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# **Leighton-Linslade Town Council**

*Internal Audit Report 2016-17: Final update*

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*For 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 Return. Auditing Solutions Ltd has provided this service to Leighton-Linslade Town Council since 2007.

This report sets out the work undertaken in relation to the 2016-17 financial year, which took place on 20th / 21st September 2016 and 21<sup>st</sup> February and 2<sup>nd</sup> June 2017 together with the matters arising and recommendations for action, where appropriate.

## **Internal Audit Approach**

In undertaking our review 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 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 Annual Return, which requires independent assurance over a number of internal control objectives.

## **Overall Conclusion**

We are pleased to conclude that, in the areas examined, the Council continues to have effective systems in place to help ensure that transactions are free from material misstatement and will be reported accurately in the Annual Return and detailed Statement of Accounts for the financial year.

We are also pleased to record that Council members and officers continue to operate a sound, pro-active approach to risk management and corporate governance issues, together with the development and management of effective internal controls and procedural documentation.

We have completed and signed the 'Annual Internal Audit Report' in the year's Annual 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

## Review of Accounting Arrangements & 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. To that end, we have: -

- Checked and ensured that the closing balances have been correctly rolled forward as opening balances for 2016-17 in the Omega software;
- Checked to ensure that a comprehensive, meaningful and appropriate nominal ledger coding schedule remains in place;
- Checked and agreed transactions in the Council's main combined Current and Reserve account cashbook to the relevant NatWest bank account statements for April and August 2016 and January and March 2017 including the daily "sweep" transfers;
- Similarly, checked and agreed all transactions in the Council's supplementary NatWest Special Interest Bearing account cashbook to the relevant bank statements for April and August 2016 and January and March 2017; and
- Checked detail on bank reconciliations for all accounts as at 30<sup>th</sup> April and 31<sup>st</sup> August 2016 and 31<sup>st</sup> January and 31<sup>st</sup> March 2017 to ensure that no long-standing uncleared cheques or other anomalous entries exist.

### *Conclusions*

*We are pleased to report that no issues worthy of formal note 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 an "ultra vires" nature have been or are being considered for implementation. We have: -

- Examined the minutes of the Full Town Council and its Standing Committee meetings (except Planning) for the year to March 2017 to ensure that no issues affecting the Council's financial stability either in the short, medium or long term exist; and
- Noted that Standing Orders (SOs) were reviewed and approved in January 2015 and Finance Regulations (FRs) on 25<sup>th</sup> April 2016 by Full Council.

### *Conclusions*

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

## Review of Expenditure

Our aim here is to ensure 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;
- 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 completed testing in this area, examining all those payments individually in excess of £4,000, together with a more random selection of each 40<sup>th</sup> cashbook transaction irrespective of value to March 2017. Our test sample includes 72 payments totalling £651,042 and equating to 50% of all non-pay related payments for the year.

We are pleased to note that the submission of the VAT Returns to March 2017 have been undertaken in a timely manner utilising HMRC's "on-line" facility and have we verified the details therein to the ledger control account.

### *Conclusions*

*We are pleased to record that no significant control issues have been identified from our testing in this area, with all criteria met.*

## 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:

- Has adopted an appropriate Corporate Risk Management Policy; and
- Formally approved and re-adopted revised financial risk assessments, based on the LCERS software, at its August 2016 meeting with possible further updates / amendments, as necessary, to be made during the year and approved by Full Council; and
- Maintain their insurance with Ecclesiastical: We have examined the current year's policy schedule to June 2017, noting that Public and Employer's Liability both stand at £10 million, with Fidelity Guarantee cover at £3 million for any one loss.

### *Conclusions*

*No issues arise in this area warranting formal comment or recommendation.*

## **Budgetary Control and Reserves**

We aim in this area of our work 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 of the precept placed on the Unitary Authority and that effective arrangements are in place to monitor budgetary performance throughout the financial year. We will also confirm that the Council has identified and retains appropriate reserve funds to meet future spending plans.

We note that the Council, at its January 2017 meeting, approved and adopted the precept for 2017-18 at £2,115,211.

We are also 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.

We also noted that, as at 31<sup>st</sup> March 2017, the Total Reserves stood at £1,995,808 comprising specific earmarked items totalling £1,258,988 with a residual General Fund balance of £736,820. The latter represents circa four months' net expenditure at current levels.

### *Conclusions*

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

## **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 the income is invoiced (where applicable) in a timely manner and that effective procedures are in place to pursue recovery of any outstanding monies due to the Council. We have: -

- Noted that fees and charges were reviewed and approved by members to include the pavilions, sports facilities, allotments and cemeteries: these were most recently approved in September 2015 by the Leisure and Community Committee and ratified by Full Council for application in 2016-17.
- Also noted that a review of the fees for 2017-18 has been undertaken by the Grounds and Environmental Committee in September 2016;
- Reviewed the controls and income generated from the Vandyke Road and Old Linslade Cemeteries examining a sample of the burial register entries from the computer records for both locations to ensure that they were full and complete, that they were appropriately supported by funeral director applications and other legal documentation, that the fees and charges levied were correct for each interment and

that all monies due were received without any undue delay. No matters arise in this area;

- At this interim update visit reviewed the Management controls, bookings process and income received in respect of Astral Park room hire and facilities together with the invoicing and subsequent banking of fees;
- Inspected a further sample of the limited number of nominal ledger entries posted to the Omega control account to ensure their completeness for both the Cemetery and Astral Park;
- Inspected a sample of the limited number of Sales Ledger invoices issued and posted to the Omega control account to ensure their completeness; and
- Examined the “Aged debtors schedule” generated by the accounting software and are pleased to record that there are no significant long-standing debts exist of which officers and members are unaware

### *Conclusions*

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

## **Review of Petty Cash and Fuel Cards**

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 encashments from the main cashbooks are properly recorded.

We have examined payments processed in September 2016 to ensure that: -

- Each transaction is supported by a relevant trade invoice or till receipt;
- Where relevant, any VAT incurred has been identified for recovery and been coded accordingly to the relevant control account;
- Checked the cash held ensuring agreement to the control record maintained, and
- Checked and agreed the petty cash holding as at 21st September 2016 for the White House.

We have also, as part of our “Review of Expenditure”, examined a sample of payments made through use of Fuel Cards and noting that fuel card forecourt receipts are checked and are attached to the relevant statements.

### *Conclusions*

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

## Salaries and Wages

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenue and Customs (HMRC) in relation to 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 2015 with regard to financial bandings. To meet these objectives, we have examined the payroll procedures in place and the physical payments made to staff in 2016-17 by reference to the August 2016 payroll documentation taking into account the revised pay scales approved for April 2016. The payroll continues to be produced by third party, external bureau providers utilising appropriate bespoke payroll software. Our work included: -

- 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 2016-17;
- 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, were being applied where appropriate;
- Ensuring that appropriately signed and approved timesheets and mileage claims are submitted by all employees in support of any flexible hours worked or claimed as overtime or for expenditure re-imburement;
- Verifying detail of the net salary payments made by comparison with the summary reports and payslips to the monthly BACS settlement; and
- 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 report that no issues arise from our testing in this area warranting formal comment or recommendation.*

## 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 in the Council's register, as recorded in the 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.

The external accounting contractor has, as in previous years, compiled an appropriate register for the purposes of depreciation and statutory account reporting under the FRSSE regulations, applying a de-minimis monetary level of £3,000 per item.

We have also previously reported that sound registers of Council assets are maintained by "in house" personnel and that appropriate adjustments for acquisitions and disposals have been

made for 2016-17. Consequently, we are pleased to report that the detail in the Annual Return has been disclosed in accord with the Practitioners' Guide.

### *Conclusions*

*No issues have been identified in this area of review that require formal recommendation.*

## **Investments and Loans**

Our objectives here are to ensure 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 and that the Council is obtaining the best rate of return on any such investments made and that interest earned is brought to account correctly and appropriately in the accounting records.

- We have, checked the detail of the interest bearing accounts and agreed all relevant maturities, re-investments and interest arising to March 2017 to their third party advice notes, bank statements and other appropriate bank correspondence, noting that two of the Santander accounts were reinvested with the Nationwide Building Society; and
- We have also checked and agreed an instalment repayments of the existing PWLB loans from the cashbook payments to their third party, direct debit advice notes.

### *Conclusions*

*No issues have arisen in this area to warrant any formal recommendations.*

## **Annual Statements of Accounts**

The Council continues to engage the services of third party accountancy contractors for its monthly and year-end closedown processes, together with preparation of the detailed annual financial Statement of Accounts in FRSSE format.

We have checked and agreed the detail in both the detailed Statement of Accounts, as prepared by the external contractor, and Annual Return to the underlying Omega software and other documentation provided and are pleased to record no matters arise that warrant formal comment or recommendation.

### *Conclusions*

*We have duly "signed off" the Internal Audit Report of the Annual Return, assigning positive assurances in all areas.*