

## **Shrewsbury Town Council**

*Internal Audit Report 2018-19: Final Update*

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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 28<sup>th</sup> & 29<sup>th</sup> November 2018 and 27<sup>th</sup> & 28<sup>th</sup> February and 12<sup>th</sup> June 2019, together with the matters arising and recommendations for action, where appropriate.

## **Internal Audit Approach**

In undertaking our review for the financial 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 are pleased to again report that the accounts and Council records are maintained to a high standard, together with supporting documentation which was provided for the purposes of our review.

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.

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

## Accounting Records and Bank Reconciliations

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, which are maintained using the Omega accounting software. Current & High Interest accounts are in place with Natwest Bank plc with an automatic daily sweep facility, detail being recorded in a single cashbook: a separate Imprest account, also with Nat West Bank plc, is in place. Surplus funds are also held in fixed term deposits with Lloyds Bank plc and the CCLA. Consequently, we have:

- Checked and agreed the opening Omega trial balance detail for 2018-19 to the closing Accounts and certified AGAR for 2017-18;
- Verified that an appropriate cost centre and nominal ledger structure remains in place;
- Ensured that the Accounts remain in balance at the present date;
- Checked and agreed a sample of transactions and transfers on the combined Current and High Interest accounts for three months. (October 2018 and January and March 2019);
- Checked detail of all transactions on the Imprest account to March 2019; and
- Agreed the month-end bank reconciliations as at 31<sup>st</sup> October 2018 and 31<sup>st</sup> January and 31<sup>st</sup> March 2019 on all bank accounts.

### *Conclusions*

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

## Review of Corporate Governance

Our objective 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 have consequently: -

- Noted that Standing Orders, Financial Regulations have been reviewed and re-adopted in March 2016 and May 2017 respectively by Full Council;
- Completed our review of the Council and Standing Committees' minutes to ensure that no issues affecting the Council's financial stability either in the short, medium or long term exist, also that no legal issues are in existence whereby the Council may either be considering or have taken decisions that might result in ultra vires expenditure being incurred; and
- Noted that the Council, having met the necessary conditions, formally adopted the General Power of Competence, as defined by the Localism Act 2011.

### *Conclusions*

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

## **Review of Expenditure**

Our aim here is to ensure that: -

- A sound system of control is in place over the authorisation, documentation and approval of expenditure, whilst also ensuring 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;
- Financial limits for the acquisition of tenders and quotations for the supply of goods and services had been observed in accordance with the Council's Financial Regulations;
- An official order has been raised for all purchases and service delivery where one would be expected;
- 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 periodic recovery.

We have reviewed the control procedures in place governing the release of Council funds and are pleased to acknowledge that they to continue to operate effectively. In order to test those controls and ensure compliance with the above criteria, we have selected a test sample of payments for the financial year comprising all high value payments through the current account individually in excess of £6,000, plus a more random sample of every 80<sup>th</sup> payment, together with those processed through the Imprest account. Our test sample includes 45 individual payments totalling £891,075 by value and equating to 45% of non-pay related transactions for the year to January 2019.

We have verified the timely submission of the quarterly returns to March 2019 and agreed the content to the underlying control account detail in the accounting software.

### *Conclusions*

*There are no issues arising from work completed in this area.*

## **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 note that the Council had previously undertaken a review of the Risk Management Policy including Financial Risk Assessments, which was formally adopted by Finance & General Purposes Committee on 4<sup>th</sup> February 2019.

We have noted the renewal of the insurance policy for 2018-19 and consider that cover remains appropriate in all areas with Employers' and Public Liability both set at £10 million and Fidelity Guarantee cover at £5 million.

### ***Conclusions***

*No issues have been identified in this area warranting formal comment or recommendation.*

## **Precept Determination and Budget Control**

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and the level of precept to be drawn down from the District Council: also, that an effective reporting and monitoring process is in place. We also aim to ensure that the Council retains appropriate funds in general and earmarked reserves to finance its ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

We note that the Council, at its 21<sup>st</sup> January 2019 meeting, approved a precept of £1,233,447 for 2019-20.

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***

*No issues have been identified in this area warranting formal comment or recommendation.*

## **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 it is invoiced in a timely manner and that effective procedures are in place to pursue recovery of any outstanding monies due to the Council.

We have visited the Town Market and reviewed the management processes, accounts records maintained relating to resultant fee collection and cash handling in respect of the market

facilities. We have also checked the banking procedures and consider that they are sound and managed effectively.

At the interim update visit we have also reviewed the collection and recording of fees in respect of the sports facilities and the subsequent banking of fees.

We note that fees for the financial year 2019-20 were approved by Full Council at its November 2018 meeting.

We have also reviewed the Sales Ledger “Unpaid debtors report” and discussed the current debtor position with the RFO and we are satisfied that there are no unexplained issues for concern.

### ***Conclusions***

***We are pleased to record that no significant issue have been identified in this area.***

## **Petty Cash Account**

Our aim in this area is to ensure that appropriate controls are in place; that all expenditure incurred is adequately supported by trade invoices or till receipts; that the expenditure is appropriate for the Council’s requirements; that VAT has been separately identified for periodic recovery and that cheque encashment from the main cashbooks are properly recorded.

We have examined payments and checked the petty ensuring that: -

- Each transaction was supported by a relevant trade invoice or till receipt; and
- Where relevant, any VAT incurred had been identified for recovery and been coded accordingly to the relevant control account.
- We have noted the two credit cards relating to one account are in place being held by the Clerk and the RFO respectively. Settlement payments are taken by direct debit on a monthly basis and settlement of this account has been reviewed as part of our expenditure testing.

### ***Conclusions***

***There are currently no issues identified during our testing.***

## **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 revised from 1<sup>st</sup> April 2018 in relation to employee percentage bandings. Our work has embodied: -

- Ensuring that the Council had approved employee pay rates for the financial year and that these have been duly and accurately applied;

- Checking to ensure that appropriate PAYE tax codes are being applied in 2018-19;
- Checking to ensure that national insurance deductions have been computed accurately depending on whether the employee was a member of the pension scheme or not;
- Checking that the correct scales of superannuation deductions, based on the revised LGPS arrangements are being applied where appropriate;
- Ensuring that appropriately signed and approved timesheets and mileage claims are submitted by employees in support of any flexible hours worked or claimed as overtime or for expenditure re-imburement;
- Ensuring that payment to third parties of Tax, National Insurance and Pension deductions are made in a timely and accurate manner;

### ***Conclusions***

***We are pleased to record that no significant issues have been identified in the testing completed 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.***

## **Investments and Loans**

The Council holds no formal "investments" at present, surplus funds being deposited in periodic "Fixed Rate Bonds" with Lloyds and CCLA together with a Property Investment deposit with CCLA. We have verified the holding of these funds to the Lloyds and CCLA confirmatory advices for the current financial year, also ensuring that interest earned is appropriately either credited to the Council's current or High Interest bank account or "re-invested" in further such Bonds. The Council currently has no loans repayable either by or to it.

### ***Conclusions***

***No issues arise in this area.***

## **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.***