

BRADLEY STOKE TOWN COUNCIL

Internal Audit Report – January 2009.

Introduction

Council determined the Scope of the internal Audit and provided a schedule of activities which I followed as the template for my audit. The following report outlines my work and findings. Conclusions and recommendations are shown in italics at the end of each section.

Previous Recommendations & Subsequent Actions

During the course of the last financial year I carried out two Internal Audit examinations. The following summary outlines recommendations relating to both audits and the action taken thereon by Council.

- Consider a review of Financial Regulations and Standing Orders to ensure they are still relevant – a review was carried out at the time of the AGM (May 2008) and was supplemented with a further review and amendment by Council in January 2009.
- 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 - during the time of the audit the Responsible Financial Officer (RFO) immediately issued a Procedure Note which addressed the matter.
- The sums insured under the insurance portfolio be reviewed prior to renewal to ensure the Council is properly covered - a complete review has taken place and the insurance provider market tested for value.
- The Business Plan to be completed – this item is still outstanding. However, a working party of Members has been set up and they are due to meet again in February 2009.
- Consideration is given to the treatment of any future Petty Cash discrepancies - the correct way to deal with any future occurrences is to report to Council and if appropriate seek write-off authority. This action was approved by Council.
- Review the Payroll Control spreadsheets - This action has been done by the RFO and minor changes implemented so that the potential for discrepancies has been reduced.
- Introduce Asset de minimus values levels at year-end - a complete review of the Asset Register has taken place.

Financial Regulations & Standing Orders

Financial Regulations and Standing Orders 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 January 2009. A further amendment is currently under consideration which will incorporate action to be taken to protect the Council should a transfer of fund become a necessity during the present financial situation.

It is considered that these documents form the basis of the financial control systems that exist within the authority and are appropriate for purpose.

Minutes

A complete review of the minutes of Council and its standing committees was undertaken. This enabled me to assess that legal powers are available, and have been correctly applied, to underwrite the various activities of the Council.

The review also highlighted areas where further investigation could prove useful. The only anomaly which resulted from this review concerned the granting of financial assistance to Allotment holders within the boundary of Patchway Town Council. (Finance & Leisure Committee 17.12.2008, Minute 8.6). Following discussion with the Clerk it was determined that powers within the provisions of s.137 of the Local Government Act 1972 were appropriate in this case.

It is considered that the Minutes of Council are comprehensive and provide the reader with an appropriate view of the Councils activities. These minutes are available for public inspection by being included on the Councils website thereby allowing the electorate the opportunity to assess the Councils performance and raise matters either directly or through their elected representative.

Financial Procedures

a. Proper book-keeping.

Throughout my employment the book-keeping for 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.

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

b. 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 October 2008 to December 2008) which were trailed from prime documents to payslip and accounting records. It was found that most transactions were accurate including the provision for statutory deductions and from pay. The only error detected related to the omission of a mileage payment to the Clerk. This was reported to the RFO who will make the appropriate adjustment in a future pay run.

Since the last audit, a revised control system has been established to ensure that the information on timesheets is transferred correctly. This system was tested for accuracy and no errors were found.

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.

c. Year End.

My previous audit was particularly aimed at the Year End procedures etc in order that I could sign off the Annual Statement with confidence. Although this audit did not cover the Year End processes I was able to determine that procedures are in place that will produce accurate and relevant figures in readiness for the external Audit and compilation of the Annual Report.

Financial & Internal Controls

a. Budgetary.

The Council has a sound budgetary process with the Precept being set after a complete review of the Councils activities. The Precept is properly and promptly received. The Finance & Leisure Committee regularly receive a monitor report when actual income and expenditure is reviewed against budget. The budget and Precept approval was considered by Finance & Leisure Committee (17th Dec. 2008, Minute 7) and Council (21 Jan. 2009, Minute 9.1).

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

Although it is not the function of Internal Audit to check the appropriateness of the budget I did carry out a review of the budget papers and discussed various issues with the RFO. I can verify that the budget has been properly prepared and adopted in setting the Precept.

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. However a 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 and, once more, I would encourage Council to complete this task as soon as possible.

b. Income.

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 transactions from a random period (18th Sep. To 13th Nov. 2009) 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.

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

The credit control system was reviewed and found to be working efficiently.

Income controls continue to be appropriate and, apart from minor anomalies brought to the attention of staff, no matters are drawn to your attention.

c. Payments.

During the last audit I found one occasion where a prompt payment discount was missed. As stated above the RFO immediately issued a Procedure Note which addressed the matter. A substantive check of 78 Orders, selected at random, showed that the system works well and I did not reveal any discrepancies. I found that all payments were supported by vouchers, properly approved by Members 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.

The check also determined appropriate cost coding had been applied to the transactions. One occasion arose (relating to Order No. 3619) where expenditure had been charged to the Jubilee Centre (cost code 9035) whereas it related to works at Baileys Court (cost code 9037). This was reported to the RFO.

The Purchase Order System provides a strong degree of control over both the budgetary and administrative procedures and no recommendations are offered on this system.

d. Bank:

- i. 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.
- ii. Petty Cash:** A previous audit had identified an occasion when the Petty Cash tin did not reconcile and it was "made good" by the RFO. It was suggested that the correct way to deal with any future occurrences was to report to Council and if appropriate seek write-off authority. This action was approved by Council, and since then no further discrepancies have occurred.

A review of the Petty Cash transactions was carried out and no errors found. I was able to trace disbursements through the petty cash system to the nominal code within the Sage accounting system. The Petty Cash "Cheque" system and the Mobile Van imprest were reconciled. The Finance & Leisure Committee continues to receive regular reports on Petty Cash disbursements for Members approval. Petty Cash payments are supported by receipts and VAT appropriately accounted for.

- iii. Access & Security:** internal control procedures provide for a high degree of security regarding the access to bank transactions. Separation of duties both within the office staff and the Members ensure that no one individual has the ability to transfer funds out of the Councils control. A control is in place where the bank seek authorisation if an unusual transaction (amount of payment) is passing through the system. A Risk Assessment procedure was completed for all cash handlers when the bank advised that fraudulent £20 notes were in circulation.

The system of bank statement reconciliation is effective and current. This complies with standard accounting procedures. Control mechanisms are in place to ensure the Council is not exposed to risk in the handling of its monies.

e. VAT

As stated above, substantive checks of both Income and Expenditure procedures showed the VAT is correctly applied and accounted for. The change in VAT rate from 17.5% to 15% has been implemented and no issues relating to VAT were highlighted.

There are no recommendations re the treatment of VAT.

f. Asset Control.

Following comment at the last audit a complete review of the Asset Register has taken place. This was coupled with the valuation exercise carried out in respect of the insurance arrangements, using the offices of the District Valuer, where appropriate. A considered approach has been adopted whereby small items have been grouped so that individual items of little value no longer are identified in the

Register. The detailed register shows the cost with provision for purchases, deletions, obsolescence and reasons being shown.

The Register also reconciles to the Summary of Fixed Assets contained in the Annual Financial Statement.

As far as consumable stock is concerned, very little is held. The main items of which comprise the supply of stationary in the main office and some cleaning materials provided by the contract cleaner which is based at the Jubilee Centre. Correct accounting records are maintained and a year end stock take takes place where values are attributed to all items. These valuations were used in compiling the final accounts for the year.

Asset control remains complete and effective.

g. Reports to Council.

The Council receives comprehensive reports in respect of its financial activities at every cycle of meetings. It also receives other reports as necessary, including a regular Health & Safety Statement which incorporate any emergency actions taken arising such issues.

The system of reporting to Council is robust and no recommendations are offered on this topic.

Risk Management

a. Health & Safety.

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

During the year employees have attended appropriate training courses – e.g. Fire Training, First Aid, Food Hygiene and Manual Handling. Where appropriate neighbouring Councils are invited to attend courses run by BSTC and some reciprocal arrangements are in place which BSTC staff and members can take advantage of.

Zurich carried out their annual play area inspection and recommendations are considered by Council.

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, as well as assessments for the International Women's Day and the Easter Extravaganza.

b. Financial.

As commented upon throughout this report the financial controls and reporting mechanisms provide for a high degree of management control and thus the exposure to risk has been minimised. The only deficiency within this area is the lack of a Business Plan, but the completion of the Strategic Performance Plan will address this.

c. Insurance/Fidelity.

During 2008 a comprehensive review of the Councils insurance portfolio was conducted and the result put out to tender. The new portfolio was placed with Zurich with whom the Council have entered into a 5 year long term agreement.

As part of the Internal Audit I carried out a review of this new cover and am satisfied that it adequately meets the Council's requirements. The Council have sought the advice of the District Valuer and ensured that Zurich has been advised of the new valuation figure for Baileys Court and the amended policy documentation is currently awaited. Contents and/or All Risks cover has been adjusted to ensure that the replacement laptop and projector, acquired during the year (Finance & Leisure Committee, 18th June 2008. Minute 8.10.2), are adequately covered.

At the last Year End audit, the External Auditor commented that the Fidelity insurance which currently stands at £10,000 (a standard sum included in the Zurich policy) needs to be increased. I have considered this suggestion and would offer the following observation:

It is a requirement under the Local Government Act 1972 (s. 114) for an authority to take seriously such Fidelity Bonds as it considers sufficient in the case of any of its officers likely to handle money or any other person likely to handle its money or property. The Council may refuse to take out security if it considers that no security is "sufficient", but there must be objective grounds for such a conclusion.

BSTC has a high degree of internal control and separation of duties such that its exposure to risk of this nature is limited. It therefore considers that the level of cover offered by the standard Zurich policy is sufficient for its purposes. However, to satisfy the External Auditor, and to fully assess the consequences of increasing its level of indemnity, quotations from Zurich are being sought. Council can then make an informed, calculated and objective decision on the appropriate level of cover.

d. Other.

BSTC already has gone a long way in achieving a Risk Management strategy. Its financial management systems and review processes are good. However, risk is not just about finance, but ensuring the achievement of objectives set by Council. This is where the Business Plan should appear. I understand that the Council has aspirations to achieve "Quality" Status and this will be one of the requirements in achieving that.

The Council will need to embrace the Risk Management criteria set out in the Governance and Accountability for Local Councils document which suggests that, as a minimum, each year members should:

- take steps to identify and update their record of key tasks facing the Council;
- evaluate the potential consequences to the council if an event identified as a risk takes place;
- decide upon appropriate measures to avoid, reduce or control the risk or its consequences; and
- record any conclusions or decisions reached.

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.

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.
30th January 2009.