
Sprowston Town Council

Internal Audit Report 2016-17 (Interim)

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for Auditing Solutions Ltd

Background and Scope

Background

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 Return. Auditing Solutions Ltd has been appointed to provide this service to Sprowston Town Council.

This report sets out those areas examined during the course of our recent interim visit to the Council for 2016-17, which took place on 5th and 6th December 2016.

Internal Audit Approach

In commencing our internal audit work for the year, we have had regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts/Annual Return. We have employed a combination of selective sampling techniques (where appropriate) and 100% detailed checks in a number of key areas, in order to gain sufficient assurance that the Council's financial and regulatory systems and controls are appropriate and fit for the purposes intended.

Our programme of cover is designed to provide assurance that the Council's financial systems are robust and are operating in a manner to ensure effective probity of transactions, and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Annual Internal Audit Report' in the Council's Annual Return, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

We have concluded that, on the basis of the programme of work we have undertaken in the year to date, the Council continues to maintain adequate and effective internal control arrangements. We are pleased to report that there are no matters arising from our interim testing that require a formal comment or recommendation for action.

In the sections below we have explained the objectives of each area of our audit and outlined the work we have undertaken to date, and our findings.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

Our objective 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 2016-17 trial balance detail in the Sage accounting software with that in the 2015-16 Statement of Accounts and Annual Return;
- Checked to ensure that the financial ledger remained “in balance” at the time of the interim visit;
- Confirmed that the cost centre and nominal ledger income and expenditure coding structure remains appropriate for purpose;
- Checked and agreed the detail in all of the Sage cashbooks, verifying two sample months’ transactions (May and September 2016) to relevant bank statements, also confirming that the balances of accounts closed in the year (following the rationalisation of the Council’s banking arrangements) were correctly transferred;
- Checked and agreed the detail on the second quarterly bank reconciliation (as at 30 September 2016), confirming that reconciliations continue to be prepared on a regular basis and that there is evidence of independent review; and
- Confirmed that daily back-up of the Sage software is undertaken and that this is being tested on a periodic basis.

Conclusion

We are pleased to report that no issues have been identified in this area to date. We will undertake further work at our final visit including verification of the accurate disclosure of year-end balances in the Annual Return for the year.

Review of Corporate Governance

Our objective is to ensure that the Council has a robust regulatory framework in place; that Council and Committee 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 Standing Orders and Financial Regulations were both reviewed at the Council meeting on 18th May 2016, with minor amendments approved to the former and the latter re-adopted without amendment. The Financial Regulations were subsequently revisited in August 2016, when amendments were approved to reflect changes in banking and petty cash arrangements;
- At the meeting in May 2016 meeting, the Council re-adopted the General Power of Competence;

- The Council continues to ensure that its strategic aims and objectives are clearly documented, with a wide range of policies and strategic documents in place that are subject to review on a regular cycle. These include, in particular, a five-year business plan, 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 period to early November 2016. 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.

Conclusion

On the basis of our review, we are satisfied that the Council continues to adopt a sound approach to its corporate governance responsibilities. 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 objective is to ensure that:

- Council resources are released in accordance with the 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;
- That an official order is raised where relevant: 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);
- 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 the control account for periodic recovery.

We have commenced our review of payment transactions for the year for compliance with the above criteria. We selected 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 2016. In all, we examined 44 payments, totalling £272,437 and equating to 65% 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 2016 recovery claim to the relevant nominal ledger control account balance.

Conclusion

We are pleased to report that no issues have been identified in this audit 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 objective 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 2016-17 financial year was approved at the Council meeting on 8th June 2016;
- At the same meeting the Council re-approved its overall risk management strategy, with detailed appendices setting out the mitigating controls, together with its health and safety policy; and
- The current insurance policy with Zurich Municipal (to March 2017) includes Public Liability cover of £15 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.

Conclusion

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

Our objective is 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 reserve funds to meet future spending plans.

Our interim review took place just before the Council was due to give formal consideration to the budgetary and precept requirements for 2017-18. We will review the process followed at our final audit visit, at which time we will also examine the year-end budget outturn for the current year.

We are pleased to note that the Council continues to receive detailed budget monitoring reports on a quarterly basis during the year and that these include details of the balances of the General Fund and specific earmarked reserves.

Conclusion

No issues have arisen from this area of our review to date. As noted above, we will undertake further, more detailed, work at our final visit.

Review of Income

In this area of review, our objective is to ensure that income due to the Council is identified, invoiced (where applicable), recovered at the appropriate rate and within a reasonable timescale, and also that it is banked promptly in accordance with the Council's Financial Regulations.

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

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 fees and charges for 2016-17 were 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 April to 31st July 2016, 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;
- We examined a sample of 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 confirmed that all allotment renewal invoices effective from 1st October 2016 were raised on a timely basis. From the Sales Ledger, Aged Debtors report as at 6th December 2016, we confirmed that only one rental payment remained outstanding at that date and that appropriate action was in hand;
- From review of the Aged Debtors Report, we also confirmed that, as was the case last year, the total value of outstanding debtor balances of more than one month remains very low (approximately £1,000), which demonstrates the effectiveness of the Council's debt management arrangements; and
- As noted earlier in this report, we have checked and agreed all bank receipts arising in the sample months of May and September 2016 to relevant cashbooks and bank statements.

Conclusion

On the basis of our audit work, 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 Account

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 2016 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 continue to be 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 the monthly spend has not yet exceeded £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.

Conclusion

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

Review of Salaries

In examining the Council's payroll function, our objective is to confirm that extant employment legislation is being appropriately observed and that the requirements of HM Revenue and Customs (HMRC) as regards the deduction and payment over of income tax and NI contributions are complied with, together with meeting the requirements of the local government pension scheme.

To confirm compliance with the above criteria, we have:

- 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 2016-17 financial year. All staff are on nationally agreed (NJC) pay scales and the Council had resolved to implement the nationally agreed pay awards for 2016-17 and 2017-18 at its meeting on 8th June 2016;
- Reviewed the contracts of employment for new members of staff in the year, confirming that these are in line with good practice;
- Undertaken detailed testing of salaries paid, by reference to the November 2016 payroll, which continues to be produced by the Clerk using bespoke Sage software, to confirm that:

- 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;
- The current HMRC regulations requiring monthly, electronic payroll submissions (the Real Time Initiative) were being met; and
- The payroll details are now subject to periodic review by the Council Chairman, as recommended in last year's interim audit report.

We note that the Council's staging date for Pensions Auto-enrolment is February 2017. From our discussions with the Town Clerk, we have confirmed that the necessary actions are being taken to ensure compliance, which have included writing formally to all staff advising them of the changes and their position.

Conclusion

In overall terms the controls over the processing of salaries and wages appear to be adequate and to be operating effectively, and there are no matters arising from our review.

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.

We are pleased to note that in response to our recommendation in last year's interim report, the Council formally adopted a Treasury Management Policy in January 2016 and this is now subject to regular annual review.

Until recently, all of the Council's funds that are surplus to immediate requirements have been retained in an instant access "Active Saver" account at Barclays, for which the Clerk had negotiated a favourable rate of interest, rather than in any specific longer-term investments. However, we note that, following the recent drawdown of a £1.5m loan from the PWLB towards the costs of redevelopment of the Diamond Centre, the Council took the decision to place £1m in a fixed interest deposit account (six months), which is currently paying a slightly better rate of interest.

We have checked and agreed the instalment repayments of the Council's PWLB loans for the year to date 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.

Conclusion

No issues have arisen in this area at present: we will undertake further work in this area at the final audit visit, including verifying the accurate disclosure of the year-end PWLB balances in the Annual Return.