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# **Westbury Town Council**

*Internal Audit Report 2017-18 (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 2017-18 financial year, during the course of our initial visit to the Council, which took place on 4<sup>th</sup> October 2017.

## **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 are pleased to conclude that, on the basis of the work undertaken to date, the Council continues to maintain adequate and effective internal control arrangements, with no major concerns identified. We are pleased to acknowledge the actions taken to address issues raised in earlier reports and to also record that no significant additional issues have been identified at this final visit.

# 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 2016-17 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 a/c cashbook for April and August 2017 agreeing detail to the relevant bank statements;
- Checked and verified detail of transactions on all other accounts for the financial year to date; and
- Checked and agreed detail on the bank reconciliations as at 30<sup>th</sup> April and 31<sup>st</sup> August 2017 for all accounts.

### *Conclusions and recommendation*

*We are pleased to report that no significant issues arise in this area currently. We shall undertake further work at our final visit, 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.*

## Review of Corporate Governance

Our objective is to ensure that the Council has robust corporate governance documentation and processes in place, and that, as far as we may reasonably be expected to ascertain (as we do not attend Council or Committee meetings) all meetings are conducted in accordance with the adopted Standing Orders and 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 in 2017-18 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 further reviews and re-adopted updated Standing Orders and Financial Regulations at the May 2017 meeting.

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

### *Conclusions*

*No significant issues arise in this area currently: we shall continue our review of minutes and consideration of the Council's approach to governance and future visits, reporting our conclusions accordingly. We take this opportunity to remind the Clerk and members that, when approving the 2018-19 and future years' budgets and precepts, the actual precept value should be formally minuted.*

## **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 a few improvements to ensure effective separation of duties is achieved and that members effectively demonstrate completion of their fiduciary responsibilities with regard to the authorisation of payments for release.

We have commenced testing in this area selecting a 28 sample of payments processed during the year to 31<sup>st</sup> August 2017 for compliance with the above criteria: our test sample includes all non pay-related payments in excess of £2,000 plus a more random sample based on every 20<sup>th</sup> payment as recorded in the current account cashbook, also including the full year cost of the two NNDR payments to Wiltshire Council paid monthly , totalling £133,750 and equating to 72% by value of non-pay payments processed to the above date.

We note that VAT reclaims are prepared and submitted each quarter to HMRC and have checked and agreed detail of the first reclaim for the year to 30<sup>th</sup> June 2017 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 currently: we shall extend our test sample at future visits applying the same criteria and report accordingly. We shall also review and ensure the accuracy of the remaining three quarters' VAT reclaims for the year at our final visit, also ensuring the accurate disclosure of the final reclaim as a debtor in the Accounts.*

## **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 £15 million respectively, together with Fidelity Guarantee cover set at £0.5 million and Hirer's Liability at £2 million.

We note that the Council's risk assessments, based on the LCRS software, are reviewed and updated regularly, with detail presented to working groups and then submitted to and formally adopted by the Council in May annually. We note the intention to bring the formal review and adoption by members at full Council to February each year in future.

We have also discussed with the clerk the Council's approach to the management of play areas and consider the present arrangements appropriate, also noting the current negotiation of a new annual inspection contract.

### *Conclusions*

*We are pleased to record that no issues arise in this area currently. We shall continue to monitor the Council's approach to risk management at future visits, also ensuring that risk assessments are reviewed and re-adopted formally by the Council at least once annually.*

## **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.

This interim visit has occurred too early in the year for any formal consideration or action to adopt a budget and precept for 2018-19. We are, however, pleased to note that members continue to be provided with budgetary performance update reports and have reviewed the latest position (at 31<sup>st</sup> August 2017) seeking and obtaining appropriate explanations for any significant variances existing currently.

## ***Conclusions***

***No issues arise in this area warranting formal comment or recommendation currently. We shall undertake further work at our final visit ensuring that the Council considers and adopts an appropriate budget and precept for 2018-19, formally recording the value of the approved precept. We shall also review the year-end budget outturn and level of retained reserves ensuring the latter remain appropriate for the Council's ongoing spending plans.***

## **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.

We noted previously that the Council uses the RBS Rialtas hall bookings software to maintain control over bookings and is now using the Omega Sales Ledger to manage the invoicing of both Council and Laverton invoicing.

We have selected a sample two weeks' Laverton bookings in September 2017 for examination, as identified on the booking system, ensuring that agreement forms covering both individual or regular hires, that an appropriate invoice has been raised for all chargeable bookings. Due to the timing of this interim visit, only one booking invoice in the test sample had been paid: consequently, we shall ensure the timely recovery of invoiced fees at our final visit.

In discussing the bookings process with the officer managing the system, we understand that, whilst hirers sign a copy of the Terms and Conditions of Hire, they retain it: in order to protect the Council's interests, the original copy should be retained by the Council, ideally being attached to the booking forms.

We have again examined the bar stock and cash handling procedures and are pleased to note the improved documentation now in place. Due to the low number of events requiring a bar in the current year, we have examined all completed sheets to date noting that all were accurately completed with only occasional and small variances between the till "Z" readings and the actual cash takings.

We have also examined the detailed Omega income transaction reports at the financial year to date with no apparent anomalous postings arising or evidence of any significant delays in the recovery of outstanding debts. Similarly, we have examined the Sales Ledger "All Unpaid Invoices by Date" report with only one prior year debt identified as at 31<sup>st</sup> August 2017, which we note was approved for write-off by the Council in September.

## ***Conclusions and recommendation***

***Whilst no significant issues arise in this area, we consider that, as above, the Council should retain the original signed copy of the Terms and Conditions of Hire in order to protect its interests. We shall undertake further work at our final visit, examining other income streams and reporting our conclusions accordingly.***

*R1. The Council should retain the original signed copy of the Terms and Conditions of Hire, ideally marrying them to the appropriate booking forms.*

## **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 3 months' transactions (July to September 2017) to ensure that each payment was supported by an appropriate till receipt, invoice or signed acknowledgement of receipt, also ensuring that, where applicable, any VAT expended has been identified and coded appropriately for recovery in the accounting software.

Finally, we have checked and agreed the cash held on the date of this interim visit with no issues identified.

### ***Conclusions***

*We are pleased to report that no issues arise in this review area this year.*

## **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 recently revised with effect from 1<sup>st</sup> April 2017 in relation to employee contribution bandings. To meet that objective, we have by reference to minutes and the September 2017 payroll records:

- Noted that the Council adopted and approved implementation of the national pay award for 2017-18:
- Verified the accurate payment of gross salaries to staff for the month by reference to the Council's approved rates of pay:
- Agreed income tax and NIC deductions for the month to the current year's HMRC tax and NI tables;
- Agreed superannuation contributions 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 review month's salaries to supporting timesheets, ensuring that the latter are duly signed by the employees and approved for payment accordingly.

### ***Conclusions***

*No issues were identified warranting comment or recommendation in this area.*

## **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 was in place: we have checked and verified the first half-yearly repayment for the year to the supporting independent PWLB demand notice. We note the application for and approval of a further loan of £130,000 to progress the next phase of the Laverton Hall development and have reviewed the relevant documentation, including the DCLG approval and PWLB advance with no issues identified.

### ***Conclusions***

***No issues arise in this area currently. We shall undertake further work in this area at our final visit, including agreeing the accurate disclosure of the retained term deposits at the financial year-end and year-end residual loan liability in the year's Annual Return to relevant supporting documentation.***

## **Asset Registers**

***We have made previous comment on the need to ensure that the Council's physical register of assets matches the detail disclosed in the detailed Statement of Accounts prepared by DCK on behalf of the Council and, consequently, reported in the Annual Return. We note that the Clerk is working on this currently and will review the outcome at our final visit, again ensuring the accurate disclosure of detail in the year's Annual Return.***

Rec. No.	Recommendation	Response
<b>Review of Income</b>		
R1	The Council should retain the original signed copy of the Terms and Conditions of Hire, ideally marrying them to the appropriate booking forms.	