
Westbury Town Council

Internal Audit Report 2012-13 (Interim)

Prepared by Alistair Morrison

Stuart J Pollard

*Director
Auditing Solutions Ltd*

Background and Scope

The Accounts and Audit Arrangements introduced from 1st 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 first interim visit to the Council for 2012-13 on 20th September 2012.

Internal Audit Approach

In commencing our programme of review work for 2012-13, we have again had 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 again conclude that, in the areas examined to date, the Council continues to operate effective systems that ensure that transactions will be reported accurately in the Statement of Accounts for the financial year. We are also pleased to note that the council has responded positively to our previous reports with agreed actions still being implemented: we shall keep progress under review at future visits.

We are also pleased to report that no significant issues have been identified at this visit, although we have identified one or two minor areas that require attention to ensure full compliance with legislative requirements and best practice. Where prior year recommendations remain to be actioned, they are restated herein as an aide memoire to the Council and officers.

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 provide the basis for preparation of the year-end Statement of Accounts and Annual Return.

We have undertaken the following checks at this first interim visit to meet the above objective: -

- Agreed the opening balance detail with that in the 2011-12 Statement of Accounts and certified Annual Return ;
- Ensured that the financial ledger remains in balance at the present date.
- Ensured that an appropriate coding structure is in place to provide suitable analysis to assist in the preparation of the annual detailed Statement of Accounts and summarised Annual Return;
- Checked and verified detail of transactions recorded in the Lloyds TSB and HSBC cashbooks for April to June 2012 agreeing detail to the relevant bank statements;
- Similarly, checked and agreed detail of the full year to date for all other accounts; and
- Checked and agreed detail on the bank reconciliations as at 30th June 2012 for each account.

Conclusions and recommendations

We suggested at our last visit that one or more councillors be nominated to undertake periodic checks on the cashbooks and bank reconciliation statements to ensure that no anomalous entries exist and, should any be in existence, that they are being addressed appropriately. Similarly, we suggested that the nominated member(s) examine and “sign-off” any journals raised during the year for appropriateness. We understand that this recommendation has been agreed by the Finance Committee and that the new Mayor has been charged with this responsibility, although it has still to be actioned positively.

Review of Corporate Governance

Our objective 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 undertaken the following work in this area: -

- Minutes of the full Council and various standing committees have been read for the year to date 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.

- We also note that the Council has further reviewed and re-adopted its extant Standing Orders and Financial Regulations in May 2012.

Documentation for all financial procedures is still developing: to this end, we noted the establishment of a new Committee in November 2011 and would suggest this action in this respect is prioritised to ensure that sound succession management is in place in the event of staff long-term illness, retirement, etc.

Conclusions

We shall continue to review minutes and monitor the Council's approach to governance issues at future visits.

R1. The Council should ensure that positive progress is made towards the agreed development of detailed financial procedures.

Review of Expenditure

Our aim here is to ensure that, in addition to confirming that a sound financial control procedure is 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 selected a sample of 37 payments processed in the financial year to date for scrutiny to ensure compliance with the above criteria. Our test sample provides a broad cross section of expenditure and traders' invoices totalling £76,951 (55% of non-pay invoices) paid in the year to date.

Conclusions

We are pleased to report that no significant issues have been identified in this area, although we still consider the present method of alphabetical filing of invoices somewhat cumbersome, as it does not include all creditors, detail of which are kept either on a miscellaneous file or filed separately under Direct Debits: this makes the task of verifying detail unwieldy and time consuming. Our experience at other Councils is that filing payments by cheque number also aids the recall of documents.

Again, whilst not considering that a formal recommendation is required in this area, we would suggest that further consideration be given to the manner in which paid invoices are filed that aids both our review and, more importantly, eases the task for officers in tracing invoices in the event of a query arising.

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 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 examined the Council's current year insurance policy schedule, transferred from Aon to Zurich in 2011-12 and are pleased to record that cover in all areas continues to be appropriate for the Council's needs, with inflation added to assets as appropriate at 3%, together with additions in respect of a PA system and other electrical items, etc.

We have noted previously that the LCRS software was proving incompatible with the new PCs installed in the Council's offices: this issue has now been resolved and we look forward to reviewing the outcome in due course at our next visit.

Conclusions and recommendation

We are pleased to record that no other issues arise in this area and would remind officers and members that financial risk assessments, once finalised, should be subject to annual review, update and formal re-adoption by the Council.

Budgetary Control & Reserves

In this area of our coverage, we aim to ensure that the Council has sound procedures in place for the determination of its annual budget and also for monitoring and managing available resources throughout the financial year.

Conclusions

This interim visit was clearly too early for any formal conclusions to have been reached with regard to the Precept deliberations for 2013-14 and, with just four accounting periods fully elapsed to date, the management accounting reports from Sage have yet to identify any significant trends or meaningful variances requiring further attention by officers.

We reviewed the Council's general balance at our final visit for 2011-12 and, whilst noting an improvement in the holding level, considered that it was still below the recognised CiPFA level of between three and six months' net revenue spending, although we acknowledge the intention to further improve the position. This should be given due consideration when determining the 2013-14 budgetary requirements and precept.

We note that no formal reserves policy is apparently in place and suggest that a suitable document be prepared as and when time permits.

Review of Income

In addition to the precept, the Council's income comprises bank interest, a variety of grants and donations, income from fairs (e.g. the Street Fayre), limited hall hire and recoverable VAT. Additionally, this year there income has also arisen from events organised to celebrate the Queen's Diamond Jubilee.

We have reviewed the detailed income ledger transaction reports for the current year to date to ensure that no significant anomalies exist in the posting of transactions and that all anticipated income has, as far as we are able to discern, been received and accounted for appropriately.

Conclusions

We are pleased to record that no issues arise in this area: we shall update our year-on-year analysis of income across the various budget headings at our final visit in order to add focus to our future year review programme.

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 (in the latter stages of 2011-12) balance of £100.

Conclusions

We have not examined the controls in place over petty cash spending this year, although, based on prior year experience, we anticipate no issues to arise when we review the process at our next visit. We also understand that the Clerk is reviewing the records following the recent retirement of the staff member previously involved in administering the system.

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 1st April 2012 relating to employee contribution bandings. To meet that objective, we have:

- Noted that the Council has again approved the annual salaries for its staff members for the financial year in accordance with the NJC pay scales;
- Noted that the Council continues to use the Sage payroll software to prepare its monthly payroll;
- Agreed a sample month's payments (May 2012) processed for each employee to the Council approved salary scales;
- Agreed income tax and NIC deductions from those employees' salaries to the current year's HMRC tax tables, also ensuring that the appropriate PAYE codes have been applied in the current financial year;
- Agreed superannuation contributions for the two employees contributing to the Wiltshire pension fund, ensuring that the appropriate percentage deductions and Council contributions are being applied;
- Checked any enhanced hours paid with the May 2012 salary payment to supporting timesheets, ensuring that the latter are duly signed by the employees and approved for payment by a counter-signing.

Conclusions

No issues have been identified in this area this year: we shall verify the completion and submission of the P14 / P35 Annual PAYE Returns at our final visit.

Investments and Loans

The Council holds no long-term investments: surplus funds are placed in treasury term deposits arranged through the Council's Lloyds TSB bankers.

One PWLB loan is in place: we have checked and verified the first half-yearly repayment made in the year to the supporting independent PWLB advice.

Conclusions

No issues arise in this area at present.