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Our Ref: MARK/SAL002

Mrs E Sherry
Salisbury City Council
The Guildhall
Market Place
Salisbury
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6th November 2018

Dear Estelle

Re: Salisbury City Council
Internal Audit Year Ended 31st March 2018

Following completion of our first interim internal audit on the 6th November 2018, 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 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 RFO 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. I would like to thank Estelle & her team for their assistance and whilst my report contains recommendations to change these are not indicative of any significant failings, but rather are pointers to improving upon an already well ordered system.

A. BOOKS OF ACCOUNT (INTERIM & FINAL 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 financer 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.

As reported before, it is clear the accounting package fulfils the requirements of a financial reporting package, but it is equally clear that a large amount of reporting is taken to excel. The council may want to consider a reporting package that is tailored to local authorities and one that can produce, budget and committee reports, annual returns, payments lists, and perhaps be integrated with a bookings and or burial system if required. I have provided the RFO with the names of three companies that provide local authority software together with the names of clerks that use the packages for reference purposes.

I tested opening balances as at 1.4.18 and confirmed they could be agreed back to the audited accounts for 2017-18.

I confirmed that the Council's VAT returns are up to date, with VAT claimed to the end of September 2018 with the refund being received in October 2018. **The council needs to be aware that the VAT regime is changing in April 2019, insofar as the method in which data is submitted to HMRC will have to come directly from the financial reporting package.** At the audit date, it was not clear if the current accounting package supports direct submission. This is being investigated.

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

The external auditors report was not qualified in 2017/18 and the notice of conclusion of audit has been publically displayed. However, this was not reported in the minutes. **I recommend the signed annual return and notice of conclusion be taken to full council for approval.**

I confirmed by sample testing that Councillors sign "Acceptance of Office" forms and a register of members interests, in line with regulations.

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

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

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.

The Council is required by law to follow the 2015 Transparency Code and a review of the web site shows the code is being followed with a dedicated page set aside for this. However, it was noted there are a number of broken or out of date links. **I recommend that the website links be reviewed and updated as this is the public facing side of the council and this will come across as unprofessional.**

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. **However, we did note that the October 2018 signed minutes for Finance and Governance were not in the hard copy filing.**

It was noted the Council has common email addresses denoting "*@salisburycitycouncil*" for staff and councillors alike. This is good practice.

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. **It was noted the standing orders contents page has become out of sync with the body of the document, this needs correcting. It was also noted the website copy of the financial regulations is an older version and needs updating.**

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

There is a typo in para 11.8 of document 64055, the RFO is aware and this is being updated.

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. However, evidence was light in respect of reporting in the minutes. **I would recommend that the activity of signing the bank reconciliation be added to the quarterly RFOs report.**

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 no virements over £25,000 since April 2018.

The council uses a Purchase Order (PO) system, where Po's are raised and matched to the supplier's invoice. However, there is a weakness in this process, insofar as,

1. PO's are not always raised – this is especially the case for small value items.
2. In some instances, a purchase order can trigger the delivery of goods and services, before the physical supplier invoice is received and reviewed. This is a risk because the council can be put in a position to pay for goods and services before any second review or approval. Whilst the supplier invoice is matched to the PO and a separate individual authorises the invoice – this control is too late to be effective.

I recommend that the control process is put in place at the ordering level, to ensure that for items exceeding a financial threshold a secondary level of approval is obtained. The authorisation of the physical invoice can then be completed by the RFO or Senior Finance Officer instead of the budget holder to indicate it can be processed and paid on the financial package

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 verified invoices annotated with transaction and payment reference numbers and these could be used to walk through to the payment report and vice versa.

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.

I am of the opinion that at the interim stage, the council is following its own regulations, the systems and process are robust, fit for purpose and suitable for a council of this size. **If I had one observation, it would be that it would be nice to see a greater level of councillor review and interrogation of the financials as it appears the RFO'S reports whilst comprehensive and complete are accepted without question each time.**

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

Interim Audit

The Council undertakes a full risk assessment that covers operational and financial risks, this was taken to council in October 2018. It was noted in the financial risk document refers to fraud, more commonly this is referred to as "Error and Misstatement" which encompasses fraud, a deliberate and intentional act, as opposed to a misstatement which occurs when something has not been treated correctly in the financial statements. Examples of misstatement, which can arise due to error or fraud, could include:

- An incorrect amount has been recognised – for example, an asset is not valued correctly
- An item is classified incorrectly – for example, finance cost is included within cost of sales
- Presentation is not appropriate –
- Disclosure is not correct or misleading

The council may want to consider expanding on this line item in future to separate out unintentional errors and how internal controls are designed to identify these – manager review, sign off of bank reconciliation, two signatures to make payments etc.

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 2019-20 budget and precept setting process was underway at the time of our interim audit. 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.

I tested the tax deduction for a full time employee – there were no errors.

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 October 2018 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.b 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.” **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 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

The Council has 2 bank accounts, HSBC and Arbuthnot. I have tested that the bank accounts are being reconciled promptly at the end of each month. I also re-performed the September 2018 bank reconciliation. I found no error.

J. YEAR END ACCOUNTS

TBC at the year end

K. Trusteeship

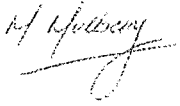
The council is sole managing trustee of 4 trusts.

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

A handwritten signature in black ink, appearing to read 'M. Mulberry', with a long horizontal flourish extending to the right.

Mark Mulberry

Interim Audit - Points Forward

Audit Point	Audit Findings	Council comments
VAT	The council needs to be aware that the VAT regime is changing in April 2019, insofar as the method in which data is submitted to HMRC will have to come directly from the financial reporting package.	
Governance	I recommend the signed annual return and notice of conclusion be taken to full council for approval.	
Website	I recommend that the website links be reviewed and updated as this is the public facing side of the council and to show broken links will come across as unprofessional.	
Finance Minutes	October 2018 signed minutes for Finance and Governance were not in the hard copy filing.	
Standing Orders & Financial Regulations	<p>It was noted the standing orders contents page has become out of sync with the body of the document, this needs correcting.</p> <p>It was also noted the website copy of the financial regulations is an older version and needs updating.</p>	
Bank Reconciliation	I would recommend that the activity of signing the bank reconciliation be added to the monthly RFOs report.	
Purchase Orders	I recommend that the control process is put in place at the ordering level, to ensure that for items exceeding a financial threshold a secondary level of approval is obtained. The authorisation of the physical invoice can then be completed by the RFO or Senior Finance Officer instead of the budget holder to indicate it can be processed and paid on the financial package	
Governance	It would be nice to see a greater level of councillor review and interrogation of the financials as it appears the RFO'S reports whilst comprehensive and complete are accepted without question each time.	
Risk Assessment	The council may want to consider expanding on the fraud line item in future to separate out unintentional errors and how internal controls are designed to identify these.	
Fixed Assets	<p>I recommend that the register be added to, to make this more of a working document by the inclusion of columns to denote</p> <ul style="list-style-type: none"> • Date last physically vouched • Condition (good, reasonable, poor) 	