
Sprowston Town Council

Internal Audit Report 2017-18 (Interim)

Stephen Christopher

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 2017-18, which took place on 5th and 6th December 2017.

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.

In the sections below we have explained the objectives of each area of our audit, outlining the work we have undertaken to date and the key issues arising. There was only one matter that required a formal recommendation. We ask that Members consider the content of this report and respond in due course to the recommendation as set out in the Action Plan.

This report has been prepared for the sole use of Sprowston 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, for any reason whatsoever, on this report, its contents or conclusions.

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 balance for 2017-18 in the Sage accounting software with that in the 2016-17 Statement of Accounts and Annual Return;
- Confirmed 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 one sample month’s transactions (May 2017) to relevant bank statements;
- Checked and agreed the detail on the second quarterly bank reconciliation (as at 30 September 2017), 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 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 meetings), all meetings are conducted in accordance with the adopted Standing Orders and that 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 reviewed at the Council meeting on 17th May 2017 and both re-adopted without amendment;
- At the May 2017 meeting, the Council also 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;

- A range of detailed financial procedures documents are in place, and
- We have commenced our review of minutes for the year, examining those for the period to early November 2017. 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, to check compliance with the above criteria. We selected a sample of all individual payments over £2,500, together with a more random selection of every 40th cashbook transaction irrespective of value, for the financial year to date (30th November 2017). In all, we examined 40 payments, totalling £719,000, which equates to 87% of non-pay related payments processed.

Two quarterly VAT returns have been submitted during the current financial year: we have checked and agreed the September 2017 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 noted the following:

- The Council re-approved its overall risk management strategy at the meeting on 17th May 2017, with detailed appendices setting out the mitigating controls, together with its health and safety policy
- An updated financial risk assessment for the 2017-18 financial year was approved at the meeting on 7th June 2017;
- At the June 2017 meeting, the Health and Safety policy and manual was also updated;
- The grounds staff undertake regular inspections of the playground equipment (normally on a monthly basis). These are reported to the Committee/Administrative Officer, who is responsible for maintaining a record of issues identified and ensuring appropriate action is taken;
- The most recent annual Health and Safety (H&S) audit was carried out by Elcons (the Council's H&S advisor) on 13th June 2017. The identified actions were reported to the Council on 19th July 2017 and programmed to be undertaken over the next year, and
- The current insurance policy with Zurich Municipal (to March 2018) 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 and that effective arrangements are in place to monitor budgetary performance throughout the financial year. We also aim to confirm 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 2018-19, although we noted that some initial discussions had taken place. 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.

The Council is continuing to receive income from the Community Infrastructure Levy (CIL) from housing developments and, in accordance with the agreed approach, this is being allocated to the Diamond Centre re-development project.

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 Centre, letting of sports facilities, fees from burial and related 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 the 2017-18 financial year were approved at the Council meeting on 7th December 2016, as part of the budget process;
- We examined all interment records for the period 1st July to 31st October 2017, 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 accordance with the published scales and were settled in a timely manner, with no matters arising;
- We confirmed that all allotment renewal invoices effective from 1st October 2017 were raised on a timely basis. From the Sales Ledger, Aged Debtors report as at 6th December 2017, we confirmed that all rental income due had been received;
- 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, which demonstrates the effectiveness of the Council's debt management arrangements; and

- As noted earlier in this report, we checked and agreed all bank receipts arising in the sample month of May 2017 to relevant cashbooks and bank statements, with no issues arising.

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

When completing the 'Annual Internal Audit Report' in the Annual Return, we are required to confirm that there are effective controls over the petty cash account operated by the Council. To meet that objective, we confirm that:

- Any petty cash accounts in operation are managed effectively and that all expenses incurred are appropriately supported by a trade invoice or relevant till receipt;
- Only low value expenditure is incurred from any petty cash account(s) in use;
- Where appropriate, VAT is identified and coded accordingly for periodic recovery from HMRC; and
- The physical cash held is periodically reconciled to the supporting records.

During the course of our interim audit, we reviewed the account and confirmed that it is being managed effectively and that the physical cash held at the date of the audit visit agreed to the underlying accounting records.

The Council continues to make use of a commercial Barclaycard (with a card limit of £4,000), 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. We reviewed the most recent Barclaycard statement (to 2nd November 2017) and confirmed that all payments were supported by receipts and that VAT had been correctly 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 check compliance with the above criteria, we have:

- Confirmed 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 2017-18 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 and
- Undertaken detailed testing of salaries paid, by reference to the November 2017 payroll, which the Town Clerk continues to produce 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.

Conclusion

In overall terms the controls over the processing of salaries and wages were found to be adequate and to be operating effectively. The only matter we would highlight relates to the periodic (quarterly) review of payroll details undertaken by the Council Chairman. Whilst we understand that a review was due to be undertaken in September 2017, it has not been evidenced on the payroll file.

R1 The periodic review of payroll detail undertaken by the Council Chairman should be evidenced by signing the relevant documents.

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.

The Council's Treasury Management (Investment) Policy was adopted in January 2016 and we note that it was formally reviewed and re-adopted in May 2017.

Last year, following the 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) with Barclays. This was rolled forward for a further six months in April 2017. However, with the redevelopment now well underway, only £500k has been reinvested from October 2017.

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.

Action plan

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	Recommendation	Response
Salaries and wages	R1 The periodic review of payroll detail undertaken by the Council Chairman should be evidenced by signing the relevant documents.	MINUTE 17/327 - RESOLVED TO ACCEPT THE INTERVAL AUDIT REPORT INTERIM FOR 2017/18 AND FOR THE CHAIRMAN TO DIARY PERIODIC EVIDENCING OF THE SALARIES.

Sprowston Town Council: 2017-18 (interim)

11th December 2017

Auditing Solutions Ltd