

## **Bridgnorth Town Council**

*Internal Audit Report 2018-19: Final*

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*For and on behalf of  
Auditing Solutions Ltd*

## **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 Governance and Accountability Return (AGAR).

This report sets out the work undertaken in relation to the 2018-19 financial year to date, during our visit on 30<sup>th</sup> October 2018, 30<sup>th</sup> January and 17<sup>th</sup> April 2019, together with the matters arising and recommendations for action, where appropriate.

## **Internal Audit Approach**

In undertaking our review 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/AGAR. 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 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 completion of the 'Annual Internal Audit Report' in the Council's AGAR, 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, the Council has maintained adequate and effective internal control arrangements during the year.

We ask that members consider the content of this report and acknowledge that the report has been reviewed by Council.

We have completed and signed the 'Annual Internal Audit Report' in the year's Annual Governance and Accountability Return, having concluded that, in all significant respects, the control objectives set out in that report were being achieved throughout the financial year to a standard adequate to meet the needs of the Council.

# Detailed Report

## Review of Accounting Arrangements & Bank Reconciliations

The Council uses the Omega accounting software, with day-to-day transaction processing undertaken by the Clerk and Finance Officer (FO). The Council operates a number of accounts including two with HSBC Bank (Current and a Deposit account) plus a Unity Bank current account, which is now the prime current account.

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: -

- Verified that an appropriate cost centre and nominal ledger structure is in place;
- Checked and agreed the opening Trial Balance for 2018-19 to the closing Financial Statements and certified AGAR for 2017-18 to ensure that all balances have been rolled forward accurately;
- Examined the procedures in place with regard to the processing and approval of journals noting that each is subject to the independent approval of the clerk;
- Checked and agreed transactions (September & December 2018 and March 2019) in the current account cash books to underlying bank statements and the transfers to and from the Deposit Account;
- Checked and agreed bank reconciliations for both the Unity Bank and the HSBC current accounts as at 30<sup>th</sup> September and 31<sup>st</sup> December 2018 and March 2019; and
- Noted that Council members, at Full Council Meetings, receive a copy of the current balance sheet which includes detail of the General Funds and reserves.

### *Conclusions*

*We are pleased to report that no significant issues have been identified in this area of our review process.*

## Review of Corporate Governance

Our objective here is to ensure that the Council has robust corporate governance documentation and processes 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 are pleased to note that Standing Orders (SOs) were re-adopted in December 2018 and Financial Regulations (FRs) were adopted in March 2019.
- We have completed our review of minutes for the Full Council and standing committees (excepting Planning) for the year to ensure that no decisions have been made that might have an adverse impact on the Council's short, medium or longer term financial position; and

- At our first visit we requested a list of Council policies and procedures that had been adopted or approved by the Council however, a list was not available for review. At the interim update visit we have been provided with a list of both completed and ongoing reviews and we are satisfied that the Council has completed or considering its controls and procedures for day to day operations.

### *Conclusions*

*There are no issues identified in this area. We are pleased to note that the Council is continuing the review of policies and procedures and has completed a review and adopted the Standing Orders and the Financial Regulations.*

## **Review of Expenditure**

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- An official order has been raised on each occasion where one would be anticipated;
- 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;
- The correct expense codes have been applied to invoices when processed; and
- VAT has been appropriately identified and coded to the control account for regular quarterly recovery.

We have commenced testing in this area for compliance with the above criteria, selecting a sample of all non-pay related payments individually in excess of £3,000 together with a more random sample of every 30<sup>th</sup> cashbook transaction irrespective of value: our test sample comprises 33 payments totalling £177,412 and representing 44% of all non-pay related costs to March 2019 with all the above criteria met.

Finally, we note that VAT returns covering the financial year to March 2019 have been submitted and we have verified the accuracy of these reclaims by reference to the Omega control account detail.

### *Conclusions*

*We are pleased record that sound control is operated over the authorisation and payment of supplier invoices and other similar expenditure with no significant issues identified.*

## **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 identified in order to minimise the opportunity for their coming to fruition.

We were pleased to note that a Management and Financial Risk Assessment Register was prepared and adopted by Full Council for this financial year.

We also note that the Council is insured by Zurich Municipal with the current policy running to July 2019: Employers Liability stands at £10 million and Public Liability at £12 million, together with Fidelity Guarantee at £2 million.

### ***Conclusions***

***No issues have arisen in this area warranting formal comment or recommendation currently with appropriate insurance cover in place.***

## **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 a resolution was passed at a meeting on 22nd January 2019 to adopt, a precept of £613,161 for 2019-20.

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

At our first visit we completed as part of the audit a review of the budgets approved for the cost centres of the Council and noted that there are several overspends in areas including waste disposal, equipment and benches. The review of expenditure against budget would assist in monitoring overspends and allow the Council to vire funds appropriately. This matter was discussed with the Clerk and we note that this has now been reviewed by the Council

### ***Conclusions***

***There are no matters requiring formal comment or recommendation in this area of our review process.***

## **Review of Income**

In considering the Council's income streams, we aim to ensure that robust systems are in place to ensure the identification of all income due to the Council from its various sources; to ensure that income is invoiced in a timely manner and that effective procedures are in place to pursue recovery of any outstanding monies due to the Council. To meet this objective, we:

- Note that the Council has a number of sources of income other than the precept; principally arising from property rentals, hall bookings, cemetery activities, markets, allotments, car parking, VAT and bank interest;
- Also noted previously that members had considered and approved at Full Council January 2018 meeting the level of fees to be levied in 2018-19;
- Have at the first interim visit examined the management controls, documentation and systems in relation to the collection of the Cemetery fees, together with the administration and subsequent banking of funds received;
- Examined the detailed nominal income account records on the Omega accounting software to ensure that no obvious miscoding has occurred;
- Have discussed the Castle Hall venue which has the appropriate Licence issued for weddings. VAT should be charged at the Standard Rate on all wedding bookings and we have confirmed this with the accountants DCK Beavers who provide professional advice to many local authorities;
- Have at the interim update visit reviewed the management controls and documentation and the accounts in respect of the Castle Hall together with the controls and the receipt of hire fees;
- Have also at the interim update visit examined the management controls, documentation and systems in relation to the collection of Allotment fees, together with the administration and banking of funds received;
- Have discussed the requirement for VAT to be applied to the money received from the bar at the Castle Hall. We have confirmed with DCK Beavers that if it is a percentage of the profits then it is outside the scope, however if it is a percentage of takings then VAT must be applied; and
- Have reviewed the aged debtor book utilising the March 2019 unpaid invoice data. The debtors have now been completely reviewed with only one long term debtor which is currently being managed to enable the recovery of the debt

### **Conclusions**

***We are pleased to report that no issues have been identified in this area warranting formal comment or recommendation with controls working appropriately and effectively. We will undertake further work at our final visit ensuring that all receipts are correctly reported in the Annual Governance and Accountability Return.***

### **Petty Cash Account**

In accordance with the requirements of the AGAR, we are required to examine the operation and controls in place over any petty cash accounts in use at the Council. Examination of the accounting records indicates that expenditure in this area is relatively limited. Notwithstanding that, we have examined payments processed in October 2018 to ensure that each transaction is supported by a relevant trade invoice or till receipt and, where relevant, any VAT incurred has been identified for recovery and been coded accordingly to the relevant control account. We have also physically checked and agreed the cash and expense vouchers, subsequent to the previous reimbursement, held at this interim visit, reconciling detail to the supporting cash book record.

## *Conclusions*

*No issues have been identified in this area of review.*

## **Review of Staff Salaries**

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed and the requirements of HM Revenue and Customs (HMRC) 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 amended from 1<sup>st</sup> April 2018 in relation to employee contribution percentage bandings. We have, by reference to the September 2018 payroll detail: -

- Noted that the Council prepares calculates the staff salaries with payments authorised and paid directly by the Council;
- Checked and agreed the computation of staff gross and net pay and salary deductions for the above month, also verifying that the physical net payments correspond to the data produced by the payroll company for the month;
- Checked detail of tax and NI deductions, together with pension contributions, similarly for the above month, ensuring that the appropriate tables have been applied by reference to the HMRC Basic PAYE Tools software;
- We are also pleased to note that Council members check and approve all salary calculations before the payments are made to the employees.

## *Conclusions*

*We are pleased to record that no issues arise in this area from work undertaken in this area.*

## **Fixed Asset Registers**

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. We have checked and agreed the principles used in the detail, as recorded in the Council's Asset Register, noting that it has been prepared using purchase cost values or where that value is unknown at the previous year's Return level or uplifted or decreased to reflect the acquisition or disposal of assets.

## *Conclusion*

*No issues require formal comment or recommendation.*

## **Investment and Loans**

The Council has no investments requiring separate disclosure, any "surplus" funds being held in two HSBC Accounts and a CCLA short term Deposit Fund for which statements are provided monthly. We have verified the current balances and interest to the relevant cash book entries ensuring the payment of interest gross. The Council does not have any loans in place either repayable by or to it.

### *Conclusions*

*No matters arise in this area of our review.*

## **Annual Governance and Accountability Return**

The Accounts and Audit Regulations required that all Councils prepare a detailed Statement of Accounts, together with supporting statements identifying other aspects of the Council's financial affairs.

We have examined the Council's procedures in relation to the preparation of the year-end detailed Annual Governance and Accountability Return data, also reviewing the arrangements for the identification of year-end debtors and creditors with no issues arising.

### *Conclusions*

*No issues have arisen in this review area and, on the basis of work undertaken during the year, we have duly signed off the Internal Audit Report of the Annual Governance and Accountability Return, assigning positive assurances in each relevant area.*