
Westbury Town Council

Internal Audit Report 2015-16 (Final update)

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Background

All town and parish councils are required by statute to make arrangements for an independent internal audit examination of their accounting records and system of internal control and for the conclusions to be reported each year in the Annual Return. Auditing Solutions Ltd has provided this service the Council since the outset of the “Limited assurance” audit arrangements.

This report sets out the work undertaken in relation to the 2015-16 financial year, during our visits to the Council, which took place on 7th October 2015, 15th March & 22nd June 2016.

Internal Audit Approach

In undertaking the review for the year, we have had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts/Annual Return. Our programme of cover has been designed to afford appropriate assurance that the Council’s financial systems remain robust and operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council’s own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the ‘Internal Audit Report’ in the Council’s Annual Return, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

We have concluded that, on the basis of the satisfactory conclusion of our annual programme of work, the Council has again maintained adequate and effective internal control arrangements, with a few issues identified at our interim visits warranting formal comment and recommendation, detail of which is set out in the body of the attached detailed report and further summarised in the appended Action Plan, together with an update on the current status of each issue.

We have completed and signed the ‘Internal Audit Report’ in the year’s Annual Return, having concluded that, in all significant respects, the control objectives set out in that Report were being achieved throughout the financial year to a standard adequate to meet the needs of the Council.

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 2014-15 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 Current and Imprest a/c cashbooks for April and August 2015, plus January and March 2016 agreeing detail to the relevant bank statements;
- Checked and agreed detail on the bank reconciliations as at 30th April; 31st July and August 2015, plus January and March 2016 for both accounts;
- Ensured the accurate disclosure of the year-end combined cash and bank balances in the detailed Statement of Accounts and Annual Return; and
- Considered the effectiveness of the Council's back-up and restore arrangements for its IT systems.

Conclusions

Whilst no significant issues arise in this area, we noted at our first visit that one cheque drawn in March 2015 in favour of Stationery Plus (£171.06) remained unpaid: we are pleased to note the subsequent action taken to write the cheque back in the cashbook as a negative payment.

We also noted that two cheques drawn in August 2015 (Nos. 2992 & 2993 totalling £70.00) had not cleared through the bank by 31st August, but did not appear as "unpaid" on the printed month-end bank reconciliation. Consequently, the cashbook balance on the bank reconciliation (£11,472.83) did not agree with the closing balance recorded in the August cashbook (£11,402.83) by the value of these two cheques.

- R1. *Appropriate action should be taken to ensure that any long-standing uncleared cheques are pursued, written back and replacements issued, if required. **The one long-standing uncleared payment cheque has been written back accordingly.***
- R2. *Care should be taken to ensure that the cashbook and bank reconciliation detail is printed at the same time and that the cashbook balance on both is identical. **Noted: uncleared cheques will be reviewed monthly and, if appropriate, be written back in the accounting records.***

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: -

- Extended our review of minutes for the full Council and various standing committee meetings for the year and to date in 2016-17 (where available) 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 has undertaken a further review and adopted updated Standing Orders and Financial Regulations at the 3rd May 2016 meeting taking account of revisions to section 150(5) of the LG Act 1972 and the revised EU procurement regulations, also noting that the revised documents have been uploaded to the Council's website.

We are also pleased to note the Council continues to review financial procedures ensuring that they are approved by the Finance Committee periodically and also note that, following our previous recommendation, members have approved a reduced financial value of £25,000 for formal tender action.

Conclusions and recommendation

No residual matters arise in this area, with the web site posted versions of Standing Orders and Financial Regulations updated accordingly, as above. We shall continue to monitor the Council's approach to governance at future visits reporting our conclusions accordingly.

R3. The Council should ensure that appropriate arrangements are put in place to comply with the change in EU legislation with regard to tenders and contracting where the cost exceeds £25,000. Revised Standing Orders and Financial Regulations were adopted at the May 2016 full Council meeting.

R4. The Financial Regulations posted on the Council's web site should be amended to reflect the revised and approved value for formal tender action. Actioned as above.

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 extended our examination of payment invoices for compliance with the above criteria reviewing a total sample of 52 individual payments, plus the annual NNDR paid by direct debit in 10 monthly instalments: our sample totals £135,800 and equates to 46% by value of non-pay related invoices paid in the financial year.

We were previously unable to trace the whereabouts of documentation supporting six payments in our earlier test sample: these have now been found and provided for our examination with no residual issues arising in that respect.

We have made previous verbal comment to the former clerk on the manner in which paid invoices are filed (i.e. alphabetically in paper wallets in a 4-drawer filing cabinet): the individual files hold papers going back three or four years, which further hampers identification: a further lever-arch file is maintained month-by-month of direct debit and credit card payments. Whilst several of our clients also file invoices alphabetically, each year's records are maintained separately with invoices also held in lever arch files, which makes for easier identification of supporting documentation. We are pleased to note that the new Clerk and Finance Assistant have agreed the rationalisation of this process and archiving of prior year records, with only the current and previous year's documents held in the filing cabinet.

We are again pleased to note the timely and accurate preparation and submission of VAT reclaims each quarter to HMRC for 2015-16: we have checked and agreed detail to the Omega accounting control account detail for the year, also ensuring the accurate disclosure of the year-end recoverable balance as a debtor in the year-end Accounts and Annual Return.

Conclusions and recommendations

We are pleased to report that no significant areas of concern have been identified in this area.

- R5. *The missing invoices should be traced and presented for our future examination. These have been traced and been examined.*
- R6. *Consideration should be given to establishing a more effective way of invoice filing on a year-by-year basis. Invoices are now being filed (2016-17) alphabetically in date order.*

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 Employer's and Public Liability cover in place at £10 million and £12 million respectively, together with Fidelity Guarantee cover set at £0.5 million.

We are pleased to note that the LCRS software has been further reviewed and updated with revised assessments completed, presented to the Council and formally adopted at the meeting on 5th May 2015. We have examined the resultant documentation with no issues arising.

Conclusions

We are pleased to record that no issues arise in this area warranting formal comment or recommendation: we shall continue to monitor the Council's approach 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 were previously pleased to note that the Council had considered the future implications and uncertainty relating to the level of Council Tax Support Grant received from Wiltshire Council and provided for its effect on future projections by creating an appropriate Reserve. We now note that, following due deliberation, the Council has determined its budget and precept requirements for 2016-17, formally adopting the latter as £486,217, excluding Council Tax Support Grant of £4,204 at its January '16 meeting.

We have examined the year-end budget outturn with no unexplained or un-anticipated significant variances warranting further enquiry or officer / member action identified.

Finally, in this area, we have also reviewed the level of retained reserves noting that total reserves increased to £421,848 (£311,885 as at 31st March 2015) with Earmarked Reserves (EMRs) increased to £287,252 (£178,413 at 31st March 2015) leaving a General Fund balance of £134,596 (£133,472 at 31st 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 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 Roundabout sponsorship, Laverton hall hire fees and bar sales and recoverable VAT. At our first visit, we focused attention on the controls in place over the identification and recovery of income in relation to Laverton Hall hire and roundabout sponsorship.

We have noted previously that the Council had acquired the RBS Rialtas hall bookings software and implemented it accordingly. The software generates a number of reports and also embodies a Sales Ledger: from discussion with the responsible officer, it appears that the software is not being used to its full potential, primarily being used as a bookings diary and for raising debtor accounts: we also noted that the Council approved the acquisition of the Omega Sales Ledger, although it has still to be implemented (we now note the intention to implement it in July 2016)..

We selected for examination one month's bookings (July 2015), as identified on the Booking system, seeking to ensure that an appropriate invoice was raised for all bookings and that income had been recovered appropriately within a reasonable time scale. We were unable to ensure that appropriate invoices had been raised for all hires in the month, even though the booking software invoices are filed in the month of booking with booking forms and the diary detail: specifically, invoices for Integrated Youth Services, Sheila Whitehead; Natalie Burgess; Michael Vaughan and the Labour Party were not on file.

Whilst we noted that, where identified or identifiable, settlement of the invoices held on file was recorded thereon and the corners "clipped" to help identify receipt of fees due, no composite record was being maintained identifying all invoices raised and consequently it was not a straightforward task to identify any unpaid invoices.

In order to strengthen controls and provide a clear and comprehensive audit trail, also providing the Council with a robust means of controlling outstanding debt and ensuring that all income due is received accordingly, we again suggested that appropriate action be taken with either the booking software Sales Ledger used to its full potential with detail of payments received input in order that detail of unpaid accounts may be readily identified or the Omega Sales Ledger be implemented as soon as practicable with all invoices raised on that rather than the bookings system.

Whilst we acknowledged that filing of copy invoices within the hall booking file remained good practice, we considered that the maintenance of a control file of invoices raised (in sequential number order) would provide a more appropriate control, with the date of settlement and receipt reference duly recorded thereon: again the corner should be "clipped" to enable easy identification of outstanding payments due to the Council.

We were pleased to acknowledge that, following issue of our first report, positive action had been taken to improve the controls in place over outstanding debt and cross-referencing to the settlement of invoices. Even so, we note that one invoice raised in October 2015 (ref AL 2223 - Wiltshire Youth Offending Team) still appears to remain unpaid at the financial year-end.

We also, at our interim update visit, examined two months' spreadsheet records of income received following detail back to the originating invoices and also through to the bank

account via the paying in slips and are pleased to acknowledge the clarity of the audit trail in this respect.

We also examined, at our interim update visit, the file of general sales invoices raised noting that a spread sheet control record is maintained. We noted that five invoices (Nos. 151601; 151605; 151608; 151610 & 151618) raised prior to 30th November 2015 remained unpaid, four of which related to roundabout sponsorship and dated from April 2015. We are pleased to now note that recovery of these debts has been achieved.

We have examined the detailed Omega income transaction reports as at the financial year-end with no apparent anomalous postings arising or potential non-recovery of outstanding debtors.

Finally in this area, we have updated our year-on-year analysis of income across each nominal account heading, detail of which will be fed into the planning process for our 2016-17 review.

Conclusions and recommendations

We are satisfied that, as far as we are able to ascertain, income due to the Council is being identified, 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 note members approval for acquisition and implementation of the software, which we consider will greatly simplify the task of managing outstanding debt.

*R7. Action should be taken to implement an effective control mechanism over the raising of debtor accounts in relation to Hall hires, as well as providing a clear audit trail identifying the settlement of debtor accounts raised effectively cross referenced to the bookings diary. This should be achieved through more effective use of the Booking software Sales Ledger or, once implemented, by use of the Omega Sales Ledger to raise and control all debtor accounts. **Appropriate action has been taken to improve both the audit trail. Council has also now agreed to purchase of the Sales Ledger module for Omega, which will be implemented in the near future.***

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 have noted previously that an imprest style petty cash scheme is in place with a balance of £200, as stipulated in the Financial Regulations.

We examined a sample of three months' transactions (May, June and September 2015) during our first 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.

We noted one or two instances among our test sample where vatable goods had been purchased, although no VAT had been identified for recovery: we remind officers that, provided the till receipt identifies the trader's VAT Registration Number, any VAT on the purchase may be recovered. We have revisited this issue at this update visit noting that, whilst the monthly spread sheet record of petty cash expenditure now bears manuscript amendments identifying any recoverable VAT, when data has been posted to the accounting software, no account has been taken of the recoverable VAT.

Finally, we have verified the physical cash held at the time of this first visit, which, together with un-reimbursed expense vouchers, totals the imprest holding of £200.

Conclusions and recommendation

No significant issues arise in this review area although further efforts should be made to trace the missing supporting documentation.

R8. *Care should be taken to ensure that all identified vatable expenditure is not only recorded on the petty cash spread sheet monthly expenditure summary, but is also posted appropriately to the accounting software in order to facilitate its routine recovery. Noted for future action.*

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 2015 in relation to employee contribution bandings. To meet that objective, we have:

- Noted previously that the Council adopted and implemented the national pay award for 2014-16:
- Agreed income tax and NIC deductions for September 2015 to the current year's HMRC tax and NI tables;`
- Agreed superannuation contributions for September 2015 for employees contributing to the pension fund, ensuring that the appropriate percentage deductions and Council contributions are being applied; and
- Checked the enhanced (overtime, bar duty, etc) hours paid with the September 2015 salaries to supporting timesheets, ensuring that the latter are duly signed by the employees and approved for payment accordingly.

Conclusions

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

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 2015-16, 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 examined the 2015-16 additions by reference to supporting invoices to ensure they have all been added at purchase cost (net of VAT), also verifying the accurate disclosure of the Council’s asset values, excluding those pertaining to the Laverton, in the year’s Annual Return.

Conclusions

No issues arise in this area warranting formal comment or recommendation, noting that the clerk is currently reviewing and updating the Pear Technology register, with a view to ensuring compatibility with the detail in the Statement of Accounts. Consequently, we do not consider that this warrants a formal recommendation at this stage.

Investments and Loans

The Council holds surplus funds in periodic Treasury term deposits arranged through Lloyds Bank. We have verified detail of those arranged during 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 gross interest into the Council’s current bank account.

One PWLB loan is in place. We have checked and verified both half-yearly repayments for the year to the supporting independent PWLB demand notices, also agreeing the year-end residual loan liability, as disclosed in the year’s Annual Return to the UK Debt Agency / PWLB website detail.

Conclusions

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

Statement of Account and Annual Return

The Accounts and Audit Regulations, as amended periodically, require all Councils to prepare annually a Statement of Accounts, which is now embodied in the Annual Return. We are pleased to note the continued production of a more detailed Statement of Accounts for members and the electorate’s consumption, which affords a more detailed explanation of the Council’s functions and services provided.

We have checked and agreed the detail in these detailed Accounts by reference to the underlying financial and other records, also ensuring the correct and accurate transfer of data to Section 2 of the year's Annual Return.

Conclusions

No issues have been identified in this review area and we have duly signed off the Internal Audit Report in the Annual Return, assigning positive assurances in each relevant area.

Action Plan

Rec. No.	Recommendation	Response
Review of Accounting Records and Bank Reconciliations		
R1	Appropriate action should be taken to ensure that any long-standing uncleared cheques are pursued, written back and replacements issued, if required.	<i>The one long-standing uncleared payment cheque has been written back accordingly.</i>
R2	Care should be taken to ensure that the cashbook and bank reconciliation detail is printed at the same time and that the cashbook balance on both is identical.	<i>Noted: uncleared cheques will be reviewed monthly and, if appropriate, be written back in the accounting records.</i>
Review of Corporate Governance		
R3	The Council should ensure that appropriate arrangements are put in place to comply with the change in EU legislation with regard to tenders and contracting where the cost exceeds £25,000.	<i>Revised Standing Orders and Financial Regulations were adopted at the May 2016 full Council meeting.</i>
R4	The Financial Regulations posted on the Council's web site should be amended to reflect the revised and approved value for formal tender action.	<i>As above.</i>
Review of Expenditure and VAT		
R5	The missing invoices should be traced and presented for our future examination.	<i>These have been traced and been examined.</i>
R6	Consideration should be given to establishing a more effective way of invoice filing on a year-by-year basis.	<i>Invoices are now being filed (2016-17) alphabetically in date order.</i>
Review of Income		
R7	Action should be taken to implement an effective control mechanism over the raising of debtor accounts in relation to Hall hires, as well as providing a clear audit trail identifying the settlement of debtor accounts raised effectively cross referenced to the bookings diary. This should be achieved through more effective use of the Booking software Sales Ledger or, once implemented, by use of the Omega Sales Ledger to raise and control all debtor accounts.	<i>Appropriate action has been taken to improve both the audit trail. Council has also now agreed to purchase of the Sales Ledger module for Omega, which will be implemented in the near future.</i>

Rec. No.	Recommendation	Response
Petty Cash Account		
R8	Care should be taken to ensure that all identified vatable expenditure is not only recorded on the petty cash spread sheet monthly expenditure summary, but is also posted appropriately to the accounting software in order to facilitate its routine recovery.	<i>Noted for future action.</i>