



**Report to the Councillors on our findings over the internal audit
for the financial year ended 31 March 2017**

Ryecroft Glenton
Chartered Accountants

June 2017

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The Councillors
Berwick upon Tweed Town Council
Room 211
Berwick Workspace
Boarding School Yard
90 Marygate
Berwick upon Tweed
TD15 1BN

1 June 2017

Dear Sirs

Internal Audit Summary Report for the year ended 31 March 2017

The internal audit of the Town Council for the year ended 31 March 2017 is substantially complete, subject to the reporting of our findings with the Councillors'.

The primary purpose of this Internal Audit Summary Report ("the report") is to summarise our principal findings relating to the work carried out in relation to the operating practices of the Town Council with a view to making recommendations where appropriate for improvement of the efficiency and effectiveness of those practices over the twelve month period to 31 March 2017.

This report covers a review of the following areas:

- The maintenance of the **accounting records**;
- Financial regulations in relation to the Council's annual **expenditure**;
- The Councils **budgetary process**;
- **Completeness** of expected **income**;
- Processes around **petty cash payments**;
- **Approval of salaries** and allowances to members;
- The maintenance of **asset registers**;
- Processes around periodic and year end **bank reconciliations**; and
- Preparation of the **financial statements** and the **accounting basis** of the Town Council.

We would like to take this opportunity of thanking the Finance Officer for his efficient assistance during the course of our internal audit.

Yours faithfully

Ryecroft Glenton

Chartered Accountants and Statutory Auditor
32 Portland Terrace, Newcastle upon Tyne, NE2 1QP

Berwick upon Tweed Town Council
Report to the Councillors
On the internal audit for the twelve month period to 31 March 2017

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Berwick upon Tweed Town Council

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On the internal audit for the twelve month period to 31 March 2017

Section 1: Executive summary

We attended the offices of the Berwick upon Tweed Town Council ("the Town Council") for our 2017 internal audit fieldwork on 23 May 2017. The purpose of the visit was to provide the Councillors with independent assurance that:

- the Town Council is operating financial internal control practices effectively; and
- to ensure that the Town Council is maintaining an appropriate system of risk management;

At this visit, with the agreement of the Councillors, we specifically examined the procedures and controls around the following areas;

- accounting records;
- payments;
- risks assessments;
- budgetary processes;
- income;
- petty cash;
- salaries;
- asset registers;
- bank account reconciliations; and
- preparation of accounting statements and the basis of accounting.

Overall we have satisfied ourselves with the standard of the accounting records and internal controls throughout the accounting period to 31 March 2017, and have been able to sign the Annual Internal Audit Report 2016/17 with no exceptions that would require us to carry out additional further work.

However, we do recommend consideration over the issues and recommendations noted throughout this report; specifically;

- a. use of purchase orders and approval of low value expenditure;
- b. matching of purchase orders to purchase invoices, and verifying the arithmetic accuracy of invoices;
- c. recording of asset additions;
- d. recording and recognition of assets transferred to the Town Council at Enil value;
- e. potential adjustments required to correct duplication of assets in current and previous financial period;
- f. bank reconciliation differences to be promptly addressed;

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Section 2: Scope of the internal audit

The role of internal audit will involve the assessment of operating practices with a view to the improvement of their efficiency and effectiveness. It will include the review of your risk management procedures and your risk register, the evaluation of controls and testing to confirm that effective control procedures continue to operate.

Internal audit work will give priority to those areas that are significant in regulatory terms and which present the greatest commercial risk. Attention will also be paid to those systems that provide management information to enable the management of the Berwick upon Tweed Town Council's operations to make well-informed financial judgments.

It is the responsibility of the Town Council to maintain an appropriate system of risk management and internal control. It is the role of internal audit to appraise these systems and to report to the Councillors' on their effectiveness and continued operation.

An internal audit plan has been prepared in association of the requirements of the internal control objectives of the Annual Internal Report 2016/17 and agreed with the Councillors of the Berwick upon Tweed Town Council.

During our audit visits, we have carried out work designed to confirm that the Town Council's controls continue to work effectively and to assess the appropriateness and effectiveness of the controls in priority business areas identified by the risk review.

The work that we have undertaken will meet the standards established by the Institute of Internal Auditors and published in its professional guidance series.

Internal control objectives:

- a. Appropriate accounting records have been kept properly throughout the year;
- b. This small authority met its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for;
- c. This smaller authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.
- d. The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate;
- e. Expected income was fully received, based on the correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for;
- f. Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for;
- g. Salaries to employees and allowances to members were paid in accordance with this smaller authority's approvals, and PAYE and NI requirements were properly applied;
- h. Asset and investment registers were completed and accurately and properly maintained;
- i. Periodic and year end bank account reconciliations were properly carried out; and
- j. Accounting statements prepared during the year were prepared on the correct 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.

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Section 3: Summary and findings of detailed work done (including recommendation where appropriate)

| Internal control objective and findings | Councillors' response |
|--|-----------------------|
| <p>a. Appropriate accounting records have been kept properly throughout the year;</p> <p>The Town Council operates a computerised accounting system (Scribe 2000), as well as various other manual accounting reporting processes prepared based on the financial output of data from the computerised system – this is generally done via Microsoft Excel. The purpose of these additional reports to provide further detailed analysis of the summarised accounting information from Scribe 2000, in order to report to the Council's Committee.</p> <p>The Town Council operates a good filing system over its supplier invoices, with a clear audit trail to the cash book/accounting system, and through to payment; this is done via an internal "voucher number".</p> <p>Our findings, with the exception of the issue noted below, did not identify any concern over the accounting system and the state of the accounting records kept throughout the financial year.</p> <p>Scribe 2000</p> <p>We note that for the financial year 17/18 a new industry- specific accounting system is to be implemented, Omega (RBS Rialtas) which will offer greater flexibility and improved reporting options. In addition it was noted to us that following an update / roll forward to the 2015/16 financial year, the Balance Sheet report from the system no longer reports the tangible fixed assets held by the Town Council, therefore, resulting in assets of approximately £870k being omitted from the financial statements. The fixed assets have been manually entered onto the balance sheet as in 2015/2016.</p> <p>Recommendation</p> <p>The accounting system should record all assets belonging to the entity, at cost or valuation.</p> | |

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Section 3: Summary and findings of detailed work done (including recommendation where appropriate) – cont

| Internal control objective and findings | Councillors' response |
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| <p>b. This small authority met its financial regulations, payments were supporting by invoices, all expenditure was approved and VAT was appropriately accounted for.</p> <p>We have reviewed the processes surrounding the Town Council's expenditure, in particular looking at the approval/authorisation processes over ordering and payment.</p> <p>Our review involved testing a sample of expenditure throughout the financial period from the stage of ordering through to the payment of the goods/service. Our testing identified the following:</p> <p>Purchase orders are not always prepared and/or completed.</p> <p>Issue</p> <p>We understand that, at times, this is not practically possible, for example: if orders are made away from the Town Council's office, it can result in the order being completed on receiving the invoice, which in turn is also seen as impracticable, and therefore, is not recommended by the Finance Officer, resulting in orders not been produced. The finance officer has advised that purchase orders are often raised retrospectively.</p> <p>We also identified that on the occasions that purchase orders are used, they are not fully completed, for example, the amounts and description of item ordered are not completed.</p> <p>Recommendation</p> <p>We would recommend the following:</p> <ul style="list-style-type: none">• purchase orders are produced prior to all goods and services being ordered, and fully completed for all expenditure; | |

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Section 3: Summary and findings of detailed work done (including recommendation where appropriate) – cont

| Internal control objective and findings | Councillors' response |
|---|-----------------------|
| <p>Processes around purchase invoices were not always adhered to. Our understanding is that all purchase invoices received are "grid stamped" to confirm the following;</p> <ol style="list-style-type: none"> a. Voucher number b. Cost centre c. Nominal code d. Method of payment e. Date paid f. Authorised by "two" council members <p>Issue Our testing noted on a number of occasions that the required information was not always fully completed:</p> <ul style="list-style-type: none"> • where purchase orders are produced, there was no evidence that these were agreed to the invoice; • that there was no evidence of arithmetic accuracy checks of invoices. <p>However with the exception of the above:</p> <ul style="list-style-type: none"> • all expenditure was verified to supporting invoice/receipt; • all expenditure appeared to be a legitimate expense; and • all expenditure appeared to be appropriately accounted for. <p>Recommendation and Overall conclusion Overall the controls over expenditure appear adequate. We would, however again recommend that the use of the grid stamp is fully utilised as detailed above. We are aware that new financial regulations have been put in place, dated 9 May 2016, and we note that the above comments have been adopted.</p> | |

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Section 3: Summary and findings of detailed work done (including recommendation where appropriate) – cont

| Internal control objective and findings | Councillors' response |
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| <p>c. This smaller authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.</p> <p>The Town Council has a continued obligation to assess, monitor, and manage what it sees as risk it is exposed to, as well as arranging to mitigate them.</p> <p>An in-depth review and exercise over risk assessment was carried out in 2015/ 2016, which consisted of a full review of the current risk register. This was not formally adopted until 2016/17.</p> <p>We understand that the councillors' have considered the risk assessment in the year and will update the risk assessment in 2017/2018 based upon new numerical methodology.</p> <p>The risk register is in place, which is considered to be a "key" tool of effective management. Our understanding is that it includes the following;</p> <ul style="list-style-type: none"> • assessment of the objectives; • risks associated with these objectives; • assessment of risk (high, medium, low); • ways to mitigate risks identified; and • assessment of post mitigation risk. <p>Conclusion</p> <p>From our review, we are satisfied that there appears to be in place an adequate consideration and monitoring of the Town Council's exposure to risks and the way in which it manages or mitigates them. We are confident that the Councillors' will continue to review the risk exposure of the Town Council.</p> | |
| <p>d. The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.</p> <p>During our visit we discussed the precept setting, budgetary process and classification of reserves with the Finance Officer.</p> <p>Precept</p> <p>The Precept (also mentioned in e below), is based on the required level of income required to cover expenditure. During our visit and from a review of the minutes in the year we were able to agree the precept requirement requested from Northumberland County Council.</p> | |

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Section 3: Summary and findings of detailed work done (including recommendation where appropriate) – cont

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| <p>Budgetary process</p> <p>Our understanding is that the annual budgets are prepared by the Finance Officer and presented to the Council Committee for review and approval.</p> <p>Throughout the year, the actual results, including a comparison to the previous year and to budget are reported at the Finance and Resource Committee meetings. Included in this review are explanations over any variances to budget.</p> <p>Reserves</p> <p>The Town Council has what would be seen as general and designated reserves (which are split between projects of the council). The Town Council appears to have a good and clear distinction over its reserves and has an adopted policy to have earmarked a level of reserves equal to approximately six months operating costs.</p> <p>Fixed assets have been included within the balance sheet at 31 March 2017.</p> <p>We have also commented further on the above omission in h. of this section.</p> <p>Conclusion</p> <p>Overall, with the exception noted on reserves above, we have not identified any issues and/or concerns over the precept, budgetary process and reserves of the Town Council.</p> | |

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Section 3: Summary and findings of detailed work done (including recommendation where appropriate) – cont

| Internal control objective and findings | Councillors' response |
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| <p>e. Expected income was fully received, based on the correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for;</p> <p>We discussed with the Finance Officer all expected sources of budgeted income for the financial period and obtained supporting documentation to establish the expected amount of income for each source and verified that to the financial accounts to confirm completeness.</p> <p>We would note that the Schedule III monies we have not been able verify, as our understanding from the Finance Officer is that the Freemen Trust send a cheque to the Town Council with no supporting correspondence. We are aware that the Freemen Trust carries out a calculation in arriving at the amount that is paid over to the Town Council; however, as the Town Council do not hold a copy of this calculation, we have not been able to carry out verification on this particular source of income. We have agreed this receipt to the paying in book and bank statement.</p> <p>Overall, based on the work done, we are satisfied and can confirm;</p> <ul style="list-style-type: none">a. expected income was fully received;b. based on the expected value (completeness); andc. properly recorded and banked. | |
| <p>f. Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for</p> <p>Our testing consisted of reviewing the petty cash records and we can confirm the following;</p> <ul style="list-style-type: none">a. all payments were supported by receipts;b. all payments were approved; andc. VAT accounted for, where applicable. <p>We have no exceptions to note in this area.</p> | |

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| <p>g. Salaries to employees and allowances to members were paid in accordance with this smaller authority's approvals, and PAYE and NI requirements were properly applied</p> <p>The Town Council makes use of the services offered by Northumberland County Council ("NCC") in regards to administering its payroll requirements, as well as ensuring their obligations in regards to PAYE and NI is maintained, including meeting all statutory deadlines.</p> <p>The Town Council operates a monthly payroll. Our understanding is that NCC, once processing of the monthly payroll is complete, will invoice the Town Council for the gross monies in relation to that pay month to make the necessary payments.</p> <p>We are satisfied that all payments in relation to salaries were paid during the year, and invoice received from NCC. We have noted that two months did not include any evidence of the payment date.</p> <p>We have not been able to review the standing data of the Town Council's payroll due the outsourced operation, although from review of the new Financial Regulations that have been put in place from 9 May 2016, we are satisfied that the controls and procedures are adequate.</p> <p>We have not seen any evidence of non-compliance with PAYE and NI obligations or similar, and therefore have no exceptions to note in this area.</p> | |
| <p>h. Assets and investments registers were completed and accurate and properly maintained</p> <p>Investments</p> <p>The Town Council hold a significant amount of cash at the financial period end, approximately, £470k. The majority of this, we know is held separate to the main day to day current account in an interest deposit account.</p> <p>The councillors agreed in the Town Council in July 2016 to transfer £75k to two separate accounts, however the finance officer has advised that this proved difficult to do due to the inflexibility of the financial institutions in Berwick.</p> <p>The Councillors' have still not addressed the medium term financial plan as required in the regulations, they have declined to draw up a 3 year financial plan due to the on-set of local council elections.</p> | |

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Section 3: Summary and findings of detailed work done (including recommendation where appropriate) – cont

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| <p>Assets</p> <p>The Town Council maintains a fixed asset register, which is regularly updated for all additions and disposals.</p> <p>From review of the asset register we are satisfied that;</p> <ul style="list-style-type: none"> a. the register is complete and accurate; and b. is properly maintained. <p>Recording of asset additions</p> <p>We do have continuing concerns over the recording of assets in the financial accounts. In the current year there have been additions to the value of £108,691. Additions are allocated and recognised in the income and expenditure account, as well as being added to the value of the assets. Our concern is that if this has been the treatment in previous years, then expenditure (in the income and expenditure account) has been overstated. Furthermore, as the assets are being separately recognised via the "adjustment" line within reserves, this would highlight duplication of such additions being acquired, i.e. recognised in both the balance sheet and in the income and expenditure account.</p> | |

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| <p>Assets transferred to the Town Council</p> <p>We understand that the assets transferred from the Council Town are included at a transfer value. Although we are unable to place a value on the assets transferred to the Town Council and assets purchased by the Town Council, we have set out below the correct classification, treatment and adjustments that would be required to correct the position on fixed assets;</p> <p>Current and prior year additions (purchased by the Town Council) – adjustment to transfer expense from the income and expenditure account to fixed assets.</p> <p>Assets transferred to the Town Council – value to be identified and shown as a “revaluation reserve”, rather than fixed assets, as is currently been shown.</p> <p>Previous years' additions (purchased by the Town Council) – to identify such assets and make an adjustment to the income and expenditure account, removing the previously recognised assets purchased, i.e. to correct the previous duplication of expenses. This would result in a credit to expenses (reduction), as a one off adjustment, resulting in an increase in the surplus for the year.</p> <p>Recommendation</p> <p>With the exception of the issues noted above, we are satisfied with the maintenance of the asset register, and that it appears complete.</p> <p>We note that the asset registers do not include the replacement value for insurance purposes as in line with the financial regulations.</p> <p>Should you wish to discuss this further, please do let us know.</p> | |

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| Internal control objective and findings | Councillors' response |
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| <p>i. Periodic and year end bank account reconciliations were properly carried out</p> <p>We found that bank reconciliations have not been signed by the Finance Officer throughout the year. We also have identified that there has been a delay in the reconciliations being prepared due to difficulties in obtaining statements from the bank. This has been corrected by the end of the year. There have been differences of £248.47 on the reconciliations from 31 July 2016 to 31 December 2016, this was corrected in March 2017 and related to an administrative error.</p> <p>Recommendation</p> <p>Bank reconciliations have been performed on a regular basis (monthly) which is not in line with the Financial Regulations. We appreciate that this was due to the bank not providing statements on a timely basis.</p> | |
| <p>j. Accounting statements prepared during the year were prepared on the correct 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</p> <p>We would note the following:</p> <ul style="list-style-type: none">a. financial accounts are prepared using a computerised package, Scribe 2000, on a basis of income and expenditure, by the Finance Officer;b. the financial accounts, appears in agreement with the cash book, this has been confirmed via our testing on income and expenditure, to underlying records;c. the preparation, includes manual adjustments, consisting of:<ul style="list-style-type: none">i. reclassification adjustments; andii. provision of accrued income and accruals. <p>The accounting statements are therefore properly prepared on an accruals basis.</p> | |

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Section 3: Summary and findings of detailed work done (including recommendation where appropriate) – cont

| Internal control objective and findings | Councillors' response |
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| <p>Findings and recommendation</p> <p>It was identified that expenditure associated with a period overlapping the financial period was not being adjusted for, whereby prepaying an element of the expense; specifically, the annual insurance cost. This was discussed with the Finance Officer, who stated that as this has never been done. It has been noted that the external auditors are aware of this, and are satisfied to leave the treatment on a cash payment basis, which keeps the costs in the financial accounts representing an annual charge.</p> <p>We would recommend that this is considered for any future expenditure that may require deferring to a subsequent financial period.</p> | |