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Our Ref: MARK/SAL002

Mrs E Sherry
Salisbury City Council
The Guildhall
Market Place
Salisbury
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14th February 2019

Dear Estelle

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

Following completion of our second interim internal audit on the 14th February 2019, 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.**

It is our opinion that the income systems and internal procedures at Salisbury City Council are well established and followed. 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.

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

Interim Audit

I confirmed that the 2019-20 budget and precept setting process was completed on time and the budget approved by council. The band D equivalent did not increase and the revenue budget was set at breakeven. It is anticipated that there will be no further discounts given on the market rentals in 2019-20.

At the 31st December the council had £2.3m in the HSBC & £500k in Investments and £200k in a CCLA investment. The combined total being circa £3m of which £600k is already earmarked leaving £2.4m in general reserves; of this circa £250k will be spend on projects before the end of the council year, together with £1.2m of usual expenditure leaving circa £1m in general reserve. Rule of thumb calculations indicate that 50% of precept as adjusted for local conditions is acceptable as a general reserve.

I am of the opinion that the council does not have excessive reserves and that budgets are properly prepared and monitored.

E. INCOME (INTERIM & FINAL AUDIT)

E. Income

The council has had reportable income as follows:

2018/19 at Jan 19	£5,394,230
2017/18	£5,428,165
2016/17	£4,713,189
2015/16	£4,944,845

Annual Charges

I am able to confirm that the council has in accordance with regulations reviewed its annual charges. These were minuted by Policy & Resources in February 2018 and are accessible from the web site.

VAT

The following are correctly charged with VAT.

1. Memorial Inscriptions
2. Hire of market sundries (gazeebos, tables, chairs)
3. Guildhall room hire (VAT Opted)
4. Weddings
5. Banqueting Hall (VAT Opted)
6. Community Coaching

The finance manager uses an external firm to prepare an annual partial exemption calculation – this shows that circa £50k of exempt tax is repaid to HMRC in the 3rd quarter each year. I discussed this with the Finance Manager who incidentally will be attending a partial exemption course later in the year. **I would suggest the council consider whether VAT opting additional locations/buildings would be advantageous to the council vis-à-vis the users and the impact of an extra 20% charge to the local community.**

Bad & aged debts

The finance office produces an aged debt report from the financial package on a weekly basis. This is reviewed for aged balances. Statements, email and phone calls are routinely made. Historically, the council does not have an aged debt issue; however, there are currently two aged debts at the 2nd interim date which are being followed up by the Finance Manager and in one case solicitors. I am of the opinion that should debts require being written off, there will be sufficient evidence to show collection was robustly sought.

Leases

There is a member of staff responsible for Council Leases. The council has during the year undergone a process to review all leases and has produced a lease summary sheet for each property.

There is a property database which is populated with, amongst others, rental review periods and rental amounts. This is manual system and is reliant on the staff member to be diligent in populating the database with the correct information.

The process for raising and posting invoices to the financial reporting package is again a manual system and in my opinion contains an inherent weakness because of this.

Each invoice is raised manually by reference to a filtered report from the property dbase that lists properties due to be billed. However, the parameters used by the dbase to indicate these properties must be manually changed after each billing cycle by way of date selection from a drop down calendar. If the follow on date is incorreced keyed/selected at the next billing run the report may not show the property as needing to be billed. This would only

be picked up by reference to a payment received from the tenant with no invoice to match against, or by reference to the next bill which would highlight the gap in time periods.

Currently there is no method for the system to automatically roll forward the billing period after the current invoice is raised. In addition to this, it is also not possible to use the property database to list the invoices against the property so that rudimentary checks could be made on the billing cycles to check for missing invoices.

Property rental is roughly £150k per annum so the impact of one or two missing invoices is not significant and in that respect the risk of missing income impacting the financial statements is low. The risk here is more reputational.

I would however, recommend that over time the council may want to consider a more robust rental package and one that prevents the manual rekeying and input of data.

Payment by Customers

Invoices are paid via bacs, cheque and occasionally cash, (cash is banked entire). On a daily basis the finance officers will allocate on the financial reporting package the cheques and cash. The cheques and cash are usually banked daily.

In addition to this the bank statements are printed for the previous day's transactions and the details of each receipt are noted and processed on the financial reporting package.

There is a natural segregation of duties in this system.

Ticket sales are immaterial and rudimentary checks are made using expectation judgements.

I am of the opinion that the risk of error or misstatement in payment collection and processing is low.

Precept

The inherent risk within this stream of income is low, receipts are made by direct credit from the Wiltshire Unitary Council based on the written application of the City Council. The only risk in this area is inadequate calculation of the precept due to over or under budgeting on other income for which there is no indication that this is any cause for concern, the council has robust systems and procedures in place.

The precept accounts for circa 56% (2018: 35%) of total income, both tranches of precept have been received and agreed to remittance advice notes, minutes and the financial reporting package. This is the correct process and no further testing is required.

Other Income

The balance of other income is sub categorised into five areas with each area further subdivided into separate classes. The percentage denotes "percentage of total".

1. Grants & S.106 (4%) (2018: 23%) - additional S106 monies in 2018 and reduced LTSC grant
2. Crematorium & Burial (20%) (2018: 21%) - reasonable compared to prior year
3. Event Income (9%) (2018: 10%) - reasonable compared to prior year
4. Parking and Rentals (10%) (2018: 10%) - no change year on year
5. Commissions and Other (1%) (2018: 1%) - reasonable compared to prior year

Grants & S106

There is little risk on grant and S.106 income as this is received by Bacs and is by and large outside the control of the council, all grant income was agreed to remittance advice notes, bank statements and the financial

reporting package. The Finance Manager agreed CIL monies would be journaled from general reserves to earmarked at the year end. This is the correct procedure.

Crematorium Income:

Bookings are taken at the crematorium. On a weekly basis the council receives self-bill information about the services provided for that week. The Finance Officers then use this information to raise and issue the sales invoice and the sales invoice number is written on each self-billed invoice.

A walk through random sample of funerals was able to prove the system from receipt of information to remittance from the funeral director. There were no errors.

Event Income.

The largest stream of income in this category is market stall rental. The twice weekly market takes circa £6k per week in stall rentals; however, during the year the October month was given free month together with a 20% discount for January & February due to the Novichok incident. The expectation for this income stream is that it will be down against budget by circa £40-£50k.

Analytical review of the postings and the takings sheets shows no significant variances which in turn indicates the system is working correctly and the risk of error or misstatement is low. A walk through test was undertaken to further verify the system is operating correctly.

Cash is collected by a cash collector, verified by the market officer and further checked by the finance department. The cash sheets are signed at each stage and cash banked on the day of collection, either by the cash collector or the market officer in their absence. To each takings sheet is attached the receipt for cash and to each paying in slip is attached bank confirmation of banking's. Each month a member of the finance team posts a journal to the finance package to record the income. Internal audit has verified for a month drawn at random, the detailed receipts to the takings sheet, the takings sheets to the finance package and to the paying in slips and physical bank statements, there were no discrepancies.

I am of the opinion that event income is being recorded correctly in the books of account.

Parking & Rentals

Guild Hall Bookings

A spreadsheet containing booking details is populated by the Guildhall Administrator – this is in turn used by the finance department to raise sales invoices. Invoice numbers are populated against each line item on the spreadsheet which therefore highlights if a booking has not been invoiced.

- Hirers are requested to complete a booking form for each hire; booking forms are retained.
- A diary system prevents the double booking of rooms.
- Invoices are then raised one by one on the financial reporting package, there is no automatic process to convert un-invoiced bookings into sales invoices.

I am of the opinion there is an inherent weakness in the system due to the lack of hierarchical review and control. This was discussed with the finance manager.

- Walk through testing from the physical booking form to the spreadsheet showed on occasion the spreadsheet contained incorrect charging detail. This was further exacerbated because the finance department uses the

spreadsheet rather than the booking form for the data to populate the sales invoice. It was noted as a result of these discrepancies that a customer had been under billed for their hires.

- In addition to this, we noted that not all booking forms had a corresponding entry on the diary system, which could lead to overlapping bookings.
- Finally, the lack of auditable referencing on the booking forms meant that it is not possible to see if all booking forms are present.

I would recommend the following are considered

- The booking form is annotated with a sequential reference and filed in this order. This will ensure no forms are lost and this reference can be replicated on the booking spreadsheet.
- The booking forms are provided along with the spreadsheet to Finance for invoice processing.
- Finance verify detail on the spreadsheet to the booking form by way of annotation on the booking form.
- Finance verify charge by reference to list of annual charges.
- Invoice number annotated on booking form to further show the booking has been invoiced.
- Invoices to contain line items with corresponding VAT for each service provided (room hire, cutlery etc. – rather than one total.

I would recommend over time the council may want to consider a bespoke booking package that can be linked to financial accounts, or at the least will raise the sales invoices that can be processed on the financial reporting package.

Unauthorised Use

The council has robust processes in place to ensure unauthorised use of pitches and rooms does not take place. The risk of unauthorised use is low.

Parking monies are dealt with by Wiltshire Unitary Council and passed to Salisbury City Council. The finance manager has processes in place to ensure this chased up.

Caravan Site

This is received annually and posted by way of journal to the financial reporting package. The back-up documentation was verified and agreed to the posting, remittance and bank statement. There were no errors.

Sale of Property

This has been put to a capital reserve. This is the correct procedure.

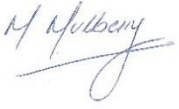
F. Petty cash

Petty cash is maintained on excel. There are combined floats of £685 of which £200 pertains to finance. This is for small office sundries.

I am of the opinion the control objective of "Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.", has been met.

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

Kind regards
Yours sincerely

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

Mark Mulberry

1st 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.	Package being upgraded
Governance	I recommend the signed annual return and notice of conclusion be taken to full council for approval.	Now taken to council
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.	This is in progress
Finance Minutes	October 2018 signed minutes for Finance and Governance were not in the hard copy filing.	Now filed
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>	These have been updated
Bank Reconciliation	I would recommend that the activity of signing the bank reconciliation be added to the monthly RFOs report.	Now part of processes
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	Now part of processes
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.	Now part of processes
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.	Now part of processes
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) 	In progress

2nd Interim Audit - Points Forward

Audit Point	Audit Findings	Council comments
VAT	I would suggest the council consider whether VAT opting additional locations/buildings would be advantageous to the council vis-à-vis its partial exemption position and the onward cost and the impact of an extra 20% charge to the local community.	
Property Rental	The manual system is heavily reliant on the user and as a result is inherently weaker. I would recommend that over time the council may want to consider a more robust rental package and one that prevents the manual rekeying and input of data.	
Room/Site Rental	<p>The manual system is heavily reliant on the user and as a result is inherently weaker. We also noted a lack of internal control that can lead to misstatements. I would recommend over time the council may want to consider a bespoke booking package that can be linked to financial accounts, or at the least will raise the sales invoices that can be processed on the financial reporting package.</p> <p>More controls are required on this system</p>	