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**North Somerset Levels Internal Drainage Board**

*Internal Audit Report 2015-16 (Final)*

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*For and on behalf of  
Auditing Solutions Ltd*

## **Background and Scope**

The Accounts and Audit Regulations, as amended with effect from 1<sup>st</sup> April 2003 require all Internal Drainage Boards to implement an independent internal audit examination of their Accounts and accounting processes annually. The Board has complied with the requirements in terms of independence from its decision making process appointing Auditing Solutions Limited to provide this service from the Board's inception.

This report sets out those areas examined during the course of the recent final visit for 2015-16, which took place on 31<sup>st</sup> May 2016, and supplements the interim work undertaken on 30<sup>th</sup> November 2015.

## **Internal Audit Approach**

In concluding audit review for 2015-16, we have again had regard to the materiality of transactions and their susceptibility to potential mis-recording or mis-representation in the year-end Statement of Accounts.

As previously, our work is conducted in such a manner as to provide assurances that the Board has sound financial controls in place, that it has complied with extant and its own locally approved legislation and corporate governance requirements.

## **Overall Conclusion**

We are pleased to record that no significant concerns or issues have been identified during the course of work undertaken in this financial year: consequently, no matters are considered necessary for formal recommendation currently and the Clerk is to be commended for the standard of supporting detail provided for the purposes of the audit visits.

We have duly "signed off" the Internal Audit Certificate at Section 4 of the Annual Return, assigning positive assurances in all relevant categories and left the original document with the Clerk for submission to members for approval prior to onward transmission to the external auditors.

This report has been prepared for the sole use of the North Somerset Levels Internal Drainage Board. To the fullest extent permitted by law, no responsibility or liability is accepted by Auditing Solutions Ltd to any third party who purports to use or rely on, for any reason whatsoever, this report, its content or conclusions.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

The Clerk to the Board continues to use the TAS software to maintain its accounting records, with one principal Current Account at HSBC, supplemented by a series of periodic money-market Term deposits and an interest bearing deposit at North Somerset Council.

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. We have: -

- Checked and agreed the opening 2015-16 trial balance detail in the financial software with the closing detail contained in the 2014-15 Statement of Accounts and certified Annual Return;
- Checked to ensure that the financial ledger remains “in balance” at the present date;
- Ensured that the cost centre and nominal ledger income and expenditure coding structure remains appropriate for purpose;
- Checked and agreed detail in the main cashbook, examining four sample months’ transactions (April, May & October 2015 and March 2016) to relevant bank statements; and
- Checked and agreed detail on the bank reconciliations as at 31<sup>st</sup> May & October 2015 and 31<sup>st</sup> March 2016 to ensure that no long standing, uncleared or other anomalous entries arise, also noting that Board members are routinely presented with this level of detail every two months.

### *Conclusions*

*We are pleased to record that no issues have been identified in this area of our review process that warrant any further comment or officer’s attention.*

## Review of Corporate Governance

Our objective is to ensure that the Board has a robust series of corporate governance documentation in place; that Board and Committee (where appropriate) meetings are conducted in accordance with the adopted Standing Orders and that, as far as we are able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation. Consequently, we have: -

- Previously recorded in our final report for 2014-15 that extant Standing Orders (SOs), Financial Regulations (FRs) and a Scheme of Delegation had been re-affirmed and that due care and attention had been afforded to the requirements of both DEFRA and ADA following previous concerns at other Boards in this area: subsequently, at the previous interim stage we noted that the FRs had been reviewed by the Finance, Policies and General Purposes Committee in May 2015 and were re-adopted with minor revisions by the Board at their meeting in June 2015; and

- Continued our review of the Board and Finance Committee's minutes, examining those for all meetings held to end March 2016 with a view to identifying whether or not any issues exist that may have an adverse effect on its future financial stability, both in the short and longer term.

### ***Conclusions***

***There are no matters arising to warrant formal recommendation in this area currently.***

## **Review of Expenditure**

Our aim here is to ensure that: -

- Board resources are released in accordance with its approved procedures and budgets;
- Payments are supported by appropriate documentation, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due and/or an acknowledgement of receipt, where no other form of invoice is available;
- An official order is raised for all relevant goods and / or services: we acknowledge that this will not be necessary for all items of expenditure, namely those the subject of contracts (e.g. watercourse maintenance) or legal requirements (e.g. non domestic rates);
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct expense codes have been applied to invoices when processed; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have concluded testing in this area, examining a sample of all payments individually in excess of £1,500 together with a more random sample of each 20<sup>th</sup> cashbook transaction, irrespective of value, to 31<sup>st</sup> March 2016. Our sample included approximately 90 payments totalling just under £494,000 and representing 92% of all non-pay costs for the year.

Two quarterly VAT Returns had been submitted during the current financial year, electronically as required by extant legislation, at the date of the previous interim: subsequently, at this final visit, we have checked and agreed the March 2016 recovery claim to the relevant nominal ledger control account balance and debtor disclosed in the Statement of Accounts with no issues arising.

Finally in this area, we have updated our year-on-year analytical review of expenditure incurred across the Council's activities with no significant variances warranting further enquiry by officers.

### ***Conclusions***

***There are no matters to warrant recommendation in this area.***

## Assessment and Management of Risk

Our aim here is to ensure that the Board has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks in order to minimise the opportunity for their coming to fruition. We have: -

- Noted previously in our final report for 2013-14 that an appropriate Risk Management Strategy (based largely on the revised ADA model documentation) was approved at the Board meeting in June 2013; subsequently, we note from examination of current minutes that the supporting risk assessments were re-affirmed at the Board meetings in both June 2015 and February 2016; and
- Examined the Board's insurance policy with Zurich Municipal for the year to September 2016 to ensure that appropriate cover is in place, noting previously that both Employer's and Public Liability remained unchanged at £10 million and £5 million respectively, whilst Fidelity Guarantee cover has been retained at £938,000 and Loss of Revenue cover is in place at £4,000: subsequently, at this final visit, we note that Public Liability has been increased to £10 million with effect from January 2016.

### *Conclusions*

*There are no matters to warrant recommendation in this area.*

## Budgetary Control & Reserves

Our objective here is to ensure that the Board has a robust procedure in place for identifying and approving its future budgetary requirements and levels of drainage rates and levies to be applied: also, that an effective reporting and monitoring process is in place. We also aim to ensure that the Board retains appropriate funds in general and earmarked reserves to finance its ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure.

Examination of the Board's minutes confirms that the annual budget and calculations of drainage rates and special levies are formally discussed and agreed by the Board, following preparation of a detailed assessment of the Board's budgetary requirements for the forthcoming year. We have obtained copies of the calculations of the drainage rates, levies and the budget for 2015-16 and ensured that proper consideration has been given to the setting of the rates for 2016-17 (formally adopted in February 2016). We are also pleased to note that the Clerk reports regularly the Board's financial position against the approved budget to the Board meetings.

We have also considered the level of year-end balances to assess whether they are appropriate for the Board's ongoing routine expenditure and development aspirations. Total Capital and Reserves as at 31<sup>st</sup> March 2016 stood at an increased level of £741,000 compared with the opening level of £682,000, and comprised Commuted Sums (£413,000), Off-Site Capital Funds (£23,000) and the residual General Fund (£305,000) all of which are considered to be more than adequate to meet the Board's requirements at present.

### *Conclusions*

*There are no issues arising in this area to warrant formal recommendation.*

## Review of Income

The Board's income consists primarily of drainage rates and levies charged to North Somerset Council and local members of the public / private enterprise, although this is supplemented by bank interest on Term deposits, occasional recharges of expenditure incurred on behalf of third parties and VAT recoveries. Our objective is to ensure that robust procedures are in place to ensure that all income due to the Board is identified and invoiced (where applicable) appropriately with recovery effected within a reasonable time span.

- We note that the scales of fees and charges to be levied in 2015-16 were approved in the previous financial year (formally sealed on 10<sup>th</sup> February 2015);
- We note that the Board continues to have a five-year financial programme in place through to 2020/21, and that the proposed elimination of the Rates differential came to a conclusion in March 2016 and a unified sum (currently 8.1p in the £) is in place for 2016-17;
- We have checked and agreed all interest arising on the maturity and subsequent re-invest of the numerous Term deposits from the bank's third party advice notes to the relevant nominal ledger transaction report for the year in full to 31<sup>st</sup> March 2016;
- We have, as noted earlier in this report, checked and agreed all cashbook receipts to relevant bank statements for April, May & October 2015 and March 2016; and
- We note that bespoke software continues to be operated for the issue and collection of the Rates; and
- We note that occasional incomes arise from recharging works to third party entities such as North Somerset Council and Congresbury Parish Council and have examined a brief sample of the invoices raised with no matters arising.

### *Conclusions*

*We are pleased to report that the systems for identification and recording of income would appear to continue to work effectively and there are no issues arising in this area to warrant formal recommendation.*

## Petty Cash Accounts

As previously noted, a very limited petty cash scheme is operated at the Board's operational office, "topped up" as and when required with just two reimbursements of £200 and £250 in the twelve months to 31<sup>st</sup> March 2016.

We have checked detail of all payments made in the five months from November 2015 to March 2016 to ensure that each was duly supported by an appropriate supplier invoice and/or till receipt with no issues arising.

### *Conclusions*

*There are no issues arising in this area to warrant formal recommendation.*

## Review of Salaries

In examining the Board's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenue and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions. To meet that objective, we have: -

- Ensured that the Board reviews and approves pay scales for staff annually, noting that an increase of 1.3% (in accord with RPI) was approved for the two staff on "in house" rates of pay, whilst the Clerk is, as noted in a previous report, on a formal SCP rate and was subject to the NJC pay award effective from January 2015 ;
- Undertaken detailed testing in this area by reference to the October 2015 payroll, which continues to be produced using the bespoke and free HMRC Tools software:
  - ❖ ensuring that all gross salaries were paid in accord with the approved pay rates for each individual – full and part-time;
  - ❖ ensuring that PAYE tax codes and National Insurance contribution tables were being accurately applied;
  - ❖ ensuring that any pension contributions, where applicable, were being accurately computed and included as part of the net pay computations;
  - ❖ ensuring that any additional hours and / or other relevant expenses were supported by appropriate timesheets and approved claim forms;
  - ❖ examining a sample of net pay computations and verifying all payslip detail to the resultant cheque payments made; and
  - ❖ ensuring that the revised HMRC regulations requiring monthly, electronic payroll submissions (aka Real Time Initiative) were being met.

### *Conclusions*

*There are no issues arising in this area to warrant formal recommendation.*

## Fixed Assets

The Clerk has previously prepared a schedule of all assets including detail of purchase prices, book value, market value, disposals and estimated replacement cost and we are pleased to note that this has been appropriately amended for any acquisitions and disposals at cost during the year: consequently, we have checked and agreed the appropriate disclosure value at Box 9, Section 2 of the Annual Return.

### *Conclusions*

*There are no issues arising in this area to warrant formal recommendation.*

## Investments and Loans

Our objectives here are to ensure that the Board is investing “surplus funds”, be they held temporarily or on a longer term basis, in appropriate banking and investment institutions, that an appropriate investment policy is in place, that the Board is obtaining the best rate of return on any such investments made, that interest earned is brought to account correctly and appropriately in the accounting records and that any loan repayments due to or payable by the Board are transacted in accordance with the relevant loan agreements. Therefore:

- We have checked and agreed detail of the maturity and re-investment of numerous money-market Term deposits during the full twelve months ending 31<sup>st</sup> March 2016 to relevant third party bank advice statements and cashbook transactions, including the interest arising thereon; and
- We note that the Board currently has no loans either repayable by, or to, it.

### *Conclusions*

*There are no issues arising in this area to warrant formal recommendation.*

## **Statement of Accounts and Annual Return**

An Income & Expenditure Account and Balance Sheet have been produced from the accounting system. We have obtained copies of these and reviewed their content agreeing detail to the nominal ledger and other underlying documentation with no issues identified worthy of note.

We have also agreed the detail in the Annual Return, Page 2, to the Income & Expenditure Account and Balance Sheet where appropriate.

### *Conclusions*

*There are no issues arising in this area to warrant formal recommendation and we have duly “signed-off” the Internal Audit Certificate at Section 4 of the Annual Return assigning positive assurances in each relevant category.*