

INTERNAL AUDITOR'S REPORT

AGENDA ITEM NO. 6

MEETING: AUDIT, RISK AND GDPR COMMITTEE

DATE: 23RD OCTOBER 2019

REPORT BY: INTERNAL AUDITOR

1.0 Purpose of the Report

1.1 The purpose of the report is to update Council Members on the work completed by the Internal Auditor from 28th June 2019 to 30th September 2019.

2.0 Background to the report

2.1 The Internal Auditor is an independent appraisal function which must be provided to the Council as a requirement of The Accounts and Audit Regulations 2015.

2.2 The Accounts and Audit Regulations 2015 require the Council 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’

2.3 All internal audits are carried out in compliance with the Public Sector Internal Audit Standards

2.4 The Internal Auditor also works in accordance with the Council’s approved Internal Audit Code of Practice which sets out the purpose, powers and objectives of the Council’s Internal Audit Service, as well as specifying the standards, procedures to be followed, and the documentation to be used by the Internal Auditor.

3.0 Audit Plans

3.1 A total of 56 days have been completed on the audit plan out of 108 days. As well as completed audits, there are a number of audits that are ongoing throughout the year.

4.0 Internal Audit Reports

4.1 The following audits have been completed during the year:

- i) Capital Accounting and Year End Processes for 2018/19
- ii) Risk Management
- iii) Senior Citizens Trips
- iv) Pre-School
- v) Works Section

- 4.2 The following audits are ongoing throughout the year and interim reports will be made with a final report at the end of the year:
- i) Salaries and Wages
 - ii) Sports Complex
 - iii) Golf Complex
 - iv) Bar and Catering
 - v) Cash and Banking
 - vi) Creditors
 - vii) Debtors

5.0 Audit Reports with Recommendations

5.1 Senior Citizens Trips

5.1.1 The Senior Citizens Excursions are well organised, with strong systems of internal control in relation to planning expenditure and the Councils systems for ordering goods and services have been complied with. A budget of £37500 was allocated for the trips for this year, and it has been projected that there will be an underspend of £2500. This underspend reflects that the budget has been well-managed, with value for money being a consideration.

5.1.2 Strict criteria for applicants, to take up a place on the excursions, was enforced to ensure that applicants were over 60 and were residents of Great Aycliffe. This was carried out by requiring evidence of age and residency to be brought to the offices on application. If this was not brought in at the time of application, it was noted and brought in within two weeks. This was followed up and where necessary applicants were prompted for their evidence of age and residency. A database was maintained and those who required to bring in evidence, were marked on the database.

5.1.3 Bus companies were not tendered for this year, but quotes were received from Lees Coaches and Stanley Travel and copies of their Insurance certificates were also received. An exemption was received in respect of the coach expenditure.

5.1.4 Findings

- i) It was noted that budget management was satisfactory, although a few invoices for hotels/refreshments for June trips, had not been received. This was noted and followed up by the Corporate and Leisure Assistant, once this was pointed out.
- ii) All invoices had orders raised, which were then authorised prior to payment. Financial Procedures had been followed.
- iii) The numbers of passengers on the passenger lists all agreed to the numbers of meals and refreshments that were invoiced for.
- iv) The application and allocation of seats on the trips were carried out promptly and efficiently, and it was noted when evidence of age or residence had been omitted. This was followed up prior to the trips taking place. The criteria for allocating seats was strictly adhered to.

5.1.5 Recommendations

It is recommended that the following is carried out as part of the budget monitoring role when organising the trips: Invoices for meals and refreshments are monitored to ensure receipt and that they agree to the number of people on the trip.

5.2 St Oswald's Pre-School

5.2.1 An audit was undertaken of the financial operations of St Oswald's Pre-School. This included financial and budgetary control, income collection and banking, cash control, funding claims, and the purchase of goods and services. The setting can take 40 children, aged from three to four years old and 12 two-year-old children. There are currently 8 Pre-School staff.

5.2.2 The objectives of the audit were:

- i) To ensure that all fees due are collected and banked in a timely manner. A review of attendance sheets was undertaken to ensure that all fees due are correctly calculated, collected, recorded and banked.
- ii) To ensure that all grants due are received and grant applications are compiled accurately and in line with legislation.
- iii) To ensure that petty cash and donations made by parents are controlled at each location and expenditure reimbursements claimed have supporting receipts.
- iv) To ensure that budget monitoring takes place and regular reports of operations are made to Members.
- v) To ensure that all invoices have orders raised and authorised before the invoice is received, that they are correctly coded and that there is a separation of duties between those ordering and receiving goods and those authorised invoices for payment.
- vi) To ensure that the inventory is kept up to date showing additions and disposals.

5.2.3 Overall Audit Opinion

The systems supporting the Pre-School are considered to be robust with strong systems of internal control. There have been improvements in the design of fee collection sheets, which identify payments and balances each week. The system of paying by bank transfer has made the system of payment easier for parents. This has possibly led to a decline in outstanding fees.

5.2.4 Work Carried Out and Findings

Funding

- i) Grant claims for the summer term were made on the due dates, with an initial estimate of hours per child submitted on the due date, and actual hours submitted by the due date as required by Durham County Council Early Years Section, who provide the funding.
- ii) The grant claims are made via an on-line portal on Durham County Council's website, and the hours for each child are entered individually. Currently for 3 to 4-year olds funding per hour is £3.95, and for 2-year olds is £5.10 per hour.
- iii) The records kept by the Pre-School Manager on the number of hours for each child, were examined and compared to the funding claim and grants received for the summer term. All claims can be seen on the portal. The adjustments to hours can be made at a later date, if required. There had been some slight adjustment to a child's hours which was paid later in the term. It was discussed with the Pre-School Manager, that a file should be kept enabling a clear audit trail for each claim, and detailing the hours input in to the website portal and any adjustments.

- iv) The provision of a copy of the remittance detailing the grants received, which was noted at the last internal audit of this area, is now received by the Pre-School Manager and used to check amounts received to the grant funding claim.

Fee Collection and Banking

- i) Those children who require extra hours to their funded hours, are charged now £4.50 at both three to four-year-old setting and the 2-year-old setting. There had been a complicated system of charges previously and this had been streamlined and includes a discounted day rate of £29, and 50% charges for absence, with one week off a year allowed for holidays which wouldn't be chargeable.
- ii) The systems in place for the collection of weekly fees was reviewed for those children attending for 6 weeks across April 2019 to June 2019. The charging sheets were much improved since the new form had been drafted a year ago. Fees were received in cash or through the bank. All fees could be accounted for and there was a system of control to ensure that fees received through the bank were notified to the Pre-School Manager.
- iii) There were no instances in this period of parents falling behind with their payments, and the Pre-School Manager had a system of reminders to parents, if this should occur.

Petty Cash and Parents Voluntary Contributions

- i) Petty Cash records were reviewed for the first 6 months of the year and balance of petty cash agreed to the records. Receipts for expenditure were attached to the petty cash record sheets and were agreed. Parent Contributions are collected and banked on a regular basis. This is banked in a separate bank account and is not part of Council Funds. It is used for funding ad hoc items of expenditure and to help with events and trips within the Pre-School. A record of money collected is maintained. It was noted that some money due for banking, was not locked in the safe, but was kept in the desk in the Pre-School Manager's office. It is recommended this is locked away prior to banking.

Budget Monitoring

- i) The Finance Manager reports the financial position of the Pre-School budget as part of his report to Policy and Resources Committee on a quarterly basis. Monthly budget reports are sent to the Pre-School Manager on a monthly basis, and the Pre-School Manager is involved in the annual budget setting process which takes place in September/October. Budget monitoring and forecasting information is reliable, relevant and timely. The Pre-School figures to the end of August 2019, showed they were operating within budget, with a favourable expected outturn.

Ordering and Receipt of Goods/Inventory

- i) A sample of invoices was examined for the period May to July 2019. All ordering is carried out by the Pre-School Manager. All invoices had orders and all payments of the invoices were authorised by either the Corporate and Policy Officer or the Town Clerk. The Councils Financial Regulations in relation to ordering have been complied with.

- ii) The review of the Inventory was carried out as part of Asset Management at the 2018/19. Inventories list revenue items of equipment/furniture over £50. The inventory had been updated and re-organised, during the year. There is often a rotation of toys and equipment across the two buildings, to promote interest amongst the children. During this audit, there had been very few large purchases, which would be added to the inventory, except for a large shed. This has been purchased in September and will be added to the inventory.
- xii) The garage contains some furniture items, which are no longer used. Provision is being made to empty the garage and to sell any furniture to community groups.

5.2.5 Recommendations

The following recommendations were discussed and agreed with the Pre-School Manager :

- i) The voluntary contributions awaiting banking should be locked away in the safe.**
- ii) A clear audit trail of the funding claims would be assisted by maintaining a file listing the hours and any adjustments, so that claims can be checked and for easy reconciliation. This file could be paper-based or electronic.**

5.3 Works Section

5.3.1 An audit of the Works Section was undertaken as part of planned audit work for 2019/20, and covered ordering and receipt of goods, systems relating to the usage of fuel for works vehicles and equipment, inventory checks and petty cash control and budgetary control.

5.3.2 Scope of Audit

The audit covered the following key areas:

- i) Testing on ordering processes was carried out on invoices from April 2019 to June 2019 to ensure that financial regulations relating to ordering are being followed which includes ensuring the official ordering system is used for goods and services, with all orders raised, payments authorised appropriately and that there is sufficient separation of duties when ordering and authorising expenditure.
- ii) A review of the systems for purchasing fuel for vehicles and equipment, including red diesel, white diesel and petrol and the associated stock control systems in place across the Depot, Town Park and St. Oswald's Park. Fuel Miles per gallon was also considered to ensure a reasonable miles per gallon was being achieved from the vehicles.
- iii) To ensure that petty cash was controlled, and petty cash balance could be verified.
- iv) To ensure that budget monitoring takes place and regular reports of operations are made to Members.
- v) To ensure that the inventory is kept up to date showing additions and disposals.

5.3.3 Overall Audit Opinion

The system in relation to ordering and purchasing of goods and services are considered strong, with the Financial Regulations followed. There was an issue in relation to the retention of fuel receipts to support the payment of fuel invoices, which causes some concern. The stock records relating to fuel in cans at the Town Park and St Oswald's could be improved, to ensure the stock records are accurate. Petty cash and budgetary control were reviewed, with no issues. The inventories for St. Oswald's and the Town Park were well maintained and the equipment could be verified.

5.3.4 Work Carried Out/Findings

- i) A review of invoices was carried out for goods and services. All invoices had orders and were authorised appropriately. The fuel invoices are paid for by direct debit. The fuel receipts are passed to the Finance Department who reconciles the receipts to the invoice and highlights any missing receipts. The invoice and receipts are then passed to the Works Manager for authorisation. In 7 out of 12 invoices from April 2019 to August 2019, there were 1 or 2 receipts missing per invoice. The drivers had mislaid them, and they could not be found. It was noted that it is not the same person who has been mislaying the receipts, therefore this is not considered a control issue.
- ii) The usage of fuel for the vehicles, was considered in terms of miles per gallon achieved. There are currently 10 vehicles in use. From April to June 2019, 4 of them achieved under 20 miles per gallon. This was highlighted to the Works Manager, who mentioned that these vehicles have been used to pull the cemeteries excavators and this miles per gallon, is fairly average for doing this type of work.
- iii) The system for recording stocks of red and white diesel and petrol, were reviewed and testing was carried out between the locations. It was noted that fuel purchased was recorded in the Depot book and transferred out of the depot book to the locations. The transfers were followed through to the locations to ensure the fuel was recorded into stock. There were 2 instances in the sample of 9 issues, where fuel transferred to the Town Park and St. Oswald's Park, had not been entered into the stock book. This requires improvement to ensure stock of fuel can be accounted for.
- iv) Petty cash was counted and checked to the petty record book at the end of September. The Petty cash receipts of expenditure were attached to the claim. The petty cash in the tin agreed to the balance in the manual record. A full review of petty cash takes place during the cash and banking audit during the year.
- v) Budgetary control reports are issued monthly, and the regular budget monitoring takes place by the Finance Manager together with the Works Manager and Grounds Maintenance Services Co-ordinator. The members receive budgetary control reports at the Policy and Resources Committee Meetings. Both the Works Manager and the Grounds Maintenance Services Co-ordinator are involved with the budget setting process.
- vi) The Inventories for St. Oswald's Park stores, and the Town Park stores were reviewed, and testing was carried out at these locations of items on the inventory. The inventory for these locations were well maintained. Larger equipment at the Depot, had been checked this year during the Asset Management Audit.

5.3.5 Recommendations

The following recommendation was discussed with the Works Manager and the Grounds Maintenance Services Co-ordinator.

- i) Stock of fuel in cans at the Town Park and St. Oswald's, when received, should be entered in the stock records book before being used.**

6.0 Audit Reports with No Recommendations

6.1 Risk Management

6.1.1 An audit review was carried out as part of planned audit work on Risk Management. A Risk Management Strategy and Policy was produced in March 2007 and was last updated in March 2018. This has links to the Medium-Term Financial Plan and Service Delivery Plans

6.1.2 Scope

The audit covered the following key areas:

- i) Review the Council's policy on Risk Management and to ascertain how Risks are managed.
- ii) To ensure that new risks identified have been added to the Risk Register
- iii) Ensure that old risks are reviewed regularly by Management and their impact is also assessed. Audit Testing has been carried out on amendments to the Risk Registers to ensure all amendments of wording and impact have been changed on the register where appropriate.
- iv) A review of Minutes and Reports to ensure that the Risk Register and Risk Assessments are reported as required.

6.1.3 Overall Audit Opinion

- i) The systems supporting the Risk Management Strategy are considered to be strong and to reflect a Risk aware culture within Great Aycliffe Town Council.
- ii) Risk awareness is taken into account at decisions taken at all Council Committees.
- iii) Risk Management is reported in the Annual Governance Statement and is prepared each year as part of the Annual Accounts process.

6.1.4 Observations during the Audit

- i) There was a risk identified during October 2018, relating to Santa Tours. Risk Assessments forms had been completed by the Sports Complex Manager and had been referred to the Events Sub Committee. The risk assessment forms were filed in the Risk Register file held at the Council Offices. This risk had occurred after the September PMG meeting and had been mitigated fairly quickly. It had been omitted from the Risk Register in 2018-19, but has now been added retrospectively, under deleted risks.

- ii) The Risk Registers were discussed every 3 months at Performance Management Group, and there is a scheduled review of High, Medium and Low Risks at defined intervals during the year, with an annual review of risks reported before the end of the financial year. The annual review of risks took place in March 2019. High risks are reviewed quarterly, medium risks are reviewed 6 monthly and low risks are reviewed annually.
- iii) The index in the Risk Register assessment forms file, requires updating to include the last two risks identified in 2018 i.e. number 19 and 20.
- iv) Risk S19 had been downgraded from Medium to Low following the PMG meeting in September 2018. This change had been omitted from the Risk Register but has now been updated.

6.1.5 Recommendations

There are no formal recommendations to make, as the Council have a Risk Management strategy and policy, which ensures that risks are identified at a senior level and are reviewed on a regular basis. Some minor omissions were acknowledged but related more to administrative error, rather than non-identification of risk.

6.2 Capital Accounting and Year End Processes

- 6.2.1 A review of the systems relating to the production of the financial accounts for the financial year 2018/19 including capital accounting, was undertaken as part of planned internal audit work.

6.2.2 Audit Objectives

- i) The overall audit objective was to ensure that there is a consistent approach to the preparation of the accounts including a plan for the closedown of the financial year, which was communicated to all staff and a timetable for the approval, publication and audit of the Council's Statement of Accounts and Annual Governance Statement.
- ii) Working papers should be easy to follow with an adequate audit trail in place to enable subsequent staff to be able to follow them.
- iii) The asset register was examined to ensure that it was up to date and accounted for all additions and deletions that had taken place during the financial year.

6.2.3 Overall Audit Opinion

- i) The Asset Register is well controlled and all items necessary, have either been added to it or removed from it during the Financial Year. The Capital Expenditure as detailed in the ledgers were traced through to the Asset Register.
- ii) The year-end procedures distributed to staff, which enable the timely production of final accounts, are well controlled and documented.
- iii) Working papers were transparent and enabled a clear audit trail to verify the financial transactions to source documents.
- iv) Key dates in the timetable were agreed and reported to Council and were found to have been adhered to. The required notices informing the public of their right to inspect the accounts, were in the local press and on the Council's website.

6.2.4 Recommendations/Matters Arising

There are no recommendations to make following this audit..

7.0 Ongoing Internal Audits

The following internal audits are ongoing throughout the year and work carried out is reported with any significant findings. A full internal audit report is available at the end of the year.

7.1 Salaries and Wages

Audit reviews have started on the payroll for weekly and monthly pay for the period of April to August and has included testing of hours worked from timesheets to payroll, for normal working and overtime. Also, the payment of travel allowances and expenses have also been reviewed. There are no problems/issues to report.

7.2 Creditors

Audit work has taken place on the payments system for cashbook cheques, direct debits, payments by BACS and payments. The system for setting up new suppliers on the purchase ledger system was also included. A review of payments over £500 were checked to the website and agreed to the purchase ledger. The audit reviewed the period from April to July and there are no issues, with the Council's financial regulations and procedures being complied with.

7.3 Debtors

A review of the debtors process for April to June has taken place, with testing of requisitions to invoices raised for the Sports Complex, and Cemeteries. The management of the debtors ledger was also reviewed, with no issues to report, as the current balance of outstanding invoices at the end of September was around £600.

7.4 Cash and Banking

A sample of cash and cheque receipts have been followed through from receipt to banking, to ensure they have been banked promptly. Receipt of cheques through the post were also reviewed. Petty cash checks have been carried out for the Offices and also for the Pre-School, Works Section, sports complex and golf complex. There are no issues to report.

7.5 Sports Complex

Review of ordering and receipt of goods, income collection, and stocks of sports equipment and cleaning materials have been carried out in this quarter. A review of the gaming machine income from the gaming machine records has been carried out as part of routine audit work. Block bookings procedures have been reviewed to ensure that block bookings are paid for before they take place. The hire of the function room has also been reviewed to ensure payment has been in full prior to the event taking place. There are no issues to report.

7.6 Bar and Catering

The bar has good stock control with gross profit of 57% which has remained around this figure for much of this year. Stock levels are consistent at around £5600 to £5800. The products are mainly returning around the Councils target gross profit percentages with the exception of the wines and more recently bottled beers are achieving just below the Councils target of 50%. Increasing the sales price of bottle beers would keep it above this target percentage.

Catering stock card checks have shown that there are still some issues around the maintaining of these to a good standard. This has been discussed with both the Kitchen Supervisor and the Leisure Manager. Dry goods are not on stock cards, but frozen and fresh goods are recorded on the cards. There is an element of lack of time to complete them when there are busy periods. The Leisure Manager is aware of the problem and has said she will communicate the need to complete the cards. Staff are leaving a note of goods they have taken out of the kitchen and completing the cards later, when it is quieter. Stock cards will be checked again before Christmas.

7.7 Golf Complex

The review of income from green fees, driving range and memberships was carried out to ensure that all income collected was banked and this was for the period June to July. Further testing will be continued. A review of the nine-month memberships were carried out to ensure all income was received as per their membership forms. Instalments for the full year membership were checked to ensure they were up to date. Action had been taken on four members who were in default in September, and since letters had been sent out, three of them have paid.

Ordering and receipt of goods have been following the Councils financial regulations, with all goods being ordered via the ordering system. Payments to some suppliers is via direct debit and others is by BACs.

A fully reconciled stock system relating to golf equipment, sundries and clothing is operating, whereby the stock is recorded on a spreadsheet at the point of receipt. Each Sunday, the confectionery and drinks stocks are counted and reconciled and each month the golf equipment and clothing is counted, to establish what has been sold and reconciled to the till takings. There has been a small deficit on the stock count in July which was investigated by the Golf Shop Administrator, otherwise, there has been a surplus on the stock count when compared to the takings for August and September. The reconciliations of the stock ensure that monitoring of the stock lines is taking place on a regular basis.

8.0 Impact on Great Aycliffe Town Council

- 8.1 The completion of the Internal Audit Plan provides assurance on the internal controls in place in respect of all the Council's services and systems.
- 8.2 All audit reports and action plans have been discussed and agreed with the appropriate manager during and post-audit, and agreement reached on the action that will be taken, to ensure that effective internal controls are maintained.

9.0 Policy Implications

- 9.1 Conforms to Aim 2 of the Council's Aims and Targets:-

'To manage the Council's finances and assets in a responsible manner'

10.0 Staffing Implications

- 10.1 The work of the Internal Auditor is set out in the Report.

11.0 Financial Implications

- 11.1 There are no other financial implications arising from the audits undertaken, other than those set out in the report.

12.0 Crime and Disorder Implications

12.1 The maintenance of an Internal Audit Service and an effective system of internal financial control assists the Council in the prevention and detection of fraud.

13.0 Equal Opportunities Implications

13.1 None.

14.0 Environmental Implications

14.1 None.

15.0 Risk Assessment

15.1 The completion of the Internal Audit Plan is a key measure in effective risk management and all recommendations made in the report will minimise risk if implemented.

16.0 General Data Protection Regulation (GDPR)

16.1 There is no personal or sensitive data required for this proposal which may have any implications for GDPR.

17.0 Recommendations

17.1 It is recommended that Members receive this report for information.

Kirsten Bertram
Internal Auditor