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# **Westbury Town Council**

*Internal Audit Report 2013-14 (Final update)*

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## **Background and Scope**

The Accounts and Audit Arrangements introduced from 1<sup>st</sup> April 2001 require all Town and Parish Councils to implement an independent internal audit examination of their Accounts and accounting processes annually. The Council complied with the requirements in terms of independence from the Council decision making process appointing Auditing Solutions Ltd to provide the function to the Council: this report sets out those areas examined during the course of our three visits to the Council for 2013-14 which took place on 5<sup>th</sup> November 2013, 7<sup>th</sup> February and 2<sup>nd</sup> June 2014.

## **Internal Audit Approach**

In conducting our review programme for 2013-14, we have again paid due regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts.

As the Council's Internal Auditor and under the current audit arrangements, we have a duty to complete the Internal Audit Certificate in the Council's Annual Return, which covers the basic financial systems and requires assurances in ten separate areas. Our programme of work for the year, as previously advised to the Council, sets out detail of the work to be undertaken and our approach to ensuring that the Council's financial systems continue to operate effectively and without any material errors in data entry.

## **Overall Conclusion**

We are pleased to conclude that, in the areas examined this year, the Council continues to operate effective systems that help ensure that transactions are reported accurately in the Statement of Accounts and Annual Return for the financial year. We are also pleased to note that the Council has responded positively to our previous reports and taken appropriate action to address most of the recommendations arising.

We have, during the course of this year's review process, identified a number of areas where we consider the control and reporting of income from the various sources could be improved as detailed in the relevant section of the detailed report with resultant recommendations, as usual, summarised in the appended Action Plan.

On the basis of the generally satisfactory conclusion of our review programme for the year, we have duly signed off the Internal Audit Certificate at Section 4 of the year's Annual Return assigning positive assurances in each relevant area.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

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. The Council uses the Omega accounting software to maintain its accounting records, which also provides the basis for preparation of the year-end Statement of Accounts and Annual Return.

We have:-

- Agreed the opening balance detail with that in the 2012-13 Statement of Accounts and certified Annual Return;
- Ensured that the ledger remains in balance at the financial year-end;
- Ensured that an appropriate coding structure remains in place;
- Checked and verified detail of transactions recorded in the Lloyds TSB cashbooks for April, September & December 2013, plus March 2014 agreeing detail to the relevant bank statements;
- Similarly, checked and agreed detail for the full financial year on the Imprest account;
- Checked and agreed detail on the bank reconciliations as at 30<sup>th</sup> April and September, plus 31<sup>st</sup> December 2013, plus 31<sup>st</sup> March 2014 for each account;
- Reviewed the controls over the preparation and authentication of journals;
- Checked the effectiveness of the Council's back-up and restore procedures in relation to its IT systems; and
- Ensured the accurate disclosure of the year-end balances in the Accounts and Annual Return.

### *Conclusions and recommendations*

*We have suggested previously that one or more councillors be nominated to undertake periodic checks on the accounting records including cashbooks, bank reconciliations and journals raised during the year. We note that appropriate action has been taken as regards the monthly bank reconciliations, detail now being signed off each month. However, similar action does not appear to have been implemented as regards the review and signing-off of journals: consequently, we reiterate our previous recommendation in that respect.*

*We noted a few anomalies with data entry into cashbooks at our first interim visit with several payments for each month entered in the previous month's cashbook and advised that transactions should be recorded in the cashbooks in the month that income is received and banked and for payments on the date that cheques / BACS payments are issued. We also noted that the 30<sup>th</sup> June 2013 bank reconciliation cashbook value, as printed, differed from the cashbook value by £14.40: further investigation showed that this related to a direct debit payment to the Post Office seemingly entered to the cashbook after the bank reconciliation was printed.*

- R1. *All receipts and payments should be recorded in the cashbook in the month in which the cheques / BACS payments are dated / issued, irrespective of the date presented to Council for approval. **This has been noted and is being actioned accordingly.***
- R2. *In order to ensure that the value of cash in hand is reported consistently on the cashbooks and bank reconciliations, the retained file copies should be printed as the last task prior to rolling forward the accounting detail to the next month on Omega. **Noted and actioned appropriately each month.***
- R3. *The long-standing uncleared payments should be written back in the accounting software as negative payments, thereby clearing them from the bank reconciliation detail: should replacement cheques be required, these can then be issued afresh. **This has been actioned as suggested: the Post Office Direct Debit has also been written back.***
- R4. *All journals should be subjected to independent review, ideally by the Town Clerk, and be signed off accordingly authenticating them. **This has still to be actioned.***

## **Review of Corporate Governance**

Our objective here is to ensure that the Council has a robust regulatory framework in place; that Council and Committee 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. We have: -

- Read minutes of the full Council and various standing committee meetings for the financial year and to date in 2014-15 to ensure that no issues affecting the Council's financial stability either in the short, medium or long term exist, also that no legal issues are in existence whereby the Council may either be considering or have taken decisions that might result in ultra vires expenditure being incurred; and
- Noted that the Council further reviewed and re-adopted its extant Standing Orders and Financial Regulations in March 2013.

We are pleased to note that the development of documentation for all financial procedures has been completed with drafts presented to and approved by the Finance Committee in June 2013.

We would also draw members' attention to the recent repeal of Section 150(5) of the LG Act 1972 that previously required all payable orders to be signed by two members: also to approval of the use of electronic banking facilities. We would draw attention to the recent JPAG (Joint Practitioners Accounting Committee) release of an update to the "Governance and Accountability for Local Councils – A Practitioner's Guide" (copy attached) which provides further guidance on the safeguards that need to be implemented should councils change their approach to banking arrangements. NALC has also recently re-issued updated Financial Regulations that take account of these changes in legislation.

## *Conclusions*

*No matters arise in this area this year warranting formal comment or recommendation. We shall continue to monitor the Council's approach to governance issues at future visits, also considering any changes in working practice following the above recent legislative change affecting banking arrangements.*

## **Review of Expenditure**

Our aim here is to ensure that, in addition to confirming that sound financial control procedures are in place: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Appropriate procedures are in place to ensure compliance with the Council's Standing Orders and Financial Regulations with regard to tendering and quotation action;
- 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;
- Where applicable, appropriate contracting arrangements are in place and that they comply with the Council's extant Standing Orders and Financial Regulations;
- 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 extended our test sample to include 60 payments in the financial year for scrutiny to ensure compliance with the above criteria. Our test sample provides a broad cross section of expenditure and traders' invoices totalling £247,750 and equating to 78% of non-pay related invoices paid in the year.

We have also ensured the timely and accurate preparation and submission of VAT reclaims to HMRC, checking and agreeing detail of all four submitted for the financial year and agreeing the accurate disclosure of the year-end reclaim as a debtor in the Accounts and Annual Return for the year. We also note that DCK Beavers have resolved the outstanding issue identified in 2012-13.

We noted at our first visit that two Lloyds Bank debit cards were in use with consideration being given to the provision of a further card for use by the Laverton Marketing and Development Officer (LMDO) in order that he / she may make ad hoc purchases for sale in the hall's bar when functions are taking place and stock runs low. Further examination of documentation relating to the two cards already in existence indicated that a daily transaction limit of £700 was in place with an individual transaction max of £200. Whilst not wishing to imply that any untoward activity had taken place with regard to these two cards, we considered that the daily spend limit was potentially high and suggested that members

consider a lower level. We are pleased to note that members approved a reduced daily transaction value of £500 for the existing two cards, together with £250 for the card to be acquired for the LMDO.

#### ***Conclusions and recommendation***

***We are pleased to report that no areas of significant concern have been identified in this area. However, as indicated above, we suggested in our first report for the year that members should consider ensuring that the bank applies a lower daily transaction limit for use of the debit card, with potentially an even lower daily limit for that to be acquired for the LMDO. We are pleased to acknowledge that this has been agreed and actioned accordingly.***

***R5. Members should give consideration to seeking a lower daily transaction limit on the two Lloyds debit cards already in use, with a potentially lower limit on that for the Laverton Marketing and Development Officer. Agreed with revised values approved at the January 2014 Council meeting.***

### **Assessment and Management of Risk**

Our aim here is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health / 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 examined the Council's current insurance schedule with Zurich and are pleased to record that cover in all areas remains appropriate for the Council's needs, with Employers and Public Liability cover both in place at £10 million and Fidelity Guarantee cover set at £0.5 million

We are pleased to note that the LCRS software has now been updated with revised assessments completed, presented to the Council and formally adopted at the meeting on 6<sup>th</sup> May 2014.

#### ***Conclusions***

***We are pleased to record that no issues arise in this area: we will continue to monitor the Council's arrangements in relation to risk management at future visits.***

### **Budgetary Control & Reserves**

We aim in this area of our work to ensure that the Council has appropriate procedures in place to determine its future financial requirements leading to the adoption of an approved budget and formal determination of the amount to be precepted on the Unitary Council, that effective arrangements are in place to monitor budgetary performance throughout the financial year and that the Council has identified and retains appropriate reserve funds to meet future spending plans.

We are pleased to note that, following due deliberation of the Council's future financial requirements and ongoing uncertainty of the level of Council Tax Support Grant that would be passed on to the Council by Wiltshire Council in future years and the possible spectre of "capping", the Council determined its budgetary and precept requirements for 2014-15 formally adopting the latter as £343,697, exclusive of any Support Grant receivable.

We have examined the year-end detailed budget outturn report noting that no significant or unexplained / un-anticipated variances were in existence.

Finally, in this area, we have also reviewed the level of retained reserves noting that total reserves increased to £234,776 at 31<sup>st</sup> March 2014 (£218,117 at prior year-end) with Earmarked Reserves (EMRs) reduced to £111,588 from £126,705 leaving a General Fund balance of £123,188 at 31<sup>st</sup> March 2014, which equates to five months' revenue spend at present levels and sits comfortably within the CiPFA guideline.

### ***Conclusions***

*No issues arise in this area this year warranting formal comment or recommendation.*

## **Review of Income**

In addition to the precept, the Council's income comprises bank interest, various grants and donations, income from fairs (e.g. the Street Fayre), advertising in Council publications, Laverton hall hire fees and bar sales and recoverable VAT.

At our interim update visit, we focused attention on the controls in place over the identification and recovery of income in relation to advertising in the "Christmas at Westbury" publication, Laverton Hall hire income and bar sales. We are pleased to record that no issues arise in relation to the advertising income.

We note that the Council has acquired the RBS Rialtas hall bookings software and implemented it during the current year. The software generates a number of reports and also embodies a Sales Ledger, which has been used to generate invoices in respect of chargeable hirings. The RBS Omega accounting software also has a Sales Ledger facility, although this is not being used currently and, consequently, only the bookings software can be used to generate detail of outstanding unpaid accounts, although we understand that the facility has not been used to date.

The Assistant Clerk maintains a spreadsheet record of income received and banked detailing the individual amounts received and deposited at bank. However, we noted that the record, at the time of our interim visit review, identified only the payees' name in addition to the amount received and banked without any cross-reference to the relevant invoice number. We note that this detail is now being recorded.

Due to the absence of any effective cross-referencing at the time of our review, we were only able to ensure that an appropriate invoice, in line with the approved scale of fees and charges for the current year, had been raised, having selected bookings in November 2013 for this aspect of our review.

We also noted that, whilst hirers are required to sign a Booking Form, no formal Terms and Conditions of Hire are in use currently. In order to reduce the level of risk to the Council / Laverton Institute in the event of any damage arising during a hire, a formal set of Terms and Conditions should be produced and be signed by every hirer acknowledging their level of responsibility.

In order to strengthen controls and provide a clear and comprehensive audit trail, we have also suggested that the following actions be taken: -

- The booking software Sales Ledger should be used to its full potential with detail of payments received input in order that detail of unpaid accounts may be readily identified (*this is under consideration currently*);
- The spreadsheet record and Omega accounting detail should identify not only the payees name, but also the invoice reference number (*now actioned as suggested*);
- In order to further simplify the identification of unpaid invoices, a separate file of invoices raised should be prepared, with the top (or bottom) corner of the invoice clipped off when payment is received and / or the date of payment recorded thereon: (*we note that invoices are now being printed and retained on the "Bookings file" with the date of payment identified*); and
- A formal set of Hire Terms and Conditions should be developed and issued to all hirers with the requirement that they sign acknowledging their responsibilities and that they understand the terms of hire.

We note that use of the bar at the Laverton is increasing: we have a number of residual concerns with regard to the effectiveness of the control and handling of cash takings, as no formal records of the cash amount received providing a reconciliation to the end of shift "Z" total reading on the till is prepared.

In order to again ensure that a clear and comprehensive audit trail is in place, thereby affording officers or any casual staff operating the bar with a degree of protection against any possible suggestion of malpractice, the following actions should be implemented: -

- On each occasion that the bar is in use, a cash analysis sheet should be prepared identifying the date of the event; opening cash float; an analysis of the physical cash in the till at the end of the shift / opening period and the residual cash float retained and not due for banking;
- The analysis sheet should also identify the till "Z" total and the value of any cash surplus / deficit and be signed by the officer in charge of the bar who undertook the cash-up;
- The cash sheet should be married to the "Z" till reading and be passed to the Assistant Clerk together with the physical cash for banking; and
- A control record of any cash surpluses / deficits should be maintained with explanations recorded where such exceed a pre-agreed value.

Finally, in this area, we have examined the detailed Omega income transaction reports for the year to identify whether or not all income due to the Council has been received and charged to the appropriate nominal account. We previously noted one apparent instance where bar income has been miscoded to the Hall hire nominal account code (£57.23 on 14<sup>th</sup> May 2013)

and are pleased to acknowledge that an appropriate journal adjustment has been raised correcting the misposting.

#### ***Conclusions and recommendations***

***Whilst we are satisfied that, as far as we are able to ascertain, income due to the Council and received is accounted for appropriately, we have identified a number of areas where we consider that improved controls need to be implemented essentially, as detailed above.***

- R6. *Consideration should be given to using the bookings software sales ledger package to its full potential including updating detail to record the settlement of debtor accounts. **This is still under consideration.***
- R7. *As indicated in the body of the report, improved cross-referencing between hall hire invoices and the recovery / banking of income and its recording in the accounting software should be implemented. **This has been actioned accordingly.***
- R8. *A formal document setting out clearly the Terms and Conditions of Hire of the Laverton Institute should be developed and be issued to all hirers for completion and sign-off acknowledging their acceptance and understanding of the hire terms.*
- R9. *A more formalised approach to recording the cash income received when the Laverton bar is used ideally incorporating all aspects as indicated in the body of the report, with documentation appropriately retained by the Assistant Clerk in support of the detail recorded on the banking detail spreadsheet.*
- R10. *The minor miscoding of bar income to Hall hire should be corrected by journal. **This has been amended appropriately.***

#### **Petty Cash Account**

We are required, as part of the annual Internal Audit Certification process on the Annual Return, to indicate the soundness of controls in this area of the Council's financial activities. We note that an imprest style petty cash scheme is in place with a reduced balance of £100.

We examined a sample of transactions for the year to the date of our interim visit ensuring that each payment was supported by an appropriate till receipt, invoice or signed acknowledgement of receipt. We also ensured that, where applicable, any VAT expended had been identified and coded appropriately for recovery in the accounting software.

Finally, we also checked and agreed the physical cash held at the time of our interim visit, which, together with un-reimbursed expense vouchers, totalled the imprest holding of £100.

#### ***Conclusions and recommendations***

***In checking the contents of the petty cash tin at our first interim visit, we noted the existence of an additional unidentified holding of £50: we discussed this with officers and agreed that, as the source of the money was unknown, it should and has been banked and recorded as a miscellaneous receipt. In checking the petty cash holding, we also noted that***

*a small excess of £1.73 existed: the next re-imburement should take account of this surplus and expenditure be adjusted accordingly.*

*Additionally, in reviewing the Omega control account, we noted an incorrect posting “transfer” of £2.67 into the petty cash account in August, rather than it be coded to a nominal expense code. This error has been amended accordingly, although we note that, at the financial year-end, the cash float is now shown as £95.61.*

*R11. The £50 surplus cash holding, the source of which remains unknown, should be deposited in the Council’s bank as a miscellaneous receipt. This has been banked accordingly and coded as a miscellaneous income item.*

*R12. The miscoded posting transfer of £2.67 in August 2013 to the petty cash account should now be corrected returning the ledger balance to the correct value of £100.00. Whilst this has been corrected, the year-end balance indicates that a further anomaly exists that requires satisfactory adjustment /clearance.*

## **Review of Salaries**

In examining the Council’s payroll function, we aim to confirm that extant legislation is being appropriately observed with adherence to the requirements of HM Revenue and Customs (HMRC) legislation and the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme, as further amended with effect from 1<sup>st</sup> April 2013 relating to employee contribution bandings. To meet that objective, we have:

- Noted that the Council has again approved incremental increases in the annual salaries for a number of staff for the financial year, also noting approval for payment of the national 1% pay award back-dated to 1<sup>st</sup> April 2013;
- Reviewed and agreed detail of a sample month’s payslip detail (October 2013) to the Council approved salary scales;
- Agreed income tax and NIC deductions for all employees to the current year’s HMRC tax and NI tables;
- Agreed superannuation contributions for those employees contributing to the pension fund, ensuring that the appropriate percentage deductions and Council contributions are being applied;
- Checked any enhanced hours paid with the October 2013 salary payment to supporting timesheets, ensuring that the latter are duly signed by the employees and approved for payment accordingly; and
- Verified that the HMRC RTI returns are being prepared and submitted in accordance with the scheme’s requirements.

### **Conclusions**

*No issues have been identified warranting comment or recommendation in this area this year.*

## **Fixed Asset Registers**

The Accounts and Audit Regulations 1996 require all councils to develop and maintain a register of assets identifying detail of all land, buildings, vehicles, furniture and equipment owned by the Council.

We are pleased to note that a detailed register of the Council's asset stock has now been compiled using the Pear Technology software, but note that the values recorded therein for groups of individual assets do not match the asset values recorded in the detailed Statement of Accounts prepared by DCK Beavers on behalf of the Council. Prior year editions of the latter document have formed the basis of the value of assets disclosed in the Annual Return, as is again the case for 2013-14, with the detailed Accounts reflecting the cost of new assets acquired in the year giving an increased total as reported in the year's Annual Return: this is in line with current reporting requirements.

### *Conclusions*

*No issues arise in this area, although we would suggest that the asset values as reported in the updated asset register be compared with the detail in the Statement of Accounts prepared by DCK Beavers and that, if possible or practicable, both documents be brought into synch for 2014-15.*

## **Investments and Loans**

The Council holds no long-term investments: any surplus funds are held in periodic Treasury term deposits arranged through Lloyds Bank: we have verified detail thereof for the full financial year by reference to the bank's third party advice notes, also ensuring the accurate recording of the repayment of funds on maturity and accrued interest into the Council's current bank account.

One PWLB loan is in place: we have checked and verified the two half-yearly repayments for the year to the supporting independent PWLB demand notices, also ensuring the accurate disclosure of the residual loan liability at the year-end.

### *Conclusions*

*No issues arise in this area warranting formal comment or recommendation.*

## **Statement of Account and Annual Return**

The 1996 Accounts and Audit Regulations required all Councils to prepare annually a detailed Statement of Accounts, together with supporting statements identifying other aspects of the Council's financial affairs. We are pleased to note compliance with this with the Council's contract accountants preparing an appropriate set of Accounts.

We have checked and agreed the detail in these Accounts to the underlying financial and other records, also ensuring the correct and accurate transfer of data to Section 1 of the year's Annual Return.

***Conclusions***

***No issues have been identified in this review area this year and we have duly signed off the Internal Audit certificate at Section 4 of the Annual Return, assigning positive assurances in each relevant area.***