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# **Costessey 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 Costessey 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 21<sup>st</sup> and 22<sup>nd</sup> November 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 kept up to date, and that no anomalous entries appear in cashbooks or financial ledgers. We have:

- Checked and agreed the opening Omega trial balance detail with the closing balances in the 2015-16 Annual Return and detailed financial statements;
- Confirmed that the ledger remained in balance at the time of the audit;
- Confirmed that the cost centre and nominal ledger coding structure remains appropriate for the Council's needs;
- Checked and agreed detail on the combined current account and savings (Business Premium) account cash book in Omega, examining transactions in May and October 2016, agreeing the detail to the supporting bank statements and also verifying detail of all inter-account "sweep" transfers for those months;
- Similarly, checked and agreed the detail of transactions on the Salaries cashbook, again agreeing these to the supporting bank statements for those two months; and
- Checked and agreed the bank reconciliations at 31<sup>st</sup> October 2016 on all accounts, confirming that reconciliations continue to be prepared routinely at the close of each month and that there is evidence of independent review.

#### *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 Council's Financial Regulations and Standing Orders were updated in February and March 2016 respectively, and the documents reflect the latest national guidance issued by NALC.

- We have commenced our review of minutes for the year, examining those for the full Council and Standing Committee meetings to mid-October 2016. We are pleased to record that we have not identified any issues that we consider might have an adverse effect on the Council's financial stability in the short, medium or longer term or that give cause for concern that the Council is considering, or has taken, decisions that might result in ultra vires expenditure.

### ***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;
- 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 testing in this area for the current financial year; examining a sample of 22 payments. Our sample included all individual payments in excess of £4,000, together with a more random sample of every 40<sup>th</sup> cash book transaction, to ensure compliance with the above criteria. The total value of items in the sample was £147,584, which equated to 46% by value of non-pay related expenditure in the financial year to 30<sup>th</sup> October 2016.

We have also confirmed that VAT returns continue to be completed in a timely and accurate manner, with electronic "on-line" submission in place, in line with HMRC requirements. We have examined the reclaims for the first two quarters - to 30<sup>th</sup> June and 30<sup>th</sup> September 2016 - confirming that the detail agrees to that in the Omega VAT control account.

### ***Conclusions and recommendation***

*We are pleased to report that no significant issues have been identified in this area of our review, with all the above criteria met. We will undertake further work in this area 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:

- In May 2014, the Council entered into a 3 year agreement with Zurich Municipal for insurance cover. The areas of cover include Public Liability of £15 million; Employer's Liability of £10 million and Fidelity Guarantee at £1 million, all of which we consider to be appropriate to meet the needs of the Council;
- The Council has continued to engage the services of an external consultant (SJB Solutions) to provide a risk assessment and health and safety management service; and
- The Financial Risk Assessment (FRA) was last reviewed and approved by the Council at its meeting on 30 June 2015. We would remind Members that there is a regulatory requirement for the risk assessment to be reviewed by the Council at least annually (within each financial year) and for the results of the review and any actions arising to be formally minuted.

### **Conclusions**

*There are no matters arising from our audit work in this area to date. However, we will revisit the Council's approach to risk management at our final audit visit, to confirm that Members have formally reviewed and re-approved the risk assessment in the 2016-17 financial year, as required.*

## **Budgetary Control & Reserves**

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 before the Council had given formal consideration to the budgetary and precept requirements for 2017-18, although we note that initial discussions took place at the November meeting of the Finance, Budgets and Staffing

Committee. We will review the process followed at our final audit visit. We will also examine the year-end budget outturn for the current year.

We are, however, pleased to note that Members continue to be provided with detailed budget monitoring reports and formal bank reconciliations, as recorded in the Council minutes and that consideration has also been given to the level of earmarked and general reserves that are required and to the potential use of funding which has become available through the Community Infrastructure Levy (CIL).

### *Conclusions*

*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.

Consequently, we have:

- Noted that the Council formally reviewed its fees and charges for 2016-17 in November 2015, following detailed consideration by the "Fees and Charges Working Group" and that a similar process is being followed for the 2017-18 financial year.
- Examined the controls in place over the documentation of hall hires and collection of fees due. We reviewed the booking diaries for all three halls for a sample week in October 2016, confirming that signed agreement forms were in place for all regular and "one-off" bookings, that appropriate sales invoices had been raised and that fees had been paid in advance, as is now the requirement;
- Examined the controls in place over the receipt of applications for interments from undertakers, reviewing documentation supporting the interments that have taken place in the first half of the financial year (to 30<sup>th</sup> September 2016) and confirmed that income due has been received;
- Examined the controls in place in relation to the collection of allotment income on behalf of the Costessey Parochial Charity, confirming that all income due has been received and the correct payment made to the Charity; and
- Examined the Sales Ledger "Aged Debtors Report", confirming that the amount of outstanding debt remains very low and that, where appropriate, debtors are being chased on a regular basis. From our minutes review we also noted that it was necessary for the Council to write-off three debts in May 2016, but only after all reasonable steps to recover the amounts due.

### *Conclusions*

*We are pleased to record that no significant issues have been identified in this area and that, on the basis of our review, the controls over income collection appear to be sound. We will undertake further work in this area at our final visit for the year.*

## **Petty Cash Account**

We are required, in completing the Internal Audit Certificate in the Annual Return, to assess the effectiveness of controls over any petty cash accounts.

The Administration office operates a limited petty cash account on an “imprest basis” with monthly re-imbursments to a maximum holding of £300. We have checked and agreed transactions for November 2016 (up to the date of the audit visit) from the relevant Omega cashbook posting entries to supporting documentation and are pleased to report that sound controls continue to operate in this area, with all sequentially numbered vouchers in place and VAT identified accordingly for periodic recovery. We have also checked the physical cash held and confirmed that this agrees to the cash book and supporting records.

We have also checked and agreed two months’ transactions on the Charge cards used by the Clerk and the Head Groundsman to assist with urgent and/or immediate purchases via the internet. These are operated through separate Omega “cashbooks” to record transactions on each card. We are also pleased to report that no issues have been identified with the level or type of expenditure incurred.

### *Conclusions*

*No issues have been identified in this area of our audit that require any formal comment or recommendation.*

## **Salaries and Wages**

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, in relation to employee percentage bandings.

To confirm compliance with the above criteria, we have:

- Noted that the “Payroll Manager” software continues to be used to compute the four-weekly payroll , which includes the production of pay slips;
- Checked detail of payroll transactions in November 2016 (Pay period 8);
- Ensured that the Council has approved employees’ gross pay rates for the financial year and that these have been duly and accurately applied;
- Checked to ensure that appropriate PAYE tax codes and NIC table deduction rates, depending on whether the employee was a member of the pension scheme or not, have been applied;
- Checked to ensure that the appropriate percentage pension deductions, based on the LGPS salary bandings as most recently updated, have been applied to those staff in the pension scheme;
- Examined a sample of timesheets submitted by employees in support of any additional hours worked and claimed as either overtime or TOIL, also ensuring that they are appropriately certified for accuracy and payment; and
- Verified that the net salaries, paid currently by cheque, are in line with the relevant payslips.

### **Conclusion**

*In overall terms the controls over the processing of salaries and wages appear to be adequate and to be operating effectively.*

*In the course of our audit, the Town Clerk drew our attention to an error in the initial set up of the payroll software regarding staff tax relief calculations which had come to light during preparation for pension auto-enrolment. We have confirmed that appropriate action was taken in October 2016 to address this matter and note that it has been reported to Members.*

## **Investments and Loans**

Our objective here is to confirm 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.

At present, the Council does not hold any long-term investments, with all “surplus” funds being held within its Barclays Business Premium account.

We have checked and agreed the first half-yearly instalment repayment on the Council’s existing PWLB loans to their third party “demand” notices for the current financial year.



### *Conclusions*

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