
Westbury Town Council

Internal Audit Report 2013-14 (Interim update)

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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 two interim visits to the Council for 2013-14 which took place on 5th November 2013 and 7th February 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 to date, the Council continues to operate effective systems that should 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 the recommendations arising.

We have 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.

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, September & December 2013, agreeing detail to the relevant bank statements;
- Similarly, checked and agreed detail for the year to 31st January 2014 on the Imprest account;
- Checked and agreed detail on the bank reconciliations as at 30th April and September, plus 31st December 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 appropriate action has been taken as regards the monthly bank reconciliations, detail 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 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 have noted, at this update visit, that a direct debit in respect of the Post Office dated July 2013 remains uncleared as at 31st January 2014 – this should be written back as it appears unlikely that it will be cleared through the Council's bank account now.

We shall undertake further testing in this area at our final visit, 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. **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 being 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 will be similarly written back.***
- R4. *All journals should be subjected to independent review, ideally by the Town Clerk, and be signed off accordingly authenticating them.*

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 (January 2014) 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 extended our test sample to include 51 payments in the year to 31st January 2014 for scrutiny to ensure compliance with the above criteria. Our test sample provides a broad cross section of expenditure and traders' invoices totalling £220,000 and equating to 70% of non-pay related invoices paid in the year to that date.

We 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 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 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 new 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 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 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.

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 to receivable.

We have, at this interim update visit, examined the current budget position and are pleased to report that no significant variances exist warranting further explanation by officers.

Conclusions

No issues arise currently warranting formal comment or recommendation: we shall re-examine the year-end budget outturn and follow up any potentially significant variances that may have arisen subsequent to this interim visit, also considering the appropriateness of the Council's retained reserves to meet ongoing revenue spending and the Council's future development aspirations.

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

At this interim update visit, we have 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 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 of income received and deposited at bank. However, this record identified only the payees name in addition to the amount received and banked without any cross reference to the relevant invoice number.

Due to the absence of any effective cross referencing, we have only be able to ensure that an appropriate invoice, in line with the approved scale of fees and charges for the current year, has been raised: we have selected bookings in November 2013 for this aspect of our review process.

We also note that, whilst hirers are provided with a copy of the Terms and Conditions of Hire, they are not required to sign and provide the Council with written confirmation that they have read and understood the terms and conditions of hire. The absence of such agreement potentially leaves the Council at risk in the event that any damage is done to the premises.

In order to strengthen controls and provide a clear and comprehensive audit trail, we would suggest 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;
- The spreadsheet record and Omega accounting detail should identify not only the payees name, but also the invoice reference number;
- 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 invoice clipped off when payment is received and the date of payment be recorded thereon; and
- All hirers should be required to sign the Terms and Conditions confirming their acceptance of the detail therein.

Whilst we acknowledge that the bar at the Laverton is only used infrequently and is generally overseen by the LMDO when open, we have some 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 put in place, thereby affording the LMDO or any casual staff operating the bar with a degree of protection against any possible claims 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 staff member 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 31st December to identify whether or not all income due to the Council has been received and charged to the appropriate nominal account. We have noted one apparent instance where bar income has been miscoded to the Hall hire nominal account code (£57.23 on 14th May 2013).

Conclusions and recommendations

Whilst we are satisfied that, as far as we are able to ascertain, income due to the Council and received to date has been accounted for appropriately, we have identified a number of areas where we consider that improved controls need to be implemented essentially, as detailed above. We shall undertake further work at our final visit, also updating our year-on-year analysis of income across the various nominal account headings in order to identify any significant variances and hence inform our planning for review action in 2014-15.

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.

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.

R8. All hirers should be required to sign the Terms and Conditions of Hire thereby improving the level of protection to the Council in the event of any damage occurring to the premises during the hire period.

R9. A more formalised approach to recording the cash income received when the Laverton bar is used, indicated in the body of the report, should be implemented, 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.

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 at our first interim visit, 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. We have seen no indication in the accounting records at this interim update visit that the cash has been banked to date and understand that the source has not been identified: consequently, we remind officers of the agreed course of action in this respect. 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. No action appears to have been taken to amend this error, the petty cash account still showing a cash holding of £102.67 as at 31st January 2014 as against the true balance of £100.00.

R11. The £50 surplus cash holding, the source of which remains unknown, should be deposited in the Council's bank as a miscellaneous receipt.

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.

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 (i.e. 31st January 2014) 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 our final visit 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.