
Westbury Town Council

Internal Audit Report 2014-15 (Second Interim)

Prepared by Alistair Morrison

Stuart J Pollard

*Director
Auditing Solutions Ltd*

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 and second interim visits to the Council for 2014-15 which took place on 28th October 2014 and 26th February 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 to date, 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 a few 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 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 2013-14 Statement of Accounts and certified Annual Return;
- Ensured that the ledger remains in balance at the date of this update visit;
- 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 2015 agreeing detail to the relevant bank statements;
- Similarly, checked and agreed detail for the full financial year to January 2015 on the Imprest account;
- Checked and agreed detail on the bank reconciliations as at 30th June and September 2014, plus 31st January 2015 for each account;
- 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 now being signed off each month.

R1. All journals should be subjected to independent review, ideally by the Town Clerk, and be signed off accordingly authenticating them. This has still to be actioned.

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 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 May 2014.

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 at present warranting formal comment or recommendation. We shall continue to monitor the Council's approach to governance issues and any changes to working practice following the legislative changes affecting banking arrangements brought to the council's attention at a previous visit. We also note that Information, Staff Recruitment and Retention, together with Equalities and Inclusion Policies were approved by the Council at its September 2014 meeting.

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 commenced our test sample to include 58 payments in the financial year to date for scrutiny to ensure compliance with the above criteria. Our test sample provides a broad cross section of expenditure and traders' invoices totalling £127,052 and equating to 51% 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 June, September and December 2014 quarters' returns.

One invoice for an illegally parked vehicle was being held by a Clerk prior to the recovery of costs.

Conclusions and recommendation

We are pleased to report that no areas of significant concern have been identified in this area and that the lower daily transaction limit on the two Lloyds debit cards recommended at an earlier report was 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 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 6th May 2014.

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.

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 Council meeting approved a precept of £394,427 for 2015-16, an increase of 11.64% on 2014-15.

Conclusions

No issues arise in this area this year warranting formal comment or recommendation: we shall undertake further work at our final visit, including examining the level of retained reserves and year-end budget outturn.

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 income 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 has not been used. Consequently, only the bookings software can be used to generate detail of outstanding unpaid accounts.

The Assistant Clerk also maintains a spreadsheet record of income received and banked detailing the individual amounts received and deposited at the bank. Hirers are required to sign a Booking Form, but no formal Terms and Conditions of Hire were in use at the last review. 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 is presently being carried out manually and understand that this process will be reviewed when the Assistant Town Clerk retires and out-sourcing of functions will be 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 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 to date.

Conclusions and recommendations

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 note that the Council will be further considering whether or not to outsource this function when the Assistant Town Clerk retires in the new year. Consequently, we shall examine and assess the appropriateness and security of the new procedures once in place and fully operational.

We identified areas where we consider that improved controls need to be implemented, as detailed above, and these have been implemented, where appropriate.

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. The Council will also be assessing whether to outsource this function when the Assistant Town Clerk retires.

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 was in place with a reduced balance of £100 at our last final visit. This was increased to £200 in May 2014.

We have examined a sample of transactions for the year to date at this 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 have checked the physical cash held at the time of this interim visit, which, together with un-reimbursed expense vouchers, should total the imprest holding of £200 with a minor difference of £1.21.

Conclusions

We left detail of the balance at our first interim visit with the Assistant Town Clerk and this has been 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 1st 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

We note that the Council intends to review the format of its employment contracts when the present Assistant Town Clerk retires at the end of March. No other 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 warranting formal comment or recommendation. We shall undertake further work at future visits including verifying the accurate disclosure of the residual loan liability in the year's Annual Return.

Action Plan

Rec. No.	Recommendation	Response
Review of Accounting Arrangements		
R1	All journals should be subjected to independent review, ideally by the Town Clerk, and be signed off accordingly authenticating them.	<i>This has still to be actioned.</i>
Review of Income		
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.	<i>The Council will also be assessing whether to outsource this function when the Assistant Town Clerk retires in the new year.</i>