

## **BRADLEY STOKE TOWN COUNCIL**

### **Internal Audit Report – January 2008.**

#### **Introduction**

I have followed the pattern established previously using the template published by the Local Councils' Governance and Accountability Guidance as the basis for my Internal Audit examination. Systems have been reviewed to establish changes and substantive testing of the financial controls carried out to assess the levels of internal control and the completeness of accounting transactions.

I also reviewed Councils' reaction to last years report and reviewed systems to see if recommendations had been considered and acted upon, and if changes had been incorporated into the financial procedures of the Council.

The Local Councils' Governance and Accountability Guidance recommends the Internal Auditor review the Councils' financial affairs under the following heads:

- Proper book-keeping
- Financial Regulations:
  - a) Standing Orders
  - b) Payment Controls
- Risk Arrangements
- Budgetary Controls
- Income Controls
- Petty Cash Procedure
- Payroll Controls
- Asset Control
- Bank Reconciliation
- Year-end Procedures

The following report outlines my work and findings. Conclusions and recommendations are shown in italics at the end of each section.

#### **Last Year's Recommendations**

The last Internal Audit examination took place in July 2007 when recommendations for action to be considered by the Council were:

- Continue the development of a Business Plan.
- Review the schedule of Insurance to ensure that indemnity limits were still relevant.
- Consider introducing a de minimus limit for the Asset Register.
- Follow up the treatment of the imbalance on the Petty Cash account.

Both Officers and Council have considered these points and I will comment upon them in the body of the report. In summary, the first three recommendations have yet to be completed whilst the final item has been followed through satisfactorily.

## **Proper Book-keeping.**

Throughout my tenure the book-keeping for Bradley Stoke Town Council (BSTC) has been maintained on the Sage Accounting system, an industry standard software package that complies with accounting standards and practices needed by the Authority. The system remains relevant and appropriate.

I can confirm that the system was up to date, arithmetically correct, and regularly reconciled to bank statements. Entries are supported by invoices, receipts and vouchers. The system records all transactions of the Council and produces financial reports that form the basis of budgetary control and year-end accounts.

Because the financial records are computerised it was important to test the quality and accuracy of data input. This is being achieved by continuous cross balancing of data inputs with control documents produced by officers of the Council. I was able to check that such verification within the system has been undertaken by completing manual tests and cross checking the results to the nominal codes. In all cases reconciliation was achieved.

*Proper book-keeping practices are evident and no changes are recommended.*

## **Financial Regulations:**

### **a) Standing Orders.**

Standing Orders and Financial Regulations are now firmly established within BSTC and conform to standards that are to be expected in such an authority.

Financial Regulations were last reviewed by Council in May 2006, and it was noted that Council on 9<sup>th</sup> May 2007 (Min. 17) indicated that a further review was possible. Such a review has not yet taken place and an opportunity may be taken in the future to carry out one.

*Financial Regulations are current and relevant and, although no changes are recommended at present, a review may be appropriate.*

### **b) Payment Controls**

The changes to procedures commented upon at the last audit are working well and staff have settled into the new routines. The Control system is both simple and efficient in operation and a procedure note has been prepared and is generally followed.

A substantive check was carried out on 165 Orders, selected at random, which showed that in general these procedures are followed. However, audit did pick up two occasions where the invoice received from the supplier predated the Order, thereby breaching the Internal Controls. This was brought to the attention of the Responsible Financial Officer (RFO) who advised that she had issued an instruction re-emphasising the need to "Follow Order Procedures" in July (after the two events had occurred). Hopefully, this will avoid future occurrences.

The substantive testing also identified an instance when an early payment discount of 20% was missed. On this occasion a sum of £112.16 could have been saved had the discount been spotted and the invoice processed quickly. The RFO was advised to consider introducing a system whereby early payment discounts are identified as soon as an invoice is received. An additional Procedure Note was issued immediately.

Other than the above I found that all payments were supported by vouchers, properly approved and properly accounted for within the Sage system. All VAT has been identified, recorded and reclaimed. Section 137 expenditure is separately recorded in the accounts and falls within statutory limits.

*As immediate action was taken on the items identified at Audit, no further recommendations are offered on the Purchase Order System which provides a strong degree of control over both the budgetary and administrative procedures.*

## **Risk Arrangements**

The Councils exposure to Risk continues to be monitored efficiently. The system of site review and reporting, as previously noted, remains in place and a Health & Safety report is regularly presented to the Planning, Environment & Amenities Committee.

During the year, members and employees have attended appropriate training courses – e.g. Fire Procedures and Manual Handling. A Local Councils Health & Safety Seminar was run by Zurich Municipal Insurers when neighbouring Councils were also invited to attend. (It is noted that when neighbouring Councils attend they make an appropriate contribution to the running costs).

Zurich also carried out their annual play area inspection and all recommendations have been agreed with the exception of the erection of swing barriers at Baileys Court and Paddock Close. Council consider these recommendations to be cost prohibitive bearing in mind the degree of risk and past claim patterns (of which there have been none).

Work continues on the Risk Assessment Library, the Policy and Procedures Manual and the Fire Safety Log Book. Risk assessment reports are continually re-assessed and target review dates are recorded in the register. Another complete review of the Risk Assessment relating to the fireworks display was carried out.

The non-physical aspects of risk remain under review through Financial Control, budget monitoring and ultimately with the adoption of the Strategic Performance Plan, when completed.

The insurance portfolio provides the same range of cover as last year, updated for buildings inflation and new items. The policy runs from 1 June annually and is subject to a “long term agreement” which lasts until 31 May 2008. Whilst the cover is generally good, it was noticed that some areas of cover may need review to reflect the current limits of indemnity.

It is suggested that a complete review of sums insured be carried out before renewal to ensure the Council is properly covered. The District Valuer has recently carried out an exercise to assess the value of all buildings, and these values should be applied to the Policy immediately. Other areas to review include those where the current valuations appear low including Contents Cover. The terms of Business Interruption (particularly the Additional Expenses and Loss of Revenue sections) need clarification to ensure the values quoted in the Insurance Schedule relate to 12 months cover (not the 24 months indemnity period).

*It is considered that the Council identifies and manages its' exposure to risk well and the practice of recording and reporting risk be continued. The insurance portfolio, whilst reasonable, would benefit from a review of the various sums insured before another long term agreement is entered into.*

## **Budgetary Controls**

It is not the function of Internal Audit to check the appropriateness of the budget but I can verify that the budget has been properly prepared and adopted in setting the Precept.

The regular reporting of expenditure, and variances from budget, is an important part of proper control of public money and evidence of this activity is seen in the reports received by the Finance & Leisure Committee and the Council.

Progress on the Business Plan remains slow, but evidence exists that consideration has been given to it. The Plan currently appears on the Councils website and seeks public comment by 31<sup>st</sup> March 2008. Once this

consultation period is over, a final document can be drafted and will form the basis of the Councils strategy for the next three years, and beyond.

Budgetary control at employee level continues with monthly activity reports being available to allow staff to manage their own cost centres with greater accuracy thereby increasing accountability.

Part of the budgetary control process is to ensure adequate but not excessive reserves or balances. I assess that the level of balances at BSTC is reasonable for an authority of its size and nature.

*Good Budgetary Controls exists in BSTC.*

*It is satisfying to note the progress on the Business Plan which is essential for the proper management of the Councils' resources and reserves and would provide clarity of the Councils' forward planning objectives.*

## **Income Controls**

I can confirm that the Councils income, including the Precept, is properly and promptly received, and the procedures that were in place previously have not been changed. Although Precept income forms the largest item of income it does not carry the risk that cash income does so, once more, the audit concentrated on the other sources of income.

A substantive check covering two months transactions (October and November 2007) was carried out. All receipted income was trailed from source to pay-in record and onward to the Sage accounting system and bank statement/reconciliation.

All caretaker receipts for the review period were present (with one exception) and all void receipts returned to the control staff in the office. It was noted that there are occasions when the receipts are used out of order (particularly at Brook Way). It was thought that this occurs when a Caretaker prepares the receipt in advance for the regular hirers.

The charges levied to users of BSTC services checked for accuracy. No errors or issues were identified.

The credit control system, where outstanding invoices are checked on a monthly basis and debtors chased for prompt payment, has been reviewed and found to be working efficiently. Since the last audit it has been linked to tighter control of the inbuilt checks and more in depth investigation is taking place. This means that control staff have a tight control on the Council debts and minimum delays in payment is being experienced.

*Income controls continue to be appropriate and, apart from minor anomalies brought to the attention of staff, no recommendations are offered on this occasion.*

## **Petty Cash Procedures**

Last Audit identified a £7.86 imbalance thought to have arisen from all vouchers not being returned from the Community Festival. At the time the RFO was to investigate and ensure the Petty Cash account was returned to balance. The outcome of this investigation resulted in the RFO making up the shortage herself. It is the opinion of audit that this imbalance should have been reported to Committee and approval to write off the amount sought. The RFO agreed that should there be a recurrence this would be considered.

The Petty Cash tin was reconciled on the day of audit. All disbursements since April 2007 were reviewed. All payments were supported by invoice/receipt/claim and all sums and items claimed considered reasonable.

*The Petty Cash system was found to be sound and no anomalies were found this year. Consideration should be given to the procedure for dealing with future imbalances through write-off approved by Council.*

## **Payroll**

Salaries and allowances are paid in accordance within nationally agreed pay scales and are supported with full documentation. Payslips and accounting records are prepared using the Sage payroll system which is fully integrated with the accounting system.

Substantive testing was carried out on a sample of transactions (the period covered being November 2007 to January 2008) which were trailed from prime documents to payslip and accounting records. It was found that transactions were accurate including the provision for statutory deductions from pay.

A control system exists whereby hours worked are recorded off weekly timesheets onto a weekly Control Spreadsheet. This ensures that hours worked tally with contracted hours and any variance and/or overtime readily identified. Information from the weekly Control Spreadsheet is then transferred to an annual Control Spreadsheet from which the RFO can determine the payroll information. It was found that ½ hour discrepancies appeared on the totals between the two spreadsheets. This was considered to be a result of formatting and, although the staff have been paid correctly, should not happen. I think that it should be possible to link the two spreadsheets so that when information is entered on the first, it automatically summarises to the second. This not only avoids duplication it should eliminate the potential for discrepancies.

*The Internal Audit was able to confirm that all payroll payments were in accordance with Council approvals and that the system complies with all statutory requirements.*

## **Asset Control**

The Asset Register total agrees with the figure used in the Balance Sheet. It continues to be very comprehensive and includes even small items of equipment. At the last Audit I recommended that consideration be given to introducing a de minimus level for inclusion in the Register.

I note that this has been considered by Council (Council 18 July 2007, Min. 11.3) and it is intended to introduce an approved minimum asset value level when compiling the Year-End figure this year.

Other than the Public Sector Reserve (PSR) account held with the Councils' bankers there are no investments or deposits placed in the money market. Management and control of the PSR account is carried out regularly as it is with all other bank accounts.

The only Stocks & Stores that will remain at year-end relate to office stationery etc. as the Council has decided to remove vending machines and the cleaning contractor is responsible for providing cleaning materials. The control of the stationery stock is sound and year-end valuations done for entry into the Balance Sheet.

*Asset control remains complete and effective. Movement towards a de minimus level of Asset valuation be taken at year-end.*

## **Bank Reconciliation**

A feature of a sound financial system will be the regular reconciliation of the balance shown on the bank statements with those calculated in the Councils' financial records. I can confirm that upon receipt of a bank statement reconciliation to the appropriate cash book record takes place.

A year-end reconciliation is also carried out.

The internal audit did identify six occasions when the bank had made posting errors on the statements. These had been immediately identified by staff and corrections effected (note that two had still to be fully resolved at the time of audit).

*The system of bank statement reconciliation is effective and current. This complies with standard accounting procedures.*

## **Conclusion**

Once more the Internal Audit did not find anything of major concern. Within the limitations of a small establishment a good degree of separation of duties exists for control purposes. All financial procedures were accurate and an audit trail to trace transaction movements readily available. Budgetary control remains a strong feature of BSTC financial management. It is noted that members are taking an active role in the review of financial controls, and this is to be encouraged.

It was satisfying to note that recommendations from the last Internal Audit were fully considered and acted upon.

So far as the current year is concerned my recommendations can be summarised as follows:

- Consider a review of Financial Regulations and Standing Orders to ensure they are still relevant.
- New procedures within the Purchase Order System be introduced to ensure all prompt payment discounts are taken. Ensure compliance with existing controls to ensure there are no Procedural breaches.
- The sums insured under the insurance portfolio be reviewed prior to renewal to ensure the Council is properly covered.
- The Business Plan to be completed.
- Consideration is given to the treatment of any future Petty Cash discrepancies.
- Review the Payroll Control spreadsheets.
- Introduce Asset de minimus values levels at year-end.

In conclusion, can I once more thank David Chandler, Rachel Pullen and their staff for their assistance during the conduct of the audit.

John Massie, CPFA.  
4<sup>th</sup> February 2008.