
Westbury Town Council

Internal Audit Report 2016-17 (Interim)

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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.

This report sets out the work undertaken in relation to the 2016-17 financial year, during the course of our first visit to the Council, which took place on 30th November 2016 and will be updated following future visits the dates of which have still to be determined.

Internal Audit Approach

In commencing our review for the year, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts/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 work undertaken to date this year, the Council continues to maintain adequate and effective internal control arrangements, with only a few issues identified 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.

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 note the changes in bank accounts that have occurred during the current financial year and have adjusted our testing strategy accordingly.

To that end, we have:-

- Checked the opening balance detail with that in the 2015-16 Statement of Accounts and certified Annual Return;
- Ensured that the 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 Current a/c cashbook for April and October 2016 agreeing detail to the relevant bank statements;
- Checked and verified detail of transactions on all other accounts for the year to 31st October 2016; and
- Checked and agreed detail on the bank reconciliations as at 30th April and 31st October 2016 for all accounts.

Conclusions and recommendation

We are pleased to report that no significant issues arise in this area at present, although we note that where cheques are cancelled and replacements issued or a BACS payment is generated, the transaction detail is not being entered in full showing the cancellation and issue of a replacement payment. We shall undertake further work at future visits including verifying the year-end bank reconciliations and accurate disclosure of the combined cash and bank balances in the year's detailed Accounts and Annual Return.

In checking the opening balances for 2016-17, we noted that movements had occurred on three of the earmarked reserves when compared to the closing balances, as reported in the 2015-16 Accounts and Annual Return (codes 335; 364 & 366, the final one being shown as overspent in this year's opening balance).

- R1. *When payments are cancelled and / or replacement cheques /BCS payments generated, cancellation of the original cheque and detail of the replacement payment should be recorded accordingly in the Omega accounts in order to provide a full audit trail.*
- R2. *The contract accountants should be asked to review the opening Trial Balance detail and make any necessary adjustments to bring detail into line with the 2015-16 Accounts.*

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: -

- Commenced our review of minutes for the full Council and various standing committee meetings for the year to date (as 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.

Conclusions

No matters arise in this area at present warranting formal comment or recommendation currently: we shall continue to consider the Council's approach to governance at future visits.

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 examined the controls in place over the processing of payments using on-line facilities and discussed the process with the Town Clerk and Finance Officer agreeing one or two minor changes to ensure effective separation of duties is implemented between setting up and releasing payments.

We have commenced testing in this area selecting a sample of payment invoices for compliance with the above criteria: we have chosen 38 individual payments processed in

the year to 31st October 2016 comprising all in excess of £2,000 plus a more random sample based on every 20th payment as recorded in the current account cashbook: our sample totals £116,800 and equates to 79% by value of non-pay related invoices paid to the above date.

We are again pleased to note the timely and accurate preparation and submission of VAT reclaims each quarter to HMRC for 2016-17: we have checked and agreed detail of the first two reclaims submitted to date in 2016-17 to the Omega accounting control account detail with no issues arising.

Conclusions

We are pleased to report that no areas of concern have been identified in this area from testing completed to date, apart from noting the apparent misplacement of supporting documentation for a few grant payments. We shall extend our test sample to cover the remainder of the year at future visits, also verifying the accuracy of the final two VAT reclaims for the financial year.

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 noted in our final 2015-16 report that the Council's risk assessments based on the LCRS software was reviewed and updated with revised assessments completed, presented to the Council and formally adopted at the meeting in May 2016. We note that the assessments are now being reviewed informally and periodically during the year by Working Groups and that the documentation will be reviewed, updated (where appropriate) and be submitted to Council for formal re-adoption in May 2017.

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, also ensuring that the 2016-17 assessments are reviewed and re-adopted formally by the Council.

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 noted in last year's final report that, following due deliberation, the Council 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 the January '16 meeting.

We have only undertaken limited work at this stage of the year, examining the latest budget performance report with no unexplained or un-anticipated significant variances warranting further enquiry or officer / member action identified.

Conclusions

No issues arise in this area warranting formal comment or recommendation. We shall undertake further work at our final visit, ensuring that the 2017-18 budget process has been completed appropriately and that the Council has formally adopted the precept for that year: we shall also examine the year-end outturn report and level of retained reserves at our final visit.

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 (albeit that these pertain to the Laverton Trust) and recoverable VAT. At this first visit for the year, we have focused attention on the controls in place over the identification and recovery of income in relation to Laverton Hall hire.

We have noted previously that the Council uses the RBS Rialtas hall bookings software to maintain control over bookings. Whilst invoices are raised using the software, detail of payments received is not being recorded through the system, with the result that it is not possible to identify readily from examination of the software's Sales Ledger, detail of any unpaid accounts. We now note that members have approved implementation of the Omega Sales Ledger software for the Council and that arrangements are being made for key personnel to receive appropriate training in its use.

We have selected one month's Laverton bookings (July 2016) for examination, as identified on the Booking system, seeking to ensure that an appropriate invoice has been raised for all chargeable bookings and that income has been recovered appropriately within a reasonable time scale and are pleased to confirm that no issues arise in this respect.

We have also examined the detailed Omega income transaction reports as at 31st October 2016 with no apparent anomalous postings arising or potential non-recovery of outstanding debtors.

Conclusions and recommendations

On the basis of the intended increased application of the Sales Ledger facilities for the Council and Laverton, no issues arise currently warranting formal comment or recommendation in this area: we shall undertake further work, examining other income streams at our next visit and reporting our conclusions accordingly. We will also ensure

at a future visit that full and effective use is being made of the Sales Ledgers to control the issue of invoices and ensure timely recovery of income due to the Council.

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 have examined a sample of three months' transactions (1st September to 30th November 2016) to ensure that each payment is supported by an appropriate till receipt, invoice or signed acknowledgement of receipt. We have also checked that, where applicable, any VAT expended has been identified and coded appropriately for recovery in the accounting software.

We noted a few instances among our test sample where, for car parking receipts bearing a VAT registration number, the spreadsheet record identified the net amount as physically paid with VAT shown on the spreadsheet: for example – on 26.9.16 the parking ticket receipt records a fee of £1.80 as paid, including £0.30 VAT, whilst the spreadsheet shows a payment of £1.50 including VAT of £0.30.

Finally, we have checked the physical cash held at the time of this first visit, which, together with un-reimbursed expense vouchers, totals £199.86 compared with the imprest holding of £200. We do not consider the £0.14 deficit material and have suggested to the Finance Officer that the possible source of the discrepancy be further examined and "made good".

Conclusions and recommendation

No significant issues arise in this review area although care should be taken to ensure that the correct parking fee expenditure is reimbursed and recorded accurately.

R3. Care should be taken to ensure that all expenses incurred and reimbursed are recorded accurately in the petty cash spreadsheet in order to ensure that the physical cash matches the recorded value.

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 last amended with effect from 1st April 2015 in relation to employee contribution bandings. To meet that objective, we have:

- Noted that the Council has adopted and approved implementation of the national pay award for 2016 -2018:
- Agreed income tax and NIC deductions for October 2016 to the current year's HMRC tax and NI tables;`

- Agreed superannuation contributions for October 2016 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 October 2016 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.

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 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 gross 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 currently: we shall agree the year-end residual loan liability, to be disclosed in the year's Annual Return to the UK Debt Agency / PWLB website detail a tour final visit.

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Action Plan

Rec. No.	Recommendation	Response
Review of Accounting Records and Bank Reconciliations		
R1	When payments are cancelled and / or replacement cheques /BCS payments generated, cancellation of the original cheque and detail of the replacement payment should be recorded accordingly in the Omega accounts in order to provide a full audit trail.	
R2	The contract accountants should be asked to review the opening Trial Balance detail and make any necessary adjustments to bring detail into line with the 2015-16 Accounts.	
Review of Petty Cash		
R3	Care should be taken to ensure that all expenses incurred and reimbursed are recorded accurately in the petty cash spreadsheet in order to ensure that the physical cash matches the recorded value.	