

Southern Internal Audit Partnership

Confidential

Final Internal Audit Report

**Supplementary Paper to Annual Governance and Accountability Return
2017/18 Part 3**

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Issued date: 09 July 2018

This document has only been distributed to these individuals:

Name	Title
Chris Wilkins	Town Clerk
Rory Fitzgerald	Responsible Financial Officer (RFO)

1 **Audit objectives**

1.1 This review has sought to assess the effectiveness of controls in place focusing on those designed to mitigate risk in achieving the following key objectives:

- Appropriate accounting records have been properly kept throughout the financial year;
- The Town Council complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for;
- The Town Council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these;
- The precept or rates requirement resulted from an adequate budgetary process; process against the budget was regularly monitored; and reserves were appropriate;
- Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for;
- Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for;
- Salaries to employees and allowances to members were paid in accordance with the authority's approvals, and PAYE and NI requirements were properly applied;
- Asset and investments registers were complete and accurate and properly maintained;
- Periodic and year-end bank account reconciliations were properly carried out;
- Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate debtors and creditors were properly recorded; and,
- The Town Council has met its responsibilities as a trustee.

2 **Audit opinion**

- 2.1 The overall opinion of this review based on the audit evidence obtained, is that **adequate assurance** can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives.

3 **Executive summary**

- 3.1 Detailed financial results comparing year-to-date actuals against budget are compiled and reported to the Policy & Finance Committee on a monthly basis in a format which provides an audit trail to original transactions within the Agresso financial system.
- 3.2 We tested eighteen points within the Financial Regulations and found a high level of compliance although there was one exception; the quarterly independent review of bank statement reconciliations by a Member is not being carried out. Also, we were unable to obtain a copy of the bank mandate approved by the Policy and Finance Committee in September 2017 and cross-reference it to the actual bank mandate. We understand that the bank mandate is currently being updated therefore no action plan has been raised regarding the mandate.
- 3.3 Testing of payments to suppliers found they were supported by invoices and authorised in compliance with the Financial Regulations, with VAT appropriately accounted for. All petty cash transactions tested were supported by receipts, correctly authorised, and processed compliantly with HMRC VAT guidelines.
- 3.4 Testing of cash receipts and sales invoices found they were raised in compliance with the Council's current charging policies, cash was promptly banked, all receipts were correctly coded, and VAT was appropriately accounted for.
- 3.5 A financial risk assessment report was presented to the Policy & Finance Committee in March 2018 and included an up-to-date and comprehensive risk register. No major projects were undertaken in the financial year which would have required a risk assessment under the terms of the Financial Regulations.
- 3.6 When setting the 17 / 18 precept, all budget-lines were reviewed by the Responsible Finance Officer using linear or zero based budgeting processes as appropriate. A draft budget was presented to the Policy and Finance Committee in October 2016 with recommendations to increase the precept in order to keep general reserves at an appropriate level. The final precept was agreed by Council in January 2017, in compliance with the Financial Regulations, and year-to-date actuals against budget are reported to the Policy & Finance Committee at each monthly meeting.

- 3.7 A specialist company is contracted to ensure monthly salary payments to employees, allowances to members who have elected to receive them, and any related PAYE and NI contributions, are calculated and reimbursed at the correct levels. Our testing found that controls in place to ensure the contractor has the correct information to base these calculations on are robust.
- 3.8 The Responsible Financial Officer maintains a comprehensive fixed asset register, including book valuations and current level of insurance, with controls in place to ensure additions and disposals are updated as necessary. The register also logs the last date each item was physically inspected, with the most recent review carried out in March 2018.
- 3.9 Each of the Council's four bank accounts are reconciled by the Finance Officer on a monthly basis. Testing found reconciliations agreed to reports made to the Policy and Finance Committee. However, as noted under point 3.2, there is no arrangement in place for a member to validate reconciliations on a quarterly basis as stipulated by the Financial Regulations, and, further to this, the Council's Treasury Management Policy states that the maximum amount to be invested with a single institution is £250,000, whereas all four bank accounts are held with a single bank and balances throughout 17 / 18 were typically in excess of £400,000.
- 3.10 All draft budgets and budgetary monitoring reports have been prepared on the correct income and expenditure accounting basis, as will the final accounting statements. A process is in place to ensure the cash book agrees to the year end nominal ledger, is correctly represented within the balance sheet, and that the balance sheet is reconciled to the year end trial balance ahead of the accounts being finalised. A process has been followed to identify and record all debtors and creditors, and a detailed transaction listing will be extracted from Agresso and kept on record to provide an adequate audit trail to underlying records.
- 3.11 The Council is the sole trustee for two funds, both of which have had all necessary Charity Commission Annual Returns completed and are being maintained in separate accounts in compliance with section sixteen of the Financial Regulations.

4 **Action plans**

4.1 The action plans detailed within this report describe:

- Observations where internal audit considered either controls or compliance to be insufficient to mitigate risk to the achievement of management objectives;
- The actions management propose to undertake to bring the risks within acceptable parameters; and
- Internal audit's assessment as to whether management's actions achieve an acceptable level of risk exposure.

Action plan 1 - Bank statements				
Objective		The Town Council complied with its financial regulations.		
Observation		<p>Our testing found that bank statement reconciliations are being carried out by the Financial Officer on all accounts on a monthly basis and that the March 2018 reconciliations agreed to the equivalent figures in the year-end cash-book.</p> <p>However, Financial Regulation 2.2 stipulates that a Member shall be appointed to verify bank reconciliations for all accounts at least once each quarter, signing both the reconciliations and original bank-statements as evidence.</p> <p>Our testing confirmed this is not being followed in practice. In addition, no other responsible officer within Ringwood Town Council is presently reviewing the Financial Officer's reconciliations, risking any errors or inconsistencies remaining undetected.</p>		
Management action				
What		Priority (High, Medium, Low)	Responsible officer	Target date
1.1	Since April 2018 the reconciliations have been performed by the Finance Officer and checked by the Finance Manager. This will be standard practice until further notice.	Medium	RF	Immediate
1.2	The bank reconciliation and referenced bank statements will be presented to the Policy & Finance Committee on a quarterly basis from Q1 2018/19 for endorsement and signature by the Committee Chairman.	Medium	RF	July 2018
Auditor's assessment of management response:				
Proposed actions will help mitigate future risk.				

Action plan 2 - Bank balances				
Objective		The Town Council complied with its financial regulations.		
Observation		<p>A review of the bank account reconciliations revealed that all four accounts are with one financial institution and that combined balances throughout the year were regularly in excess of £400,000.</p> <p>Ringwood Town Council's Treasury Management Policy Statement, point 4.1, however, stipulates that the maximum amount which can be invested with any one institution is £250,000.</p> <p>Placing all of the Council's liquid assets with one institution risks non-compliance with the Council's Treasury Management Policy and, also, over-exposing the Council to any potential financial issues limited solely to that particular institution.</p>		
Management action				
What		Priority (High, Medium, Low)	Responsible officer	Target date
2.1	Arrangements will be established with other approved investment organisations and investments over £250,000 will be split over two or more financial institutions.	High	RF	August 2018
Auditor's assessment of management response:				
Proposed actions will help mitigate future risk.				

Annex A**Key**

The following is the key to quantify observations identified in the audit:

Assurance levels

Opinion	Framework of governance, risk management and management control.
Substantial assurance	A sound framework of internal control is in place and is operating effectively. No risks to the achievement of system objectives have been identified.
Adequate assurance	Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified.
Limited assurance	Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk.
No assurance	Fundamental weakness identified in the framework of internal control or the framework is ineffective or absent with significant risks to the achievement of system objectives.

Priority

Priority rating	Current risk
High	A significant risk of; failure to achieve objectives; fraud or impropriety; system breakdown; loss; or qualification of the accounts by the organisation's external auditors. Such risk could lead to adverse impact on the organisation or expose the organisation to criticism.
Medium	A serious, but not immediate risk of: failure to achieve objectives; system breakdown; or loss.
Low	Areas that individually have no major impact, but where management would benefit from improved risk management and / or have the opportunity to achieve greater efficiency and / or effectiveness.

4.2 Annex B

4.2.1 Assignment – Progress Control Sheet

Assignment stage	5 Assignment Progress				Comments
Audit Outline	Presented	17/04/2018	Agreed	24/04/2018	
Fieldwork commenced	Target	08/05/2018	Actual	08/05/2018	
Fieldwork completed	Target	17/05/2018	Actual	17/05/2018	
Close of audit meeting	Target	17/05/2018	Actual	17/05/2018	
Draft report issued	Target ¹	31/05/2018	Actual	31/05/2018	
Factual accuracy agreed and management response	Requested ²	14/06/2018	Provided	26/06/2018	
Draft final report issued	Target	N/A	Actual	N/A	
Senior management sign-off	Requested	N/A	Provided	N/A	
Final report issued	Target	09/07/2018	Actual	09/07/2018	

¹ Within 10 working days of close of audit meeting

² Within 10 working days of draft report issued

³ Within 5 working days of receipt of management response

⁴ Within 5 working days of draft final report issued

⁵ Within 2 working days of senior management sign-off