that are surplus to immediate requirements are currently retained in instant access "Active Saver" accounts at Barclays, for which the Clerk has negotiated a favourable rate of interest, rather than in any specific longer-term investments.

We have checked and agreed the first instalment repayments of the Council's PWLB loans in May, September and November 2015 from the relevant bank statements to their third party direct debit settlement advice notes. At our final visit we will verify the accuracy of the disclosure of the year-end PWLB balances in the Annual Return.

Conclusions

As noted above, all of the Council's reserves are held in instant access accounts. Whilst the current rate of interest negotiated by the Clerk is better than can normally be achieved on such accounts, there is a need for the Council to consider whether there are alternative options for the placement of surplus funds, such as a Barclays' 'Base Rate Return' account or term deposits (e.g. fixed rate of interest for one year), which could secure a better return, without impacting on the level of risk of loss of funds.

We would also draw the attention of Members to the potential applicability of the "DCLG Guidance on Local Authority Investments (11th March 2010)". Whilst this Guidance is aimed mainly at principal authorities, it is our understanding that it is applicable to all parish or town councils with investments (defined as either short-term or long-term) of more than £500,000, which is the case for Sprowston Town Council. Where the Guidance is applicable, the council concerned is required to prepare a formal investment strategy, which should be reviewed on at least an annual basis.

R2 *The Council should consider holding at least a proportion of its reserves in longer term investments aimed at securing a better rate of interest whilst minimising the risk of loss of funds. [NB: in doing so it will be important to bear in mind the financial limit on the guarantee of investments held with a single banking institution].*

R3. *The Council should confirm whether or not it is covered by the requirements of the DCLG Guidance on Local Authority Investments. If it is covered, action should be taken prior to the start of the 2016-17 financial year to produce and approve a formal investment strategy, which should then be updated on at least an annual basis.*

Rec. No.	Recommendation	Response
Review of salaries		
R1	An independent review should be undertaken by a councillor (we would suggest by the Chairman), on a regular basis, of the salary payments made to staff, together with payments to HMRC and the NPF. This review should, as a minimum, reconcile the payments made to the salary, tax and pension information produced by the Sage payroll software. The review should be evidenced.	Agreed. The Chairman will undertake such a review and provide evidence.
Investments and loans		
R2	The Council should consider holding at least a proportion of its reserves in longer term investments aimed at securing a better rate of interest whilst minimising the risk of loss of funds. [NB: in doing so, it will be important to bear in mind the financial limit on the guarantee of investments held with a single banking institution].	Agreed. Reserves in longer term investments to be reviewed when the interest rate rises to 2% and take into consideration the Council's Corporate Business Continuity Plan (loss of investment money).
R3	The Council should confirm whether or not it is covered by the requirements of the DCLG Guidance on Local Authority Investments. If it is covered, action should be taken prior to the start of the 2016-17 financial year to produce and approve a formal investment strategy, which should then be updated on at least an annual basis.	Agreed.