
Bridgnorth Town Council

Internal Audit Report 2016-17: Interim update

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For 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 Return. Auditing Solutions Ltd has provided this service to Bridgnorth Town Council since 2014.

This report sets out the work undertaken in relation to the 2016-17 financial year to date, during our visit on 25th & 26th October 2016 and 31st March 2017, together with the matters arising and recommendations for action, where appropriate.

Internal Audit Approach

In undertaking our review for the year to date, 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 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 Annual Return, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

We are pleased to confirm that, in the areas examined to date, the Council continues to operate effective control systems that help ensure that transactions are free from material misstatement and will be reported accurately in the detailed Statement of Accounts and Annual Return for 2016-17. Consequently, no issues arise at this stage warranting formal comment or recommendation.

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 2016-17 to the closing Financial Statements and certified Annual Return for 2015-16 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 (April and September 2016 and February 2017) 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 30th April and 30th September and 28th February 2017, together with verification of all other account balances from relevant bank statements as at 28th February 2017; 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. We will undertake further work in this area at future visits including verifying the accuracy of year-end bank reconciliations and the accurate disclosure of the combined cash and bank account balances in the year's Annual Return.

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 both Standing Orders (SOs) and Financial Regulations (FRs) were reviewed and re-adopted in May 2016 and July 2016 respectively;

- We have continued our review of minutes for the Full Council and standing committees (excepting Planning) for the year to date 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
- We noted from our previous audits that the Council has adopted the General Power of Competence having achieved the necessary qualifying criteria.

Conclusions

We are pleased to record that no significant issues have been identified in this area. We shall also continue to examine minutes and consider the Council's approach to governance issues at future visits.

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 30th cashbook transaction irrespective of value: our test sample comprises 28 payments totalling £121,311 and representing 39% of all non-pay related costs to September with all the above criteria met.

Finally, we note that VAT returns covering the first three quarters 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. We shall undertake further work in this area at future visits also ensuring that the March 2017 VAT return is included in the year end debtors for the Annual Return.

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 comprehensive Management and Financial Risk Assessment Register was prepared and adopted by Full Council at their meeting in May 2016.

We also note that the Council is insured by Zurich Municipal with the current policy running to July 2017: 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, on 23rd January 2017, a precept of £561,310 for 2017-18 was formally approved by Full Council.

We are 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.

Conclusions

There are no matters requiring formal comment or recommendation in this area of our review process. We shall continue to undertake further work in this area at our final visit.

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 note that members have considered and approved the level of fees to be levied in 2016-17 and fees for 2017-18 were reviewed by Property & Grounds Committee at its meeting on 1st November 2016;
- Have at our first interim visit examined the management controls, documentation and systems in relation to both the Allotment fees and the Severn Park car park, together with the administration and banking of funds received;
- Have at this update visit examined the management controls, documentation and systems in relation to the Castle Hall rooms, together with the RBS bookings diary, the administration and the subsequent accounting controls and the 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 reviewed the aged debtor book utilising the March 2017 Omega reports, this reflects total outstanding invoices of £28.6k of which £12.6k is greater than 3 months old. This is a significant improvement from the beginning of the year and outstanding debtors has reduced by 32%; and in conjunction with the debtor book
- We are also pleased to note that the Council continues to be active in the recovery of the long outstanding invoices and only where the receipt of funds is not possible the Council have formally approved and written off 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 and the long-dated debtors being pursued on continuing basis.

Petty Cash Account

In accordance with the requirements of the Annual Return, 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 2016 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.

We also note that the Alto card has now been cancelled and the action minuted accordingly by Administration & General Purposes Committee and the minutes subsequently adopted by Full Council.

Conclusions

No issues have been identified in this area of review.

Salaries and Wages

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 1st April 2015 in relation to employee contribution percentage bandings. We have, by reference to the September 2016 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.

We are also pleased to note that, in accord with the revised Practitioners' Guidance in this area, these schedules have been appropriately updated with the current year's additions and disposals only, with "uplift" in value to reflect insurance policy inflationary increases.

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 this year. Further work will be undertaken in this area at our final visit for this financial year.