

Lewes Town Council

Internal Audit

Year Ended 31st March 2016



Prepared by: Mulberry & Co
Date of Interim Visit: 27th November 2015
Date of Final Visit:

Law and Regulation Regarding Internal audit

Regulation 6 of the Accounts and Audit (England) Regulations 2011 imposes a duty on local councils to ‘maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Internal audit is a key component of the system of internal control.

The purpose of internal audit is to review and report to the council whether its systems of financial and other internal controls over its activities and operating procedures are effective.

Internal audit’s role is to assist the council in fulfilling its responsibility to have and maintain proper internal control arrangements and those for the prevention and detection of fraud, error or mistakes

All internal audit work must be reported to the council. Any report by internal audit is addressed to the council, may recommend actions to be taken by the council, and should be treated as a document open to view by local taxpayers.

Two pieces of legislation set out how local councils should behave when accounting for the public funds they manage and what rights local taxpayers have in relation to those accounts. These are the **Audit Commission Act 1998** and the **Accounts and Audit Regulations issued from time to time under the Act**. The requirement for local councils to prepare accounts annually and to subject them to external audit comes from the Audit Commission Act 1998 (the Act). The Act describes the rights of taxpayers and other interested parties in relation to those accounts.

Under the regulations, all local councils must at least once a year conduct in accordance with proper practices a review of the effectiveness of their system of internal control and publicly report the outcome. The Annual Governance Statement in Section 2 of the annual return provides the means for local councils to report to local taxpayers on their system of internal control.

This report is prepared for the council and proper officers of the council named above, for use in fulfilling their obligations under the Audit Commission Act 1998 and the Accounts and Audit Regulations issued from time to time under the Act for preparing the Annual Return and reviewing the effectiveness of their system of internal controls. Mulberry and Co accept no responsibility for any action or inaction taken as a result of the findings of this report and accept no responsibility to any other party other than those named above.

No part of this material may be reproduced in any form without the prior permission of Mulberry & Co.

Contents

Law and Regulation Regarding Internal audit	2
Summary Findings.....	4
Points Forward – Action Plan.....	6
Overview of Council.....	7
Professional Independence and Competence Questionnaire	8
Budget.....	10
Timetable	11
Systems Notes.....	12
Inherent Risk Assessment.....	13
Specific Audit Plan	14

Summary Findings

I enclose my interim report for your kind attention and presentation to the council. I am pleased to report that overall the systems and procedures you have in place are entirely fit for purpose and I would go so far as to say are a model of good practice; I therefore make no recommendation for change at this stage. I would like to extend my thanks to Steve and Vivienne for their kind assistance this year and am pleased to see their high standard of work continues

My audit was conducted in accordance with current practices and guidelines and testing was conducted in line with the inherent risks assessment. Whilst I have not tested all transactions, my sample has where appropriate has covered the entire year to date. Amongst others the following areas were covered in my testing:-

- Review of the Financial Regulations & Standing orders
- Review of the Risk Assessments
- Review of the Budgeting process
- Proper Bookkeeping – review of the use of the Sage package.

A. BOOKS OF ACCOUNT

The brought forward balances were tested against last year's annual return and there were no errors. Accounting entries are entered regularly onto the Sage accounting system, and accounts are reconciled monthly, with hard copies printed off for the file. I was pleased to note that there is good documentary evidence to show that these are reviewed internally. The system is tried and tested and entirely fit for purpose for a council of this size. I make no recommendation for change at this stage.

B. FINANCIAL REGULATIONS

The Financial Regulations and Standing Orders were on site and to hand, they were taken to council in April 2015 with minor amendments made. These are current and up to date and evidence shows these are reviewed annually at least. I make no recommendation to change.

We chose at random items to test from the financial regulations as below:-

- Per FR 4.4 Internal Auditor appointed and council minuted as such.
- Per FR 5.2 Cheques are signed in accordance with financial regulations. IA has noted signatures on cheques.
- Per FR 6.1a Internet Payments are made in accordance with regulations. The system is much the same for cheques with three levels of authorisation. IA has noted additional compensating controls in the form of audit panel verification. The absence of this control would increase the risk of collusion through a lack of segregation of duties, but whilst this panel continues to monitor and scrutinise there is no risk evident.
- Per FR 7. Statutory obligations in respect of PAYE are met on a monthly basis. Council is considering living wages changes and auto enrolment and has made provision in the budget for these.
- Per FR 11. Regulations being followed in respect of discussion of quotes and getting best value for money.

C. RISK MANAGEMENT & INSURANCE

Insurance is in place and is current, adequate for a council of this size. Insurance agreement expires in 2020. Specialist advice taken out at time.

IA has noted council review of detailed risk register and signed minutes of the same.

D. BUDGET & PRECEPT

The budget is drawn up in the proper manner. The very detailed working enables sound and robust decisions to be made, and I therefore make no recommendation to change in this process. I note that at a precept level of circa £800k a general reserve balance of £400k i.e. 50% of precept would not be considered unreasonable. However, it is noted that the general reserve will be circa £300k by March 2016, and current indications that general reserves could be reduced by a further £150k in the 2017 year, this level of reduction would be considered putting the council's general reserve into financial distress. **Council needs to consider the RFOs proposals seriously, and discuss reserves provisioning in this regard.**

E. INCOME

TBC at year end

F. PETTY CASH

Petty cash was tested against receipts – and was reconcilable. However it is noted there is more in petty cash than shown on the accounts. **Council will need to ensure fully reconciled before the year end.**

G. PAYROLL

TBC at year end

H. ASSETS AND INVESTMENTS

The asset registers are up to date and properly maintained.

I. BANK RECONCILIATIONS

The bank reconciliations for all accounts are properly prepared and presented to council and committee for verification and approval. The system of reconciliation is working correctly.

J. YEAR END ACCOUNTS

TBC at year end

K. TRUSTEESHIP

TBC at year end

Mark Mulberry

Internal Auditor

27th November 2015.

Points Forward – Action Plan

Point Forward / Action needed	Auditor notes	Council response
Other		
None		

Overview of Council

	Work Task	Schedule Ref	Notes/Results
Terms of Engagement			
1	Review terms of engagement letter and confirm appropriate to this year		New engagement letter issued Engagement letter is kept on the correspondence file.
2	Confirm that the professional independence and competence questionnaire has been completed and agreed with the client	1.2	Yes – confirmed and attached
3	Complete Budget	1.3	Completed & Agreed with Client
4	Complete Timetable	1.4	Completed & Agreed with Client
Planning Notes – Understanding the Town & Parish Council			
	Number of electors and size of precept		12,764 (2014/15: 12,764) Precept £780k + Grant £62k (2014/15: Precept £750k + Grant £74k)
	Key personnel		Clerk & RFO Steve Brigden Assistant Clerk Fiona Garth Finance Officer Viv McLachlan
	Type of financial accounting in place i.e. Manual books, computerised system		Sage Accounts system – augmented with manual spread sheets Risk assessment software - LCRS
	Does the council carry out an annual risk assessment, and is it documented.		Yes. This is reviewed as a minimum annually.
	Does the council have a good control environment (evidence of internal reviews and counter signing of cheques etc)		There is evidence of regular internal review which is carried out council and committee Full Council circa 5 weekly Planning every 3rd Tuesday Grant Panels quarterly Working parties as and when
	Any significant changes since prior year (staff or procedures)		Enhancements made to procedures to coincide with new sections of financial regulations
	Any there any matters arising from last year's audit and/or management letter		None
	Matters arising from discussions with council, including whether there is any evidence of fraud or material misstatement.		None
	Key high risk or expected problem areas,		None

Professional Independence and Competence Questionnaire

The internal audit function must be sufficiently independent from the management of financial controls and procedures of the council which are the subject of review. The person or persons carrying out internal audit must be competent to carry out the role in a way that meets the business needs of the council.

There are two key principles, which all local councils must follow in setting up their internal audit function, regardless of how procured: **independence and competence**.

INDEPENDENCE	
Do you have any specific reliance on the fee to be earned from this assignment	No
Overdue fees	
Does the client/group of clients owe the firm any money which exceeds our normal credit terms?	No
Litigation	
Is there any actual or anticipated litigation between us and the client in relation to fees, audit work or other work?	No
Associated firms	
Are you or your staff associated with any other practice or organisation which has had any dealings with the client council?	No
Family or other personal relationships	
Do you or any of your staff have personal or family connections with the council or its officers?	No
Mutual business interest	
Do you or any of your staff have any mutual business interests with the client or with an officer or employee of the client?	No
Financial involvement	
Do you or your staff, or anyone closely related to you or any of your staff, have any financial involvement in the client in respect of the following:	
Any beneficial interest in shares or other investments?	No
Any loans or guarantees?	No
Goods and services: hospitality	
Have you or any of your staff accepted materials, goods or services on favourable terms or received undue hospitality from the council?	No
Ex-partners or senior staff	
Has any senior officer of the council been a partner or senior employee of the practice?	No
Is the partner or any senior employee on the audit team in negotiations to join the client?	No
Long association	
Have you been acting for more than 10 years? If yes, then consider rotation/engagement quality review. 5th Year of auditing	No
Provision of other services	
Do we provide any of the following services to the client:-	
Accounting services, book-keeping or payroll services	No
Staff secondments	No
IT services where we are involved in the design, provision or implementation of systems	No
Specialist valuations which are included in the accounts	No
Tax compliance work or tax planning	No

Corporate finance activities	No
Any advocacy services e.g. Tax commissioner hearings	No
Any services relating to the management of the council	No
Any other services that may cause a threat to the firm's objectivity or independence	No
Where any of the above have been answered 'yes', then specify below what safeguards are proposed to maintain integrity and independence:-	
Competence	
Consider the following matters prior to deciding to accept appointment/re-appointment as auditors:	
Are there any particular challenges and risks associated with this client?	No
Do we have sufficient expertise available to undertake this audit engagement?	Yes
Are there sufficient resources available to undertake this audit engagement?	Yes
Having regard to the safeguards identified, I am satisfied that we are independent and competent to perform this audit.	

Budget

		Hours
Planning & Systems Work	Interim Visit	4
File Review and reporting	Interim Visit	1
Financial Procedures	Final Visit	4
File review	Final Visit	1
Total Budget Hours		10
Hourly Rate		£50
Time Cost		£500
Other costs	Mileage	£90
Total Budgeted Cost		£590
Total Budgeted Fee		£750

Timetable

Autumn 2015	Planning and Interim Audit work
May 2016	Final Audit work
May 2016	Issue Audit Report & Letter

Systems Notes

Lewes Town Council is quality council there are three wards, Bridge, Castle and Priory. They are proactive in their work with the community; they have their own self-contained offices (Freehold owned) with meeting rooms available for public hire and significant land holdings. (113 Acres of common land with DC), site of Lewes Priory, the Pells, 8 allotment sites. The offices are open daily from 9.00 am to 5 Monday to Thursday and 4pm Friday. There are five or six members of staff on site at these times.

Expenditure:

Normal expenditure such as rates water, electricity, gas etc. is known in advance and budgeted for at the beginning of the year; for ad hoc expenditure such as stationery, repairs etc. this is firstly identified or reported to the clerk or RFO and a purchase order will be raised in triplicate. Quotes are obtained depending on the expense type and amount, for those amounts over £2,000 three quotes are obtained. However, if deemed appropriate or significant a quote will be obtained even if below the £2,000 limit. If the expense is greater than £60,000 it will go out to public tender.

The council has an internal system for processing purchase orders to ensure all expenses are properly accounted for. This system is robust and spot checking showed no errors. Expenditure has to be authorised by the council and this is achieved via budget approval. Clerk has a pre-authorised limit of £2,000.

Services are checked physically by the person ordering the service. Goods delivery notes are attached to the invoices and purchase orders if applicable.

Payment:

There is a regular payment run as and when required. Authorised signatories are invited to attend the offices to sign the cheques and verify the invoices and supporting documentation. The RFO then sends the payment to the supplier. The cheque is signed three times RFO Plus two others, the invoice or supporting document is also initialled. Payment is made by cheque or Direct debit. Invoices paid are filed alphabetically.

Petty Cash:

There is a £400 float in petty cash. Used for milk, tea coffee small sundries. Perhaps a dozen per month.

Income

Precept & Grant 85% - bacs
Rentals 10% - mostly cheque
Other 5% mostly cheque

Internal Checking

There is an audit and governance panel which meets on quarterly basis; which reports to full council. The audit subcommittee has 5 members, and their responsibilities are to:-

Review budgets and trends
Make recommendations to Council for changes in systems
POs and invoices are counter signed
Petty cash is checked quarterly

General Controls

The council has good general controls
Specified opening hours
Report against budget
Locked offices
Passwords on computers
External PC back up – off site

Staff

There are personnel files on all members of staff. Payroll processed in house using Sage

End of Year

The RFO prepares the accounts at the year end

Inherent Risk Assessment

Based on the above findings and discussions with council it is my opinion that the inherent risk within the systems of the council is categorised as follows

Work Task	notes	
Are standing orders and financial regulations regularly reviewed	Yes these were on site and were current and reference to a minute	Low Risk
Is council following its written Financial regulations & standing orders	Yes	Low Risk
Does the council have risk assessments in place and are these reviewed at least annually	Yes	Low Risk
Does the council have a committee or working party responsible for internal checking	Yes	Low Risk
Is there evidence of hierarchical review (counter signing bank rec, invoices etc)	Yes	Low Risk
Is there regular reporting against budget?	Yes	Low Risk
Are books and records maintained on a regular basis	Yes	Low Risk
Is the clerk under time pressure	No	Low Risk
Are there complicated transactions?	No complicated transactions	Low Risk
Any changes to key staff	No	Low Risk
Any changes in systems or procedures	No	Low Risk
Is all info on site and to hand?	All info on site and to hand	Low Risk
Any problems in the past	No problems in past	Low Risk
Are there any other factors to consider?	Records neat and tidy	Low Risk

Conclusion & Opinion

I discussed the system above with the RFO and reviewed an invoice picked at random, which contained all the details mentioned above.

The system in place is robust and entirely fit for purpose for a Parish Council of this size. There are good internal controls, policies and procedures in place which are reviewed on an annual basis.

I am of the opinion that the inherent risk in the system is low and would recommend a sample size of 10 when testing in detail and would also state that the internal controls can be relied upon.

Specific Audit Plan

Audit Area Section 4 Annual Return	Notes	Risk of error or misstatement	Tests	Ref
Appropriate books of account have been kept properly throughout the year.	SAGE package in place, limited and uncomplicated transactions	Low	Review transactions in cashbook make verbal enquiries. Test arithmetic.	A
The council's financial regulations have been met, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for.	Good, simple system	Low	Review invoices and reconcile to cash book in detail. Review minutes and cheque books for authorisations	B
The council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.	Risk assessment policy written risk assessments carried out	Low	Review and comment	C
The annual precept requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate	SAGE package used	Low	Review minutes for evidence of council discussion of the same	D
Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.	Various streams of income	Low	Test to precept application and other documentation as appropriate	E
Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.	Minimal petty cash	Low	Test to petty cash tin	F
Salaries to employees and allowances to members were paid in accordance with council approvals, and PAYE and NI requirements were properly applied.	Payroll processed using SAGE system in house	Low	Test rates and hours are authorised Test net wages to payments due	G
Asset and investments registers were complete and accurate and properly maintained.	Fixed asset register in place	Low	Review insurance schedule and cashbook for missing items off the register	H
Periodic and year-end bank account	Regular reconciliations on SAGE	Low	Test reconciliation in detail	I

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, were supported by an adequate audit trail from underlying records, and where appropriate debtors and creditors were properly recorded.	Income and Expenditure	Low	Test audit trail sufficient for electors rights	J
Trust funds (including charitable) The council met its responsibilities as a trustee.	Yes – no problems in the past	Low	Ensure separate meetings, bank and charity info up to date	K

End of interim report