
Westbury Town Council

Internal Audit Report 2013-14 (First Interim)

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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 visit to the Council for 2013-14 which took place on 5th November 2013.

Internal Audit Approach

In commencing our programme of review work for 2013-14, we have continued to pay 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 to date, the Council continues to operate effective systems that ensure that transactions should be 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, although some issues are still in the process of being implemented.

We are also pleased to report that no significant issues have been identified at this visit, although we have identified a few relatively minor procedural matters that require attention to ensure full compliance with legislative requirements and best practice.

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 financial ledger remains in balance at the present date;
- Ensured that an appropriate coding structure remains in place;
- Checked and verified detail of transactions recorded in the Lloyds TSB cashbooks for April and September 2013, agreeing detail to the relevant bank statements;
- Similarly, checked and agreed detail for the year to date on the Imprest account;
- Checked and agreed detail on the bank reconciliations as at 30th April and September 2013 for each account;
- Reviewed the controls over the preparation and authentication of journals; and
- Checked the effectiveness of the Council's back-up and restore procedures in relation to its IT systems.

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, whilst this recommendation has been agreed by the Finance Committee, positive action has still to be taken with the documentation needing sign-off and dating by the member undertaking the checks.

We have noted a few anomalies with data entry into cashbooks with several payments for each month entered in the previous month's cashbook: 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 30th 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.

We also note that three relatively long-standing payments (one dating back to January 2012) remain uncleared at the bank: if these cheques are no longer likely to be cashed, they should be reversed in the accounts being entered as negative payments and coded to the original nominal account code.

We shall undertake further testing in this area at future visits, including ensuring the accurate disclosure of year-end balances in the detailed Statement of Accounts and Annual Return.

- 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.*
- 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.*
- 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.*
- R4. *As and when the nominated member undertakes a review of the bank reconciliations and journals, they should initial and date the documents reviewed as evidence of their check.*

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 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; 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.

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 continuing to examine minutes.

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 selected a sample of 37 payments in the year to October 2013 for scrutiny to ensure compliance with the above criteria. Our test sample provides a broad cross section of expenditure and traders' invoices totalling £158,200 and equating to 75% of non-pay related invoices paid in the year to date.

We have also ensured the timely and accurate preparation and submission of VAT reclaims to HMRC, checking and agreeing detail of the first two completed for the current financial year. We also note that DCK Beavers have resolved the outstanding issue identified in 2012-13.

We note that two Lloyds Bank debit cards are in use currently and that consideration is being given to the provision of a further card to the Laverton Marketing and Development Officer (LMDO) in order that he 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 indicates that a daily transaction limit of £700 in place with an individual transaction max of £200. Whilst not wishing to imply that any untoward activity has taken place with regard to these two cards, we consider that the daily spend limit is potentially high and suggests that members consider a lower level. Additionally, if a further card is to be provided for the LMDO, which we consider perfectly acceptable and practicable for operational purposes, members may wish to consider setting an even lower daily spend limit.

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 believe 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.

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.*

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 noted previously that the LCRS software had proven incompatible with the new PCs installed in the Council's offices: this issue has now been resolved and we understand that work will be undertaken in the current financial year to complete the review and update of financial risk assessments using the software.

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 and would remind officers and members that the financial risk assessments should be reviewed and be re-adopted formally each year.

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.

This first interim visit occurred too early for any formal consideration to have been given to the budgets and precept requirements for 2014-15, although we note that work is in hand currently on preparation of the detailed budget.

Conclusions

We have examined the latest available budget reports at this first interim visit and are pleased to record that no significant individual variances are apparent with total income and expenditure to date equalling 86% and 31% of the annual budget respectively. We shall focus more attention in this area at our interim update and final visits for the year, examining the year-end outturn and following up any potentially significant variances that may exist to establish the reasons for their existence.

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), limited hall hire, bar sales (new in 2013-14) and recoverable VAT.

We have undertaken limited work in this area at this first interim visit and will focus specific attention on the controls in place over the identification and recovery of income at our interim update visit. However, we have held preliminary discussions with officers to gain an overview of the controls in place over operation of the recently installed / upgraded bar facility at the Laverton. We have made one or two verbal suggestions for minor improvements in the control process and will undertake more detailed work at our next visit and report our conclusions accordingly.

Conclusions

We are pleased to record that no issues arise in this area warranting formal comment or recommendation at present.

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

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

Conclusions and recommendations

In checking the contents of the petty cash tin, we noted the existence of an additional unidentified holding of £50: we have discussed this with officers and agreed that, as the source of the money remains unknown, it should be banked and regarded as a miscellaneous receipt. In checking the petty cash holding, we 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.

We have discussed these matters with officers and, in view of their low materiality, do not consider that they warrant a formal recommendation at this stage: we shall check the position further at our next visit, ensuring that appropriate corrective action has been taken in each case.

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 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 1st 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.

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 year to date 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.

Conclusions

No issues arise in this area at present: we shall examine any further term deposit transactions at future visits and ensure their accurate disclosure in the detailed Statement of Accounts prepared by DCK Beavers on behalf of the Council and also in the Annual Return. We shall also ensure the accurate disclosure of the residual loan liability in the Accounts and Annual Return at our final visit.