



**INTERNAL AUDIT REPORT**

**TO**

**SHIPSTON ON STOUR TOWN COUNCIL**

**FOR THE FINANCIAL YEAR**

**2013-14**

**Prepared by: Gillian Poole ACMA CGMA**

**Issued 31 May 2014**

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# Shipston on Stour Town Council

## Internal audit for 2013-14

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### Statement of Responsibility

The audit work I have undertaken was carried out based upon the Internal Audit Scope agreed with the Mayor, Town Clerk and Chief Financial Officer for Shipston on Stour Town Council. I confirm that I take responsibility for the preparation of this report on the basis of the limitations set-out below.

This report has been prepared solely for Shipston on Stour Town Council's use and should not be quoted in whole or in part without my prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose.

The matters raised in this report are only those which came to my attention during the course of the audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The Council should assess recommendations for improvements for their full impact on the Town Council's budget, financial regulations, standing orders and activities before they are implemented.

The responsibility for a sound system of internal control rests with the Council and therefore audit work performed by the Internal Auditor should not be relied upon to identify all circumstances of fraud or irregularity should there be any, although my audit procedures are designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas that are considered to be of greatest risk and significance. Effective implementation of my recommendations by the Council is important for the maintenance of a reliable internal control system.

If you should wish to discuss any aspect of this report please contact:

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# Shipston on Stour Town Council

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### 1. Executive summary

#### Introduction

Internal Audit performed an audit of Shipston on Stour Town Council during May 2014 at the request of the Responsible Financial Officer and Town Clerk, Georgina Beaumont.

Shipston on Stour Town Council provides a number of services to local people, including:

- Provision of allotments
- Maintenance of the cemetery chapel and grave digging
- Litter and dog bins
- Maintenance and provision of play equipment
- The Forum newsletter to all local residents
- Some grass cutting, hedge trimming and street cleansing under contract for other councils
- Grants to local organisations including Shipston in Bloom, Shipston Proms and the Sports Club
- Festivals including the Christmas lights and supporting the Wool Fair

Additionally, Shipston Town Council has a statutory right to be consulted about all planning applications within the Town, and works with other bodies, such as the District and County Councils to ensure that Shipston's voice is heard and receives a fair share of available resources.

The council employs two staff members (including the Town Clerk) to administer and carry out all of these services, supplemented by outsourced suppliers where required.

The internal audit examined the books, records and accounts of the Town Council in respect of these activities for the 2013-14 year, and considered the following:

- the systems of account
- financial regulations
- standing orders
- risk management arrangements
- budgetary controls
- expenditure controls
- income controls
- payroll controls
- asset management and controls
- bank reconciliations

#### Key Findings

The following table summarises the key agreed actions:

High Priority	Moderate priority	Low priority
0	3	0

#### Areas of good practice

The transaction-recording, particularly in respect of authorisation and monitoring controls, and supported by good audit trails and supporting documentary evidence is excellent. This demonstrates a strong control environment during 2013-14 and I would like to see this continuing in 2014-15. The following examples of good controls were found to be in place and operating effectively:

- The Council has reviewed and updated its financial regulations and standing orders, which are adapted from the National Association of Town Council's guidelines.
- The Council has good budgetary control and provides information of budget versus actual income and expenditure to the Councillors.

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- Payroll controls are to a very high standard – it is correctly authorised each month by 2 independent personnel, with a councillor present as payments are made. All payments to employees are made on time as well as to HMRC.
- The books and records of the Council are in good order, well organised and are easy to follow.
- The Council has undertaken a comprehensive review and valuation of its assets for insurance purposes during the last 12 months.
- The minutes of Council meetings show good continuity of issues raised for consideration at a future meeting and of actions arising.

#### **Areas of weakness or improvement**

- The Council has a computerised software package designed for Town Councils called AdvantEdge, which it has used to record its accounting information. I have been unable to confirm the arithmetical accuracy of the income and expenditure accounts this year, because of the ‘income and expenditure figures by budget headings’ report not matching the underlying transaction reports on one category of expenditure – not adding up correctly.
  - The differences noted are not material to the overall accuracy of the year-end accounts, but in my opinion do impact the integrity of the internal controls in the accounting system. The anomalies should be investigated and resolved – I am unable to say whether this is an isolated find or whether it is a recurring problem.
- The 2011-12 internal audit highlighted the extent to which the AdvantEdge accounting system is not used to account for assets and reserves. These are dealt with outside of the accounting system on spread-sheets held by the Chair of the Finance Working Group. I recommended that the Town Clerk investigates using the fixed asset module and reserves accounts on AdvantEdge or considers new accounting software able to deal with both of these matters when the accounting software contract/licences are due for renewal. This recommendation has not been addressed in 2013-14 due to the software provider’s slow response to the Town Clerk’s enquiries.
  - This issue is highlighted by the following: this year I have been unable to review the asset register and listings as an up-to-date asset and reserve schedule was not available during the audit. This could be avoided in future if a software package with an assets and reserves module was used.
- Not all invoices/petty cash entries have the VAT number of the supplier entered onto AdvantEdge. All payments where VAT is being reclaimed must have the supplier’s VAT number recorded to ensure VAT regulations are being met and to minimise the risk of queries being raised during a VAT inspection.
- I have also raised three minor advisory points.

The Town Clerk, Georgina Beaumont, supported by the Finance Working Group has overall responsibility for implementing the recommendations set out in this report. The detailed findings show only those matters where action is recommended to correct internal control weaknesses and excessive risks required to improve the internal control environment.

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### 2. Overall conclusions and statement of assurance

Controls are generally satisfactory. I have made two moderate priority recommendations. The integrity of the accounting system's suite of reports should be investigated with respect to its arithmetical accuracy and ability to track the aggregation of the underlying transactions to the income and expenditure account in the annual return.

I noted that all but one outstanding matters raised in last year's internal audit report have been addressed. The Council still accounts for assets and reserves outside of the main accounting system. The Council should consider its accounting software and continuously work to improve it.

The assurance level for the 2013-14 financial year was as follows:

#### **SUBSTANTIAL ASSURANCE**

As Internal Auditor, I evaluate that substantial assurance can be given over the Town Council's systems of controls for the 2013-14 financial year. This means that essentially a sound system of controls exists, but there are moderate weaknesses that put some system objectives at risk without being systemic in nature or pervasive to the whole of the Council's system of internal controls.

The assurance levels are fully defined in section 4 of this report

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**3. Detailed Findings**

	<b>Audit Finding</b>	<b>Priority</b>	<b>Recommendation</b>	<b>Individuals responsible</b>	<b>The Town Council's agreed action plan in response</b>	<b>Target date</b>
1.	<p><b>Accounting System integrity</b> I have been unable to confirm the arithmetical accuracy of the income and expenditure accounts this year, because of the "income and expenditure figures by budget headings" report not matching the underlying transaction reports on the bank/professional category of expenditure. The differences noted are not considered material to the overall accuracy of the year-end accounts but do impact my opinion of the integrity of the internal controls in the accounting system.</p>	<p><b>Moderate Priority Level 2</b></p>	<p>These anomalies should be investigated and resolved. I cannot conclude at this time whether these findings are isolated or a recurring problem.</p>	<p>Georgina Beaumont, Town Clerk</p> <p>And</p> <p>Ian Cooper, Councillor as Chair of Finance Working Group</p>	<p>Following a review with GB and IC some support has been offered by AdvantEdge where some of these anomalies appear to have now been resolved.</p> <p>In addition, training has been arranged for the end of June to support the new member of staff.</p> <p>AdvantEdge also has 'epitaph' a cemetery management package and an allotment module which the TC has licences for – training required by AdvantEdge to use these add ons.</p>	<p>Ongoing throughout 2014.</p>
2.	<p><b>Asset management</b> The 2011-12 internal audit highlighted the extent to which the AdvantEdge accounting system is not used to account for assets and reserves. These are dealt with outside of the accounting system on spread-sheets held by the Chair of the Finance Working Group. This issue has been highlighted this year when an up to date 'asset and reserve schedule' was not available during the audit.</p> <p>I recommend that the Town Clerk investigates using the fixed asset module and reserves accounts on AdvantEdge or considers new accounting software able to deal with both of</p>	<p><b>Moderate Priority Level 2</b></p>	<p>The Town Clerk should investigate using the fixed asset module and reserves accounts on AdvantEdge or consider new accounting software able to deal with both of these matters when the accounting software contract/licences are due for renewal.</p> <p>The FWG needs to ensure that an up-to-date (i.e.: at the year-end) asset and reserve schedule is made available for the audit – a copy is still needed for this year's audit file.</p>	<p>Georgina Beaumont, Town Clerk</p> <p>And</p> <p>Ian Cooper, Councillor as Chair of Finance Working Group</p>	<p>To review existing software and see quotes and information from other providers.</p> <p>Following a review with GB and IC other quotes have been obtained from suppliers eg: RBS and SAGE, however neither of these packages are ideal for town councils.</p> <p>Although AdvantEdge does have a fixed asset</p>	<p>ongoing</p>

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	<b>Audit Finding</b>	<b>Priority</b>	<b>Recommendation</b>	<b>Individuals responsible</b>	<b>The Town Council's agreed action plan in response</b>	<b>Target date</b>
	<p>these matters when the accounting software contract/licences are due for renewal. (This has been highlighted in prior years).</p> <p>Corporate memory about asset costs, details, related grants and valuations can be lost when assets are maintained by spread sheet and held outside of the accounting system for STC by individuals involved in preparing the accounts.</p>				<p>module, it appears to be easier to keep a spreadsheet updated as the assets are for information purposes only – post audit I have received a copy of the updated asset and reserves schedule which now highlights which assets are based on an insurance valuation.</p>	
<b>3.</b>	<p><b>VAT purchases figures</b> Not all invoice/petty cash entries have the VAT number of the supplier entered onto AdvantEdge. All payments where VAT is being reclaimed, the VAT number of that supplier needs to be recorded to ensure STC are compliant with VAT regulations and to minimise the risk of queries being raised on a VAT inspection.</p>	<b>Moderate Priority Level 2</b>	<p>Ensure all invoices/petty cash items have a VAT invoice or a VAT number on the receipt and ensure that the supplier number is entered onto AdvantEdge.</p>	<p>Georgina Beaumont, Town Clerk</p>		<p>Aug 2014</p>
<b>4.</b>	<p><b>Grant outcomes</b> In response to a previous audit report, 'end of project reports' are now required from all grant recipients. Of the 16 grants paid in 2012-13 7 reports were still outstanding at the 2013-14 year end.</p>	<b>Advisory only</b>	<p>Undertake a quarterly review to ensure that all grant recipients have submitted an end of project report – chase those organisations that haven't.</p>	<p>Georgina Beaumont, Town Clerk</p>		<p>Sept 2014</p>
<b>5.</b>	<p><b>Income controls</b> Physical cash is kept to a minimum and kept in the safe. Cheque books and petty cash are kept in a drawer in a locked office. The Town Clerk and Deputy Town Clerk are the only personnel who know the key code entry into STC office – this is good practice and should be maintained. If an employee leaves then the code should be changed.</p>	<b>Advisory only</b>	<p>Ensure only the Town Clerk and Deputy Town Clerk know the key code for entry into the office – the code should be changed if a member of staff leaves STC.</p>	<p>Georgina Beaumont, Town Clerk</p>		<p>Sept 2014</p>

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	<b>Audit Finding</b>	<b>Priority</b>	<b>Recommendation</b>	<b>Individuals responsible</b>	<b>The Town Council's agreed action plan in response</b>	<b>Target date</b>
6.	<p><b>Documentation for audit</b>            2013-14 audit the 'assets and reserves' schedule at the year-end was not available for inspection. This is primarily due to the fact it is not held on AdvantEdge and is kept on a separate spreadsheet by the Chair of the Finance Working Group.</p>	<p><b>Advisory only</b></p>	<p>Ensure that all documentation is ready for the audit each year – in particular the 'assets and reserves' schedule as this is not held on AdvantEdge</p>	<p>Georgina Beaumont,            Town Clerk            And              Ian Cooper,            Councillor as            Chair of            Finance            Working Group</p>	<p>Following a review with GB and IC an up to date assets and reserves schedule was received post audit.</p>	<p>complete</p>

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### 4. Definition of assurance levels

The following levels of assurance are applied when considering the conclusions:

Assurance Level	Definition
FULL	This level of assurance indicates that the internal controls in the Council were good and the audit identified no significant, or only minor, internal control operational or procedural issues.
SUBSTANTIAL	This level of assurance indicates that internal controls are generally satisfactory, but need to be strengthened or established in some area(s) of the Council's activities as the audit identified some moderate internal control, operational, or procedural issues. However, these issues were not material to the accounts nor pervasive throughout the Council's system of controls
MODERATE	This level of assurance indicates that the Council has a basically sound system of internal control, but some significant internal control, operational, or procedural weaknesses were found. However, these issues were isolated to particular activities, areas or functions of the Council's work and are not therefore pervasive throughout the Council's system of controls
LIMITED	This rating indicates that the Council has numerous significant and pervasive internal control, operational, or procedural issues; however, no significant financial or operational loss or significant financial error was noted during the audit.
NIL	This level of assurance indicates that the Council has numerous significant and pervasive internal control, operational, or procedural issues, or a significant financial or operational loss, a significant financial error, or large number of other losses or financial errors, were noted during the audit.

In making recommendations in the course of an audit the relative impact of the related risk on the Council is assessed. The more serious the risk the higher the priority assigned to the recommendation ensuring prompt correction or improvement to the most serious threats.

Priority rating	Definition
Priority 1	Issues subjecting the Council to material risk. These are required to be brought to the immediate attention of the Councillors. Rectification is normally required within 30 days
Priority 2	Issue subjecting the Council to significant risk, which should be addressed by the Town Clerk or an individual working Group of the Council within 60 days
Priority 3	Matters which if addressed will enhance efficiency and effectiveness and should normally be expected to be addressed within 90 days