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Our Ref: MARK/SAL002

Mrs E Sherry
Salisbury City Council
The Guildhall
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18th October 2019

Dear Estelle

Re: Salisbury City Council
Internal Audit Year Ended 31st March 2020

Following completion of our interim internal audit on the 18th October we enclose our report for your kind attention and presentation to the Council. The audit was conducted in accordance with current practices and guidelines and testing was risk based. Whilst we have not tested all transactions, our samples have where appropriate covered the entire year to date. Where appropriate **recommendations for future action are shown in bold text and summarised in the tables at the end of the report. The recommendations from the interim visit have been answered in the table at the end of the report.**

The Accounts and Audit Regulations 2015 require smaller authorities, each financial year, to conduct a review of the effectiveness of the system of internal control and prepare an annual governance statement in accordance with proper practices in relation to accounts. The internal audit reports should therefore be made available to all members to support and inform them when they considering the authority's approval of the annual governance statement.

Interim Audit – Summary Findings

At the interim visit we reviewed and performed tests on the following areas:

- 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 accounts package.
- Review of salaries
- Review of fixed asset register

It is our opinion that the systems and internal procedures at Salisbury City Council are well established, and followed. The clerk is very experienced and ensures the council follows best practice regulations and has overseen changes to the internal procedures as regulations and technologies have changed to maintain compliance.

It is clear the council takes governance, policies and procedures very seriously and I am pleased to report that overall the systems and procedures you have in place are fit for purpose.

A. BOOKS OF ACCOUNT (INTERIM AUDIT)

The Council continues to use the Exchequer accounting package for recording and reporting on the financial transactions of that of the council. This is not an industry specific package and as such is augmented by excel for reporting to council.

The system is used daily by the finance team and a review of the cashbook shows that all data fields are being populated and the details are such that a reader of the accounts can gain an understanding of the nature and scope of the transactions.

There are four members in the finance team, the RFO, senior financier office and finance officer(s). Each user logs on with their own individual logons. The system is set that passwords must be updated every couple of months. There are other users of the council staff that have access to the financial reporting package, although, control is maintained by restriction of access rights. This is controlled by the RFO.

The responsibilities of each member are but are not limited to:

- RFO; Payroll, VAT, budgets, oversight, reporting to council, insurance journals, charitable funds and investments
- Senior Finance Officer (part Time); journals, bank reconciliation, payment runs
- Finance Officer (2 part time roles); – sales and purchase ledger, credit control, banking

Every month, various reports are printed and filed in hard copy, these include but are not limited to; Income and expenditure against budget, cashbooks, and bank reconciliations. The reports contain sufficient information to enable the reader to drill down to the transaction level should this be required. The hard copy reports are easy to read and logically filed.

I performed walk through testing on a randomly drawn item of income and item of expenditure; on the system I was able to see all data fields were being populated and the underlying hard copy documentation could be located. The hard copy documentation was appropriately annotated so that the reverse walk through could be performed from hard copy documentation to system entries to accounts entry. There was no indication that substantive testing was required to prove correct classification of income and expenditure lines. This is a clear and easy to follow system and I make no recommendation to change.

I tested opening balances as at 1/4/19 and confirmed they could be agreed back to the audited accounts for 2018/19.

I confirmed that the Council's VAT returns are up to date, with VAT claimed to the end of June 2019 with the refund still outstanding. The RFO is aware and has been given notification it was paid on the 21st October 2019. The council's software is VAT MTD compliant.

Overall, I have the impression that the accounting systems are well ordered, routinely maintained, contain a good level of duties segregation, and sufficient internal controls to reduce the inherent risk of error misstatement to a low level and as such, I feel the internal controls of the council can be relied upon and as such I make no recommendation to change.

B. FINANCIAL REGULATIONS, GOVERNANCE & PAYMENTS (INTERIM & FINAL AUDIT)

Interim Audit

Check the publication & minuting of the prior year audited AGAR and notice of conclusion of audit.

The external auditors report was not qualified in 2018/19 and the notice of conclusion of audit has been publically displayed. This will be taken to full council on the 18th November.

Confirm by sample testing that councillors sign statutory office forms

There have been no changes to councillors in the period April to date, I confirmed last year by sample testing that Councillors sign "Acceptance of Office" forms and a register of members interests, in line with regulations.

Confirm that the Council meets regularly throughout the year

Minutes are prepared for all meetings of the Council and its committees.

- Full Council; meets quarterly
- Finance & Governance – 5 times per annum
- Services – quarterly
- Planning – 3 weekly
- Personnel – as and when

I verified with the RFO that the committees have a scheme of delegation and terms of reference and by sample testing reviewed one of the documents.

There are also a number of working parties and groups which meet as and when necessary to cover specific tasks. Full council has the spending powers, although, finance and governance can make recommendations.

Confirm that the Council is compliant with the relevant transparency code.

The Council is required by law to follow the 2015 Transparency Code and a review of the web site shows the code is being robustly followed with a dedicated page set aside for this.

Check that agendas and draft minutes for meetings are published with agendas giving 3 clear days' notice

The committee meeting agendas, minutes and supporting documents are uploaded to the council website in accordance with regulations. Whilst we have not tested every single committee and council meeting there was no evidence of non-compliance in giving three clear days' notice of the meeting.

Confirm that the Council is compliant with the GDPR.

The council has a privacy statement in accordance with GDPR regulations on its website. In general, users of council services (hiring) are sign posted to terms and conditions, **I would recommend a sentence is added to the general terms that also sign posts back to the privacy and GDPR statements.** Otherwise, I am confident that the council is properly informing the public of their data rights.

Confirm that the Parish Council's Standing Orders & Financial Regulations have been reviewed within the last 12 months.

The council has adopted NALC model standing orders and financial regulations both of which are available on the council website and evidence shows these are routinely reviewed and updated by council.

Check that the council's Financial Regulations are being routinely followed.

The de-minimis limits recorded in the Financial Regulations for the competitive purchase of items and services is as listed below.

- £25,000 + Tender Process
- £5,000 - £25,000 3 quotations are required.
- £500 - £5,000 – strive to get 3 estimates
- 0 - £500 – power to spend

Financial regulation 2.2 deals with bank reconciliations, the council is performing a monthly bank reconciliation for all accounts, these are signed in accordance with regulations. **I remind council to ensure the face of the bank statement is also signed as evidence of review.** This can be complete retrospectively.

Financial regulation 4 deals with budgetary control and authority to spend. The council has thresholds in place at which authorisations to spend must be obtained. In addition to this there is evidence of regular monthly budget reporting. There have been one virements over £25,000 properly approved in the July meeting.

There have been no changes to the purchase system since last year. Invoices when received are signed off and coded by the budget holder and presented to the accounts department. The approved invoice is posted to the finance accounting package and filed in an unpaid file. The invoices are annotated with a unique transaction number.

Invoices are paid weekly using system generated reports to show which invoices are due. The hard copy invoices are cross ticked to the payment report and processed for payment on the financial package. A file is then uploaded to HSBC from the finance package that automatically sets up the payment. This is then dual authorised on the bank web page by two separate authorised individuals. The hard copy invoice is annotated with the payment run number and filed in the paid files in transaction number order.

Financial regulation 6 deals with making payments. The council makes payments by cheque, direct debit and bacs. Cheques must be signed by RFO and Clerk, interbank transfers can be made by the RFO and Clerk. Internet payments are made via the bank website, the bank is set such that the originator cannot individually authorise the same transaction, so there is a natural segregation of duties and control in place. Admin changes must be authorised by an officer.

My audit testing encompassed a review of the physical credit card statements and associated receipts, fuel card usage and a review of the physical supplier invoices.

- Supplier Invoices: These documents were annotated and showed evidence of internal review consistent with financial regulations. I am of the opinion that invoices for payment are properly reviewed and paid by the council.
- Fuel Cards: I was provided with evidence that showed in the main fuel cards are being used for council business, but it also highlighted the need for users of the fuel cards to be reminded of the council rules too.

Financial regulation 7 deals with salary payments: Salaries are processed and authorised by council in the usual manner in accordance with regulations.

Financial regulation 8 deals with loans and investments. Loans and investments are in the name of the council.

Financial regulation 9 deals with income. The council regularly reviews fees and charges and minutes these.

Aged debtors are chased weekly. The council uses, statements, email and phone.

Confirm all section 137 expenditure meets the guidelines & does not exceed the annual per elector limit of £8.12 per elector.

The council has no S.137 expenditure, because they have the power GPC. I confirmed that the council was still eligible to claim this and verified the re confirmation from 2017.

Confirm that checks of the accounts are made by a councillor.

Throughout the tests completed above – I have noted councillor involvement. I am of the opinion that sufficient internal reviews are made.

I am of the opinion the council is following its own regulations and that any changes to financial regulations are to be considered minor and no indicative of errors in the system. I am therefore of the opinion that the control assertion

"This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for", has been met.

C. RISK MANAGEMENT & INSURANCE (INTERIM & FINAL AUDIT)

Interim Audit

The council has as published risk management policy and undertakes a full risk assessment that covers operational and financial risks. The individual risk assessments are prepared in a tabular format, are easy to read and understand and include indicators to how severity and likelihood of occurrence. These documents are in accordance with financial regulations.

I have confirmed that the Council has a valid insurance certificate. The Council reviews its insurance requirements as part of the renewal process. Money and asset cover appear adequate.

I am of the opinion that the control objective of "This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.", has been met

D. BUDGET, PRECEPT & RESERVES (INTERIM & FINAL AUDIT)

Interim Audit

I confirmed that the 2020-21 budget and precept setting process was underway at the time of our interim audit. From my discussions with the RFO, I am under no doubt that the council is following proper practices.

This will be further tested at our second Interim visit

E. INCOME (INTERIM & FINAL AUDIT)

To be tested at the second interim visit

F. Petty cash

To be tested at the second interim visit

G. PAYROLL (INTERIM & FINAL AUDIT)

Interim Audit

The council uses the Iris payroll package to calculate the monthly payroll. This is a tried and tested payroll package and I make no recommendation to change. Audit testing showed that time sheets could be agreed to the payroll. There were no errors in the sample selected.

The council has fulfilled its obligations in respect of auto-enrolment and uses LGPS with the tax deduction given via the payroll.

Monthly PAYE and NI deductions and returns have been submitted online, on time to HMRC. There were no errors recorded or late payments to HMRC during the financial year under review. The PAYE and NI liability for September 2019 was paid on time.

All council employees are paid through the payroll for all Council work undertaken. No employees are paid separately for any other Council work undertaken. Casual labour payments are correctly recorded via the payroll. Councillors were paid allowances via the payroll.

I am of the opinion that the control object of "Salaries to employees and allowances to members were paid in accordance with this authority's approvals, and PAYE and NI requirements were properly applied.", has been met.

H. ASSETS AND INVESTMENTS (INTERIM & FINAL AUDIT)

Interim Audit

The Council has a fixed asset register in place. Assets are correctly stated at historic or proxy cost. However, as a working document to indicate if assets are physically in existence, or to note their condition could be improved.

The council has a large number of assets, some of which are very portable. The financial regulations at para 14.6 contain provisions for the monitoring and safeguarding of fixed assets. In addition to this, Assertion 2 of the annual governance statement states, "The authority's assets need to be secured, properly maintained and efficiently managed. Appropriate procedures need to be followed for any asset disposal and for the use of any resulting capital receipt." As per past reports, **I recommend that the register be added to, to make this more of a working document by the inclusion of columns to denote**

- Date last physically vouched
- Condition (good, reasonable, poor)

I would also recommend that as at the year end date 31st March – a physical stock take of the assets under the heading of plant and machinery be undertaken. This would provide sufficient evidence to show assets are being controlled.

I am of the opinion that the control objective of "Asset and investments registers were complete and accurate and properly maintained.", has been met.

I. BANK & CASH (INTERIM & FINAL AUDIT)

I tested the August & September 2019 bank reconciliations reviewing the outstanding cheques, bank statement and financial package balances. The outstanding income on the august reconciliation cleared in September.

However, on both reconciliations there is an amount of £185.64 of unreconcilable expenditure. The RFO is aware and is investigating. This is not material or significant.

Bank reconciliations are performed monthly and are signed off by a councillor.

J. YEAR END ACCOUNTS

TBC at the year end

K. Trusteeship

The council is sole managing trustee of 4 trusts.

1. 1000271 – Harnham Recreation Ground – no income & expenditure and filing up to date
2. 266726 – Victoria Park & Recreation Ground - no income & expenditure and filing up to date
3. 280212 – Hudsons Field Open Space - no income & expenditure and filing up to date
4. 1081377 – Lower Bemberton Recreation Ground and Endowment Fund – has income and expenditure – all filings up to date.

The mayoral charitable funds are not paid into the council bank accounts

Should you have any queries please do not hesitate to contact me, attention.

Kind regards
Yours sincerely

M. Mulberry

Mark Mulberry

Interim Audit - Points Forward

Audit Point	Audit Findings	Council comments
GDPR	I would recommend a sentence is added to the general terms that also sign posts back to the privacy and GDPR statements.	
Bank reconciliations	I remind council to ensure the face of the bank statement is also signed as evidence of review.	
Fixed Assets	I would recommend a physical stock check of fixed assets is undertaken at the year end.	