
Bishops Castle Town Council

Internal Audit Report 2015-16 (Interim)

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Background and Scope

The Accounts and Audit Arrangements introduced 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 using a local contractor to undertake the work in previous years: we, at appointing Auditing Solutions Ltd, were subsequently contacted and appointed to provide the function to the Council for 2015-16 and beyond: this report sets out those areas examined during the course of our first visit to the Council for 2015-16, which took place on 23rd March 2016 and will be updated following our final visit, which is currently scheduled for 26th April 2016.

Internal Audit Approach

In commencing our review for 2015-16, 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 and Annual Return. We have commenced our review of the Council's financial control systems and procedures, undertaking appropriate testing as deemed necessary to afford suitable assurance as to the soundness of those systems for their intended purpose and to ensure reasonable accuracy in the disclosure of information in the Council's detailed year-end Statement of Accounts, as summarised in the Annual Return that now forms the statutory accounts.

As the Council's Internal Auditor and under the revised audit arrangements, we have a duty to complete the internal audit report in the Council's Annual Return, which covers the basic financial systems and requires assurances in ten separate areas: this will be undertaken at our final visit for the year.

This report sets out the areas of work examined to date and is, together with our file of work completed, available on request for review by the Council's external auditors should they require any further assurances on the adequacy of those Council's systems examined and detailed in this report.

Overall Conclusion

We are cognisant of the fact that the new Clerk has apparently taken over erroneous records: however, from the review work completed to date, we are pleased to confirm that the Council operates generally effective control systems that should help ensure that transactions are free from material misstatement and will be reported accurately in the Annual Return and detailed Statement of Accounts for the financial year.

We have, however, identified a number of areas where we consider that the Council could and should improve its existing controls: detail of which is set out in the body of the attached detailed report with resultant recommendations further summarised in the appended Action Plan.

Detailed Report

Review of Accounting Arrangements & Bank Reconciliations

We note that the Council has previously and continues to operate an Excel spread sheet format cashbook. 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. To that end, we have: -

- Ensured that the cashbook for this financial year is in balance at the date of this interim visit;
- Due to the issues with the previous year's accounts, checked and agreed all transactions in the Council's cashbook to the relevant HSBC Bank statements for the year to date;
- Additionally, checked and agreed, the closing balance of the Dudley Building Society account, the balance of which has been transferred to the HSBC Current account; and
- Verified the accuracy of the bank reconciliation for the current account for the year to date also ensuring that no long-standing uncleared cheques or other anomalous entries exist.

Conclusions

We have been unable to verify the opening trial balance detail for the current financial year to the Statement of Accounts and certified Annual Return for 2014-15 or to ensure that the closing balances have been brought forward accurately and completely. Consequently, we have checked the closing bank balance detail, together with that in the Building Society account for 2014-15 detail of which will be used as the opening figures for 2015-16 (subject to any uncleared deposits or cheques drawn prior to 31st March 2015).

We also note that the new Clerk and previous internal auditor were also unable to verify the closing year-end figures, which was reported to Mazars (external auditors) in the 2014-15 Annual Return. We shall undertake further work in this area at our final visit ensuring the accurate disclosure of the current year-end balances in the year's Annual Return.

Review of Corporate Governance

Our objective is to ensure that the Council has robust corporate governance documentation 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 note that both Standing Orders and Financial Regulations were re-adopted in March 2015. We have commenced our review of the minutes of the Full Council, in order to ensure that, as far as we may reasonably be expected to ascertain, no actions of an ultra vires nature are being either considered or have been actioned, whilst also ensuring that the Council's finances remain at a healthy level to provide appropriate funds for future planned development and current revenue spending. We note that, where grants and donations are

approved for payment, the approving minutes make no reference to the relevant powers under which the grant has been made.

In the light of revised Procurement Guidelines (April 2015), the value for formal tender action will need to be considered by Full Council and incorporated in the Financial Regulations to ensure compliance with the 2015 EU Procurement Regulations.

Conclusions and recommendations

Whilst there are no significant matters arising in this review area, we draw the Clerk and members' attention to the revised EU Regulations in relation to contracting and tendering, specifically in the need to formally advertise any contractual work in excess of £25,000 over a three year period in the Government's "Contract Finder Website". To assist the Council in this respect, we have provided the Clerk with copies of recently published NALC Procurement Guidelines, Legal Topic Notes and the most recently revised NALC model Financial Regulations.

We shall continue our review of minutes and consideration of other governance issues at future visits.

- R1. The Minutes of Council meetings where grants are approved for payment should identify the relevant powers relied on for their approval in order that members may effectively demonstrate their acknowledgement of compliance with extant legislation.*
- R2. Appropriate amendments to Financial Regulations and also to Standing Orders ensuring consistency between the two documents should be made to ensure compliance with extant procurement legislative requirements.*

Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's 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;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount; and
- VAT has been appropriately identified in the cashbook for periodic recovery.

Due to the above referenced difficulties in agreeing opening balances in the current year's accounting records, we have not had time to examine a sample of purchase invoices for the current year: consequently, we shall examine a representative sample at our final visit.

We have examined the periodically prepared and submitted VAT returns to HMRC and will ensure the accurate disclosure of the year-end balance in the Accounts and Annual Return.

Conclusions and recommendation

We are pleased to report that no significant issues have currently been identified in this area: however, we note that Council members are not initialling the invoices and direct debit payments to confirm their review and approval of payments for release: following a relatively recent fraud by a town clerk arising from members' failure to examine documentation supporting payments and evidence that review accordingly, we consider that best practice should be observed with members providing appropriate evidence of their review by initialling all invoices and other payment supporting documentation: we would also commend the use of a suitable rubber stamp affixed to each such document, that should be initialled by members and include, ideally, the following relevant information: -

- *Initials of Clerk confirming delivery of goods / services and arithmetic accuracy of invoice and appropriateness for payment*
- *Cheque or other unique payment reference number*
- *Payment date*
- *Nominal account code where applicable), and*
- *Initials of two members approving payment for release*

As indicated above, we shall undertake a detailed review of purchase invoices / payment documentation at our final visit.

R3. In order to comply with best accounting and control practice all supplier invoices and direct debit statements should be initialled by the Councillors authorising the payments and when signing cheques.

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 any such risks identified in order to minimise the opportunity for their coming to fruition.

We have discussed with the Clerk the now obligatory requirement (Governance and Accountability Manual – “The Practitioner’s Guide” refers) for the Council to undertake an annual review and formal re-adoption of risk assessments in the financial year to which they relate. We note that this will not now be completed for 2015-16 and have provided the Clerk with detail of an appropriate software package designed specifically for local councils (the Local Council Risk System – LCRS) marketed by DMH Solutions, a company based in Scotland, at a cost of approximately £100 plus VAT and suggest that the software is acquired and applied in 2016-17.

Zurich Municipal provide the Council’s insurance cover: we have examined the current year’s schedule (to July 2016) and consider it meets the current needs of the Council appropriately with Employer’s and Public Liability both set at £10 million and Fidelity Guarantee cover at £100,000.

Conclusions and recommendation

We have drawn the Clerk's attention to the requirement for the Council to complete risk assessments annually and for the resultant detail to be adopted formally by the Council. We will continue to review the Council's approach to risk management at future visits.

R4. The Council should ensure that it complies with the requirements of the Governance and Accountability Manual preparing and adopting formally at least once annually a full financial risk assessment.

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 of the precept placed on the Unitary Authority, 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.

We note that Full Council approved, on 6th January 2016, a precept level of £64,300 for 2016-17, also noting that the Council would not receive an additional payment by way of Council Tax Support Grant.

We are pleased to note that members receive regular budget monitoring reports with over/under-spends and the level of earmarked reserves the subject of regular review.

Conclusions

There are no matters requiring formal comment or recommendation in this area of our review process at present. We shall undertake further work in this area at our final visit including examining the year-end budget outturn and following up any significant variances that may have arisen seeking explanations for their existence: we shall also consider the level of retained reserves at the year-end considering their appropriateness to meet ongoing revenue spending and any potential development aspirations..

Review of Income

In considering the Council's income streams, we aim to ensure that robust systems are in place to ensure that all income due to the Council is identified and invoiced in a timely manner and that effective procedures are in place to pursue recovery of any outstanding monies. We have: -

- Reviewed the advertising procedures for the "Bishop's Castle News" including the level of fees and charges; the administration processes; the accurate charging and collection of fees due and their subsequent banking; and
- Also inspected a sample of sales invoices issued to ensure their completeness.

We have also reviewed the cash book for income items for the year to February 2016 to ensure that no obvious errors or other anomalous entries are apparent and are pleased to record that none are in evidence.

Conclusions

We are pleased to record that there are no significant issues in this area. We shall continue to undertake further work in this area at our final visit.

Petty Cash Account

The Council does not operate a petty cash account and consequently this aspect of the Internal Audit Certificate in the Annual Return is not applicable.

Salaries and Wages

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenue and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions, 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 meet that objective, we have: -

- Checked and agreed the computation of staff gross and net pay for February 2016;
- Ensured that the Council has approved staff pay rates for the financial year based upon the approved NJC rates, where applicable;
- Checked and agreed the computation of staff gross and net pay and salary deductions for February 2016, also verifying that the net payments made corresponded to the data produced for the month;
- Checked to ensure that appropriate tax codes and national insurance tables are being applied in the year and that the correct deductions / contributions have been deducted and paid over to HMRC in a timely manner;
- Ensured that the appropriate revised superannuation contribution rates have been applied, also ensuring that the deductions have been paid over to the County Council in a timely manner; and
- Noted, however, that Members of the Council when completing their payments checking for the month are not checking the individual salaries paid to each staff member.

Conclusions and recommendation

Whilst we have verified the payments made to the staff are in line with their contracts of employment, in line with best practice, we consider that members of the Council should, as with trader payments, check the individual monthly salaries paid to each staff member.

R5. In order to comply with best accounting and control practice staff salaries should also be checked by the Councillors authorising the monthly payments.

Investments & 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 appropriate loan agreements.

The Council holds no specific investments and, as indicated above, we note that the Dudley Building Society account has been closed. We also note that no loans are in existence either repayable by or to the Council at the present time.

Conclusions

We are pleased to report that no issues have been identified in this area that warrants any further attention by officers or formal recommendation.

Rec. No.	Recommendation	Response
Review of Corporate Governance		
R1	The Minutes of Council meetings where grants are approved for payment should identify the relevant powers relied on for their approval in order that members may effectively demonstrate their acknowledgement of compliance with extant legislation.	
R2	Appropriate amendments to Financial Regulations and Standing Orders should be made to ensure compliance with extant procurement legislative requirements.	
Review of Expenditure		
R3	In order to comply with best accounting and control practice all supplier invoices and direct debit statements should be initialled by the Councillors authorising the payments and when signing cheques.	
Assessment and Management of Risk		
R4	The Council should ensure that it complies with the requirements of the Governance and Accountability Manual preparing and adopting formally at least once annually a full financial risk assessment.	
Salaries and Wages		
R5	In order to comply with best accounting and control practice staff salaries should also be checked by the Councillors authorising the monthly payments.	