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7<sup>th</sup> June 2022

Dear Estelle

**Re: Salisbury City Council**  
**Internal Audit Year Ended 31<sup>st</sup> March 2022**

### **Executive Summary**

Following completion of our interim internal audit on the 22<sup>nd</sup> October 2021 and final audit on the 23<sup>rd</sup> May 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.**

Our report is presented in the same order as the assertions on the internal auditor report within the published AGAR. The start of each section details the nature of the assertion to be verified, followed by recommended minimum testing requirements. Each section is then concluded with an opinion as to whether the assertion has been met or not.

### **Interim Audit Summary**

Our sample testing did not uncover any errors or misstatements that require reporting to the external auditor, nor did we identify any significant weaknesses in the internal controls such that public money would be put at risk. 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 for her 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.

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

### **Final Audit Summary**

We have reviewed the AGAR and underlying documentation and we are of the opinion the AGAR is ready for approval by council and submission to the external auditor.

## Regulation

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. In addition to this, a smaller authority is required by Regulation 5(1) of the Accounts and Audit Regulations 2015 to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.”

Internal auditing is an independent, objective assurance activity designed to improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The purpose of internal audit is to review and report to the authority on whether its systems of financial and other internal controls over its activities and operating procedures are effective.

Internal audit’s function is to test and report to the authority on whether its specific system of internal control is adequate and working satisfactorily.

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.

## Independence & Competence

Your audit was conducted by Mark Mulberry of Mulberry & Co. We confirm we are independent from the management of the financial controls and procedures of the council and neither the internal auditor or the firm have any conflicts of interest with the audit client, nor do they provide any management or financial assistance to the client.

Your auditor is a qualified practicing accountant with over 20 years’ experience as a registered statutory auditor.

## Engagement Letter

An engagement letter was issued In September 2021 covering the 2021/22 internal audit assignment. Copies of this document are available on request.

## Planning & Inherent Risk Assessment

The scope and plan of works including fee structure was issued to the council on the 1st September 2021 under separate cover. Copies of this document are available on request. In summary, our work will address each of the internal control objectives as stated on the Annual Internal Audit Report of the AGAR.

- There have been no instances of breaches of regulations in the past
- The client uses an industry approved financial reporting package
- The client regularly carries out reconciliations and documents these
- There is regular reporting to council
- The management team are experienced and informed
- Records are neatly maintained and referenced
- The client is aware of current regulations and practices

It is my opinion that the inherent risk of error or misstatement is low and the controls of the council can be relied upon and as such substantive testing of individual transactions is not required. Testing to be carried out will be “walk through testing” on sample data to encompass the period of the council year under review.

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**A. BOOKS OF ACCOUNT (INTERIM AUDIT)****Internal audit requirement**

*Appropriate accounting records have been properly kept throughout the financial year.*

**B. FINANCIAL REGULATIONS, GOVERNANCE & PAYMENTS ACCOUNT (INTERIM & FINAL AUDIT)****Internal audit requirement**

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

**Final Audit**

I have reviewed the expenditure list and I also reviewed the nominal ledger for evidence of netting off and significant journal entries, the individual entries were in accordance with the heading under which they were posted and corrections/transfers where evident were bonafide. We found no evidence of breaches of financial regulations in the sample testing completed.

**Section Conclusion**

I am of the opinion that the control assertion has been met.

**C. RISK MANAGEMENT & INSURANCE (INTERIM AUDIT)****Internal audit requirement**

*This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.*

**D. BUDGET, PRECEPT & RESERVES (INTERIM & FINAL AUDIT)****Internal audit requirement**

*The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.*

**Final Audit**

The council has £1,176,254 of total reserves of which earmarked reserves are £595,777, and £1,169,477 are general reserves. In respect of general reserves, rule of thumb calculations would suggest that 50% of precept as adjusted for local conditions would be reasonable being circa £1.5mk. The councils' general reserves are appropriate for a council of this size.

**Section Conclusion**

I am of the opinion that the control assertion has been met.

**E. INCOME (INTERIM & FINAL AUDIT)****Internal audit requirement**

*Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.*

**Final Audit**

The precept income was tested to third party evidence supplied to the auditor and has been correctly disclosed in box two of the AGAR.

All other income has been correctly shown in box 3 of the AGAR, the year-on-year movement of £759k is reported on list of significant variances.

I have reviewed the income list which is broadly similar to the prior year after accounting for one of income items. I also reviewed the nominal for evidence of netting off. The individual entries were in accordance with the heading under which they were posted and corrections/transfers where evident were bonafide. We found no evidence of breaches of financial regulations in the sample testing completed.

**Section Conclusion**

I am of the opinion that the control assertion has been met.

**F. PETTY CASH (INTERIM AUDIT)**

**Internal audit requirement**

*Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for.*

The council does have a petty cash balance these remain immaterial.

**Section Conclusion**

I am of the opinion that the control assertion has been met.

**G. PAYROLL (INTERIM & FINAL AUDIT)**

**Internal audit requirement**

*Salaries to employees and allowances to members were paid in accordance with this authority's approvals, and PAYE and NI requirements were properly applied.*

**Final Audit**

The amounts shown on the AGAR agree to the underlying cashbook and payroll reports. I can confirm that only payroll costs are shown in box 4 of the AGAR.

Monthly and year-end 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 March PAYE was paid after the year end and is shown on the box 7 & 8 reconciliation.

**Section Conclusion**

I am of the opinion that the control assertion has been met.

**H. ASSETS AND INVESTMENTS (INTERIM & FINAL AUDIT)**

**Internal audit requirement**

*Asset and investments registers were complete and accurate and properly maintained.*

**Final Audit**

The fixed asset register lists the assets, their cost or proxy cost together with insurance values. Assets are correctly stated at historic cost. There have been both additions and disposals in the year. I was able to verify the additions to entries shown on the nominal ledger, with the income being correctly shown from asset sales in box 2 of the AGAR, together with a corresponding movement to capital reserves.

The council has six PWLB loans outstanding, I have verified the closing balances and in year movement to PWLB statements.

**Section Conclusion**

I am of the opinion that the control assertion has been met.

**I. BANK & CASH (INTERIM & FINAL AUDIT)****Internal audit requirement**

*Periodic and year-end bank account reconciliations were properly carried out.*

**Final Audit**

At the year-end date the council had a reconciled bank position. I have reviewed the reconciliation there were both outstanding lodgements & payments. I was able to verify these to underlying documents and after date bank statements. There is one aged cheque from November 2021 still outstanding at the audit date for £44.00 this should be written back now.

I also reviewed the after-date bank statements for evidence of March transactions to verify the cut off. There were no errors in the sample reviewed.

The March reconciliation has been properly approved by council and minuted as such. I am under no doubt the bank is being properly reconciled.

The council has three bank accounts together with petty cash with total holdings of £2,446,479.58. None of the accounts are long term investment accounts and as such do not need to be disclosed in box 9 of the AGAR. It was confirmed that the deposit accounts support the earmarked reserves.

The council does not have reserve balances greater than twice the precept and as such these do not need reporting to the external auditor.

**Section Conclusion**

I am of the opinion that the control assertion has been met.



**J. YEAR END ACCOUNTS (FINAL AUDIT)****Internal audit requirement**

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.

The council, at its meeting to sign off the year-end accounts, must discuss the Annual Governance Statement and record this activity in the minutes of the meeting. Based on the internal audit finding, I recommend using the table below as the basis for that discussion. THIS MUST BE A SEPARATE AGENDA ITEM TO THE SIGNING OF THE ANNUAL ACCOUNTS.

**Section 1 – Annual Governance Statement**

	<b>Annual Governance Statement</b>	<i>'Yes' means that this authority</i>	Suggested response based on evidence
1	We have put in place arrangements for effective financial management during the year, and for the preparation of the accounting statements.	<i>prepared its accounting statements in accordance with the Accounts and Audit Regulations.</i>	<b>YES</b> – income & expenditure accounts follow latest Accounts and Audit Regulations and practitioners guide recommendations.
2	We maintained an adequate system of internal control including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness.	<i>made proper arrangements and accepted responsibility for safeguarding the public money and resources in its charge.</i>	<b>YES</b> – there is regular reporting of financial transactions and accounting summaries, offering the opportunity for scrutiny.
3	We took all reasonable steps to assure ourselves that there are no matters of actual or potential non-compliance with laws, regulations and Proper Practices that could have a significant financial effect on the ability of this authority to conduct its business or manage its finances.	<i>has only done what it has the legal power to do and has complied with Proper Practices in doing so.</i>	<b>YES</b> – the Clerk is experienced and advises the council in respect of its legal powers.
4	We provided proper opportunity during the year for the exercise of electors' rights in accordance with the requirements of the Accounts and Audit Regulations.	<i>during the year gave all persons interested the opportunity to inspect and ask questions about this authority's accounts.</i>	<b>YES</b> – the requirements and timescales for 2020/21 year-end were followed.
5	We carried out an assessment of the risks facing this authority and took appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.	<i>considered and documented the financial and other risks it faces and dealt with them properly.</i>	<b>YES</b> – the council has a risk management scheme and appropriate external insurance.
6	We maintained throughout the year an adequate and effective system of internal audit of the accounting records and control systems.	<i>arranged for a competent person, independent of the financial controls and procedures, to give an objective view on whether internal controls meet the needs of this smaller authority.</i>	<b>YES</b> – the council has appointed an independent and competent internal auditor has completed two audits during the year.
7	We took appropriate action on all matters raised in reports from internal and external audit.	<i>responded to matters brought to its attention by internal and external audit.</i>	<b>YES</b> – where matters are raised, action taken by council is recorded in the minutes.

8	We considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on this authority and. Where appropriate, have included them in the accounting statements.	<i>disclosed everything it should have about its business activity during the year including events taking place after the year end if relevant.</i>	<b>YES</b> – no matters were raised during the internal audit visits.
9	Trust funds including charitable – In our capacity as the sole managing trustee we discharged our accountability responsibilities for the fund(s)/asset(s), including financial reporting and, if required, independent examination or audit.	<i>has met all of its responsibilities where, as a body corporate, it is a sole managing trustee of a local trust or trusts.</i>	<b>YES</b> – the council has met its responsibilities.

## Section 2 – Accounting Statements

Agar Box Number		2020/21	2021/22	Auditor Notes
1	Balances brought forward	1,724,570	1,676,973	Agrees to cfwd
2	Precept or Rates and Levies	3,064,133	3,050,792	Agrees to third party evidence provided to auditor
3	Total other receipts	2,087,378	2,846,124	Agrees to underlying records – need to adjust for grant income for VP tennis gates
4	Staff costs	1,663,647	1,707,112	Agrees to underlying records
5	Loan interest/capital repayments	231,555	231,555	Agreed to PWLB
6	All other Payments	3,303,906	3,869,968	Agrees to underlying records - need to adjust for grant income for VP tennis gates
7	Balances carried forward	1,676,973	1,765,254	Casts correctly

8	Total value of cash and short term investments	2,249,796	2,446,480	Agrees to reconciliation
9	Total fixed assets plus long term investments and assets	18,800,348	18,587,405	Agrees to register
10	Total borrowings	1,559,296	1,368,653	Agreed to PWLB

11	For Local Councils Only) Disclosure note re Trust funds (including charitable)	YES	NO	N/A	Yes the council has fulfilled its obligations
		✓			

The year-end accounts have been correctly prepared on the income & expenditure basis with a box 7 & 8 reconciliation properly completed. The AGAR correctly casts and cross casts and the comparatives have been correctly copied over from the prior year.

The variance analysis is required because there are variances greater than 15% and £500. This has been correctly prepared on a tabular basis with narrative.



**Section Conclusion**

I am of the opinion that the control assertion has been met.

**K. LIMITED ASSURANCE REVIEW (INTERIM AUDIT)****Internal audit requirement**

*If the authority certified itself as exempt from a limited assurance review in 2020/21, it met the exemption criteria and correctly declared itself exempt. (If the authority had a limited assurance review of its 2020/21 AGAR tick “not covered”)*

The council did not itself exempt in 2020/21 or 2021/22.

**L: TRANSPARENCY (INTERIM & FINAL AUDIT)****Internal audit requirement**

*The authority publishes information on a free to access website/webpage up to date at the time of the internal audit in accordance with any relevant transparency code requirements.*

The council is required to follow the transparency code for larger authorities as it has turnover in excess of £200k. A review of the web site shows the council is following this.

**Section Conclusion**

I am of the opinion that the control assertion has been met.

**M: EXERCISE OF PUBLIC RIGHTS - INSPECTION OF ACCOUNTS (FINAL AUDIT)****Internal audit requirement**

*The authority, during the previous year (2020-21) correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations (evidenced by the notice published on the website and/or authority approved minutes confirming the dates set).*

The Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015 require that the statement of accounts prepared by the authority (i.e. the Annual Governance & Accountability Return (AGAR) Part 2), the accounting records for the financial year to which the audit relates and all books, deeds, contracts, bills, vouchers, receipts and other documents relating to those records must be made available for inspection by any person interested, during a period of 30 working days set by the smaller authority and including the first 10 working days of July.

Inspection - Key date	2020/21 Actual	2021/22 Proposed
Date Inspection Notice Issued and how published	30th June 2021	29 <sup>th</sup> June
Inspection period begins	1st July 2021	30 <sup>th</sup> June
Inspection period ends	11th August 2021	10 <sup>th</sup> August
Correct length	yes	yes
Common period included?	yes	yes
Summary of rights document on website?	Attached to inspection announcement	Attached to inspection announcement

**Section Conclusion**

I am of the opinion that the control assertion has been met.

**N. PUBLICATION REQUIREMENTS (INTERIM AUDIT)**

**Internal audit requirement**

*The authority has complied with the publication requirements for 2020/21 AGAR.*

A review of the website and the findings above shows that the local authority has complied with the regulations in respect of publication.

**Section Conclusion**

I am of the opinion that the control assertion has been met.

**O. TRUSTEESHIP (INTERIM AUDIT)**

**Internal audit requirement**

*Trust funds (including charitable) – The council met its responsibilities as a trustee.*

The council is up to date with its filings and obligations as trustee.

**Section Conclusion**

I am of the opinion that the control assertion has been met.

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

Kind regards  
Yours sincerely



**Mark Mulberry**