



Report to the Councillors on our findings over the internal audit
for the financial year ended 31 March 2016

Ryecroft Glenton
Chartered Accountants

June 2016

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The Councillors
Berwick upon Tweed Town Council
5 The Chandlery
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Northumberland
TS15 1HE

14 June 2016

Dear Sirs

Internal Audit Summary Report for the year ended 31 March 2016

The internal audit of the Town Council for the year ended 31 March 2016 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 2016.

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 2016

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Berwick upon Tweed Town Council

Report to the Councillors

On the internal audit for the twelve month period to 31 March 2016

Section 1: Executive summary

We attended the offices of the Berwick upon Tweed Town Council ("the Town Council") for our 2016 internal audit fieldwork on 19 May and 9 June 2016. 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 2016, and have been able to sign the Annual Internal Audit Report 2015/16 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. new accounting system;
- b. use of purchase orders and approval of low value expenditure;
- c. matching of purchase orders to purchase invoices, and verifying the arithmetic accuracy of invoices;
- d. recording of asset additions;
- e. recording and recognition of assets transferred to the Town Council at £nil value;
- f. use of reserves
- g. potential adjustments required to correct duplication of assets in current and previous financial period;

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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 2015/16 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 supporting 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 accurate 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>During the initial fact-find meeting with the Councillors, Town Clerk and Finance Officer, it was noted that the Town Council was looking for an alternative to the current accounting system (Scribe 2000). Our understanding for this is that the system is not flexible for the needs of the user. 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 circa £760k being omitted from the financial statements.</p> <p>We have discussed this with the Finance Officer and Town Clerk, and recommended alternatives to the current accounting system; being:</p> <ul style="list-style-type: none">a. Sage; andb. Xero <p>Both packages are available in a Cloud based format, giving the user the opportunity to secure access information from any location (including mobile and tablet devices). We would be happy to discuss the above with you in more detail should you wish.</p> <p>In addition to that, we understand that the Finance Officer has made enquiries with other Town Councils; what has emerged is that there is another alternative being industry-specific:</p> <ul style="list-style-type: none">c. Omega (from RBS Rialtas). <p>This software is favourably reported on by other Town Councils though we understand that there are some who are considering a move to Sage.</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
<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.</p> <p>also identified that on the occasions that purchase orders are used, they are not fully completed, for example, there is no evidence of approval for the expenditure.</p> <p>understand that all expenditure requires Councillors' approval, which is considered (and granted) at the Committee meetings. We see two issues in this areas;</p> <ol style="list-style-type: none"> a. delay in placing the order; and b. inefficient time for approval over minimal amounts of expenditure. <p>Recommendation</p> <p>We would recommend the following:</p> <ul style="list-style-type: none"> • purchase orders are produced, and fully completed for all expenditure; • a minimum ordering spend is introduced – this would allow for approval of expenditure below this level to be approved, by say the Finance Officer, removing unnecessary delaying in ordering and also freeing up committee meeting time. <p>We are aware that new financial regulations have been put in place, dated 9 May 2016, and we note that the above recommendations 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
<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> <ul 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 member <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"> • we found on a few occasions the grid stamp, was not fully completed in regards to the approval by two council members; and • on one occasion, we found that the grid stamp had not been completed at all. <p>We also note that;</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; • 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, recommend that the use of the grid stamp is fully utilised, and authorisation/approval of payment is obtained every occasion, either by the Finance Officer, or by Councillors'.</p> <p>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
<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>During the year we are aware that an in-depth review and exercise over risk assessment was carried out, which consisted of a full review of the current risk register.</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.</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 we were not able to confirm the method of calculation, although we have confirmed that the amount of precept was unchanged from 2014/15.</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
<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. We discussed this with Finance Officer to gain an understanding of such. 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>On review of the reserves we identified that the 2015 financial accounts included reserves (and fixed assets) of £758,280, classified as "adjustments", that were not included in the 2016 financial accounts. We discussed this with the Finance Officer (and as noted in a. above), and it was noted that this omission was due to an output reporting error in Scribe 2000, therefore, resulting in inaccurate opening balances of the Town Council.</p> <p>Effectively, the correction would be to increase fixed assets and increase reserved by £758,280 in order to correct the opening balances at 1 April 2015.</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
<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.</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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Section 3: Summary and findings of detailed work done (including recommendation where appropriate) – cont

Internal control objective and findings	Councillors' response
<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 Northumbrian 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 one month did not include any evidence of authorisation, i.e. grid stamp was not signed off by two council members.</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, £400k. The majority of this, we know is held separate to the main day to day current account in an interest deposit account.</p> <p>It appears that in the 2015/16 financial period there was no formal investment policy given the level of funds being held and that there is no interest income included in the accounts, and the exclusion of such income in the Town Council's budgets.</p> <p>Following the new Financial Regulations that came into place on 9 May 2016 a more formal and structured investment policy has been adopted. The policy adopted seems appropriate to us.</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
<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; andb. is properly maintained. <p>It has been noted above in point d that the 2015/16 financial accounts omit the value of fixed assets from the Town Council's balance sheet – from discussions, and as already mentioned, we understand the cause of this to be due to an update to the Scribe 2000 accounting system.</p> <p>The required adjustment to present the opening fixed assets at 1 April 2015 would be to increase the value of assets and increase the value of reserves.</p> <p>Recording of asset additions</p> <p>We do have concerns over the recording of assets in the financial accounts. In the current year there have been additions to the value of £8,461 – the questions we initially had was, if the assets have been omitted from the financial accounts, where have the current year additions been recognised? We were made aware that 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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Section 3: Summary and findings of detailed work done (including recommendation where appropriate) – cont

Internal control objective and findings	Councillors' response
<p>Assets transferred to the Town Council</p> <p>In addition, there is the uncertainty over the treatment of assets that are transferred to the Town Council at £nil value – these we understand to be valued in the accounts/asset register at their realisable/insurance value, with the opposing entry to “adjustments” within reserves. The application of a value on these assets would be in the form of a revaluation, and therefore, would sit within a revaluation reserve within reserves on the balance sheet.</p> <p>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 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 “adjustments”, 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>We would recommend that the above is discussed with the Town Council's current external auditor (BDO) and actioned accordingly.</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 would also make reference to the additional requirements over the information to be included in the asset register, based on the new Financial Regulations, and recommend that these are implemented, if not already.</p> <p>Should you wish to discuss this further, please do let us know.</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
<p>i. Periodic and year end bank account reconciliations were properly carried out</p> <p>We found that in the early part of the financial period, the bank reconciliation process was to verify the balance per the statement to the balance per the accounting system, evidence of this was via signing of the bank statement "<i>reconciled [date]</i>".</p> <p>Part way through the financial period, this was revised and a physical bank reconciliation was carried out, by the Finance Office, whereby accounting of unclear payment and receipts. The reconciliations required a review, and approval by the Town Clerk, although there was no evidence of this, and we believe this to not have taken place.</p> <p>Recommendation</p> <p>Bank reconciliations appear to have been performed on a regular basis (monthly), although, we would recommend that bank reconciliations, for all accounts, are reviewed with evidence of approval. We note that this has been made clear in the new Financial Regulations dated 9 May 2016.</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> <ol 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:<ol style="list-style-type: none">i. reclassification adjustments; andii. provision of accrued income and accruals.	

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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>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>	