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# **Westbury Town Council**

*Internal Audit Report 2014-15 (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 interim and final visits to the Council for 2014-15 which took place on 28<sup>th</sup> October 2014, 26<sup>th</sup> February and 1<sup>st</sup> and 3<sup>rd</sup> June 2015.

## **Internal Audit Approach**

In conducting our review programme for 2014-15, 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 will 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 and taken appropriate action to address most of the recommendations arising.

We have, during the course of this year's review process to date, identified just one area where we consider that there is room for improvement as detailed in the relevant section of the detailed report with resultant recommendation, as summarised in the appended Action Plan.

On the basis of the satisfactory conclusions drawn from our programme of work for the year we have duly signed off the Internal Audit certificate at Section 4 of the 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 2013-14 Statement of Accounts and certified Annual Return;
- Ensured that the ledger remains in balance as at the year end;
- Ensured that an appropriate coding structure remains in place;
- Checked and verified detail of transactions recorded in the Lloyds TSB cashbooks for June and September 2014 plus January and March 2015 agreeing detail to the relevant bank statements;
- Similarly, checked and agreed detail for the full financial year to March 2015 on the Imprest account;
- Checked and agreed detail on the bank reconciliations as at 30<sup>th</sup> June and September 2014, plus 31<sup>st</sup> January 2015 and 31<sup>st</sup> March 2015 for each account;
- Checked the effectiveness of the Council's back-up and restore procedures in relation to its IT systems.

### *Conclusions*

*No issues arise in this area from our final audit visit. We are pleased to note that action has been taken by the Council in respect to our previous recommendation in this area with a nominated councillor now undertaking periodic checks on the accounting records including cashbooks, bank reconciliations and journals raised during the year.*

## 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 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;
- Noted that the Council reviewed and re-adopted its extant Standing Orders and Financial Regulations in May 2014;

- Further noted that Information, Staff Recruitment and Retention, together with Equalities and Inclusion Policies were approved by the Council at its September 2014 meeting; and
- Finally noted that, in response to the repeal of section 150(5) of the LG Act 1972, the Council further reviewed its Financial Regulations and these were approved at the Town Council meeting in March 2015.

We are pleased to note the Council continues to review financial procedures ensuring that they are approved by the Finance Committee from periodically.

### ***Conclusions***

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

## **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;
- 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;
- 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 completed our test sample of expenditure for compliance with the above criteria. We have examined 64 payments covering a broad cross section of expenditure and traders' invoices totalling £133,442 and equating to 51% of non-pay related invoices paid in the year. We are pleased to record that no issues were arising from this work with all of the above criteria being met for each item.

We have ensured the timely and accurate preparation and submission of VAT reclaims to HMRC, checking and agreeing detail of all four quarters' returns. We have also checked that the VAT debtor in the year-end accounts agrees to the amount owed per the quarter four VAT reclaim.

We note that appropriate procedures are in place to ensure compliance with the Council's Financial Regulations with regard to tendering and quotation action and note the recent change of the limit from £10,000 to £60,000, which level, whilst acknowledging it as being the value recorded in the NALC model document, we consider too high for most town and parish councils.

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

***We are pleased to report that no significant areas of concern have been identified in this area and that the lower daily transaction limit on the two Lloyds debit cards, as recommended in an earlier report, was approved at the January 2014 Council meeting. However, we would ask that members reconsider the level at which formal tender action is required, setting it at a more realistic value of around £20,000 to £25,000 for a council the size of Westbury.***

*R1. The Council should reconsider the level at which formal tender action is required, ideally setting the value at a more realistic value of around £25,000.*

## **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 been reviewed and 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.***

## **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 the Council's has considered the future implications and uncertainty relating to the level of Council Tax Support Grant received from Wiltshire Council and have provided for its effect on future projections by creating an appropriate Reserve. With that in mind, the January 2015 Council meeting approved a precept of £394,427 for 2015-16, an increase of 11.64% on 2014-15.

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 £311,885 at 31<sup>st</sup> March 2015 (£234,776 at 31<sup>st</sup> March 2014) with Earmarked Reserves (EMRs) increased to £178,413 from £111,588 leaving a General Fund balance of £133,472 at 31<sup>st</sup> March 2015, 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, Roundabout sponsorship, Laverton hall hire fees and bar sales and recoverable VAT. At our first interim visit, we focused attention on the controls in place over the identification and recovery of income in relation to Laverton Hall hire and bar sales.

We note that the Council acquired the RBS Rialtas hall bookings software and implemented it during 2013-14. 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, though this was not used in 2014-15. Consequently, only the bookings software was used to generate detail of outstanding unpaid accounts.

The Assistant Clerk also maintained a spreadsheet record of income received and banked detailing the individual amounts received and deposited at the bank. Hirers were required to sign a Booking Form, but no formal Terms and Conditions of Hire were in use. We have previously suggested that, 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 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. We recognise that this process was carried out manually during the year and understand that it was to be reviewed following the Assistant Town Clerk's retirement and out-sourcing of functions considered;
- 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 are pleased to now note that invoices are being printed and retained on the "Bookings file" with the date of payment identified; and
- A formal set of Hire Terms and Conditions has been 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 the use of the bar at the Laverton has increased with a number of our previous concerns over cash handling issues addressed and are pleased to note that appropriate documentation has been developed to provide a clear trail from opening float, reconciliation of takings to the till total, banking of cash received and establishment of a float for the next event. This process includes reconciliation of cash income with the till roll, the banking on the return with the bank receipt and the set up and carry forward of the float before and after the event, where the return is signed off by two employees. This incorporates a reconciliation of the income to the end of shift "Z" total reading on the till is prepared.

Finally, in this area, we have examined the detailed Omega income transaction reports for the year, also updating our year-on-year analysis of income across the various nominal account headings.

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

***We are satisfied that, as far as we are able to ascertain, income due to the Council is being recovered and banked in a timely manner and accounted for appropriately in the Omega software.***

***We previously suggested that consideration be given to using the bookings software sales ledger package to its full potential including updating detail to record the settlement of debtor accounts and understand that it was to be reviewed following the former Assistant Town Clerk's retirement.***

***R1. 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.***

## **Petty Cash Account**

We are required, as part of the annual Internal Audit Report process on the Annual Return, to indicate the soundness of controls in this area of the Council's financial activities. We noted previously that an imprest style petty cash scheme was in place with a reduced balance of £100 at our last final visit, which was subsequently increased to £200 in May 2014.

We have examined a sample of transactions for the year to the date of our interim visit to ensure that each payment is 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 checked the physical cash held at the time of our interim visit, which, together with un-reimbursed expense vouchers, should total the imprest holding of £200, although we identified a minor difference of £1.21.

### ***Conclusions***

***We left detail of the balance at our first interim visit with the Assistant Town Clerk and which was subsequently adjusted appropriately in the ledger.***

## 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 significantly amended with effect from 1<sup>st</sup> April 2014 in relation to employee contribution bandings now being based on actual salary payable, rather than the Whole Time Equivalent salary and to also include all overtime or other enhanced payments. To meet that objective, we have:

- Noted that the Council has implemented the national pay award for 2014-16;
- Reviewed and agreed detail of a sample month's payslip detail (July 2014) to the Council approved salary scales;
- Agreed income tax and NIC deductions for July 2014 to the current year's HMRC tax and NI tables;
- Agreed superannuation contributions for July 2014 for 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 July 2014 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 for July 2014 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. We note that the Council reviewed the format of its employment contracts and these, along with the revised employee handbook, were approved by Full Council at the meeting in March 2015.*

## Fixed Asset Registers

'Proper practice', as set out in the Practitioners' Guide, requires that all councils maintain a record of the assets they own. We are pleased to note compliance with this requirement, with the Clerk maintaining a detailed asset register compiled using the Pear Technology software, but note that, as last year, 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 2014-15, 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.

We have tested the 2014-15 additions to invoices to ensure they have all been added at purchase cost (net of VAT). We have also compared the fixed asset records to the insurance policy noting that all assets are covered with the exception of the skate park. This is due to

the nature of this asset and the assessed risk to it (i.e. it could not be stolen or destroyed in fire, with the more likely risks being damage or vandalism which would incur lower costs to rectify).

### *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 2015-16.*

## **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 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 detailed 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.*

# Action Plan

Rec. No.	Recommendation	Response
<b>Review of Corporate Governance</b>		
R1	The Council should reconsider the level at which formal tender action is required, ideally setting the value at a more realistic value of around £25,000.	
<b>Review of Income</b>		
R2	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.	