

# **TEWKESBURY TOWN COUNCIL**

## **Independent Internal Audit 2017/2018 - Interim Report**

This interim Audit was carried out on the 6<sup>th</sup> and 7<sup>th</sup> February 2018. The approach to the audit is based on the guidance detailed in the JPAG publication (see reference below). The main part of this report is arranged to cover the headings in the Internal Audit section of the Annual Return. As the audit took place in February certain items, in particular year end procedures, will be addressed at the second audit in May. I have examined the Council's records in the areas detailed and made enquiries as deemed appropriate. Any issues are included in the body of the report and recommendations are summarised at the end.

### References:

JPAG            Joint Practitioners' Advisory Group

*Governance and Accountability for Local Councils – A Practitioners' Guide March 2014*  
*and*  
*Governance and Accountability for Smaller Authorities In England – A Practitioners Guide to Proper Practices to be applied in the preparation of statutory annual accounts and governance statements March 2017*

NALC            National Association of Local Councils  
*Model Financial Regulations April 2014*

Peter Newman  
Independent Internal Auditor  
13<sup>th</sup> February 2018

## **1 Proper Bookkeeping**

The Scribe software is used for bookkeeping.

I could see that an appropriate cost centre and ledger code structure is in place, which provides financial information in formats required for proper monitoring.

I checked a random sample of entries; all agreed with supporting vouchers and the correct codes appeared to have been allocated. The accounts are up to date and are regularly balanced.

## **2 Financial Regulations/Payment Controls**

New Standing Orders and Financial Regulations, both based on the NALC models and adopted in December 2017.

I examined a selection of invoices. All of the payments could be followed through to presentation on the bank statements. A further sample will be looked at during the May audit.

A schedule of payments is presented to Council or spending committees for approval, this approval minuted and the schedule signed by two councillors. The Scribe system produces payment/internal order sheets to attach to the front of the invoices. These sheets shows cost code, method of payment etc. and are rubber stamped with a certification box for initialling that goods have been received/work done and for two councillors to initial as having been passed for payment. Some of those examined did not have the full set of authorisation. Not all cheque stubs had the required two sets of initials. Approved lists are kept of direct debits and contractors to be paid electronically.

It appears that the full purchase order procedures are not being carried out. The Council's Financial Procedures Manual (April 2017) describes Purchase Request process in Scribe (page 19 onwards) including the generation of a Purchase Order on page 23. I understand that Purchase Orders are not produced at present. Financial Regulation 10.1 & 10.2 states the requirement to issue official orders under most circumstances. This was commented on at the councillors internal check in July 2017.

Levels of expenditure are defined in the Financial Regulations where the Council has to seek quotations or tenders from at least three suppliers. There is a contract over the £25,000 limit. This facilities management contract started 1<sup>st</sup> April 2017 and was awarded in the previous financial year. I could see that Council also regularly asks for quotes on lower levels of expenditure.

Grants expenditure is separately identified and monitored. VAT items checked had been recorded and claimed.

Section 137 expenditure is separately identified and the expenditure under this heading so far this year is well within statutory limits.

### **3 Risk Management Arrangements**

No unusual financial activity was identified in the minutes.

The Council has insurance cover with Zurich. It is noted that the cover expiry is April 2018.

The Council's Audit Task Group has prepared a draft Risk Register for consideration/approval. The Annual Return expects confirmation of a risk assessment and Financial Regulation 15.1 refers to an annual assessment.

Two councillors undertook Internal Controls checks in July 2017 and produced a detailed report. A draft Councillor Financial Checking Process has been devised by a member and I understand that trial checks will take place very shortly. The checks are based on the Finance Procedure Manual issued to Councillors in March 2017.

The Council's Fidelity Guarantee cover is currently £250,000. The recommended level is at least the total of balances plus half precept. This council should consider raising this to at least £300,000. It is noted that the draft Risk Register makes the same recommendation.

### **4 Budgetary Controls**

Actual expenditure against budget is reported monthly to members. Minutes show that members discuss variations and agree action regarding likely over/underspending. I could find no unexplained large variances from budget.

Draft budgets were discussed at the spending committee meetings, then Finance & Staffing Committee before going to Full Council for approval. The budget, precept and reserves were agreed at the January 2018 Council meeting,

### **5 Income**

This is a subject of the draft internal control checks performed by the appointed members.

The recorded precept received from the District Council agreed with the precept notification.

I examined a sample of invoices sent. All charges on the items checked were at the correct rates and VAT charged as appropriate.

Invoices are separated in 'paid' and 'unpaid' folders. I was given a list of outstanding invoices produced from Scribe. Most had recent issue dates. There were two that appear to need investigation dated April 2016 and May 2017. I noticed one debtor had three outstanding invoices (earliest 3<sup>rd</sup> October 2017).

## **6 Petty Cash**

This is another area covered by the draft internal controls process member. The member confirms that the petty cash book balances with cash held.

This is also checked by the Clerk/RFO.

Items examined were supported by vouchers.

## **7 Payroll Controls**

All employees have contracts of employment. Salaries to employees have been paid in accordance with Council approval.

The Payroll has been processed by the Borough Council over the last year. A new Payroll processing provider will be used from April.

It is suggested that payroll is also the subject of an internal councillor check, including an examination of the information supplied to the payroll contractor.

## **8 Asset Controls**

An updated Asset Register is a work in progress. The current information held on Scribe appears to be in summary form. Insurance cover appears adequate for the assets shown on the list.

Financial Regulation 14.6 states the need for the verification of the continued existence of tangible assets at least annually and that insurance cover is adequate and sufficient. I was shown a schedule of checks made by the Borough Council.

A more detailed examination of the position on assets will be made at the May visit.

## **9 Bank Reconciliation**

Bank Reconciliations are carried out regularly for individual accounts and overall. Financial Regulation 2.2 states that 'a member other than the Chairman or a cheque signatory shall be appointed to verify the reconciliations'. The regulation requires the member to sign both the reconciliation and the bank statement. This procedure is also recommended in the JPAG documents.

I could see no unexplained balancing entries on the reconciliations.

## **10 Year End Procedures**

This interim audit was carried out in February. A report on Year End Procedures will be made at the time of completing the Internal Audit section of the Annual Return at the May audit.

### **Other areas covered at audit**

#### **Grants**

The Council has a clear Grants policy which is on its website.

#### **Codes of Conduct etc**

The Council's has a Code of Conduct which new members sign up to on acceptance of office.

Minutes show that members regularly state Declarations of Interest at meetings.

Council approved a Member Staff Protocol in June 2017.

#### **Internal & External Audit Reports**

The Internal and External Audit reports were considered at council meetings. A response to any issues raised from both audits is a condition of a positive response in the governance statement on the annual return (Part 1 item 7). An Audit Task Group has been set up to address the issues raised, including: a draft risk register for consideration by members. A member has produced an internal check procedure for appointed Councillors and the council's asset register is under review.

External audit observations were largely based on the internal audit comments.

#### **It was also noted that:**

A Training and Development Policy was approved during the year.

Some staff appraisals were carried out.

Apologies listed in minutes, but no other details.

One year cleaning and maintenance contract - members stated the need to review.

## **Summary of Recommendations**

It is appreciated that some of the following are already being addressed, but are included in this interim report pending the position at year end.

- 1 Introduce regular internal controls checks
- 2 Formally approve Risk Register/Assessment
- 3 Consider the level of Fidelity Guarantee cover
- 4 Review procedures regarding Purchase Orders
- 5 Regular internal checks on Payroll
- 6 Bank Reconciliations/statements to be signed by member
- 7 Update Asset Register (see JPAG documents for guidance)
- 8 Ensure payment certification is complete
- 9 Examine aged debtors