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# **Westbury Town Council**

*Internal Audit Report 2016-17 (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.

This report sets out the work undertaken in relation to the 2016-17 financial year, during the course of our three visits to the Council, which took place on 30<sup>th</sup> November 2016, 4<sup>th</sup> January and 6<sup>th</sup> June 2017: we have not included detail of work at the January 2017 visit in this report, but have regarded it as a stand-alone document as it focused on the operational controls in place at the Laverton Institute.

## **Internal Audit Approach**

In conducting 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 this year, the Council continues to maintain adequate and effective internal control arrangements, with a few issues identified warranting formal comment and recommendation, primarily in relation to the operation of the Laverton, as detailed in the separate report issued previously.

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.

On the basis of the satisfactory conclusion of our programme of cover this year, we have completed and signed the 'Internal Audit Report' in the year's 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 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 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 October 2016, plus January and March 2017 agreeing detail to the relevant bank statements;
- Checked and verified detail of transactions on all other accounts for the full financial year;
- Checked and agreed detail on the bank reconciliations as at 30<sup>th</sup> April and 31<sup>st</sup> October 2016, plus 31<sup>st</sup> January and March 2017 for all accounts; and
- Ensured the accurate disclosure of the combined cash and bank balances in the year's Annual Return.

### *Conclusions and recommendation*

*We are pleased to report that no significant issues arise in this area, 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*

*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 sown 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. **Noted for future compliance as and when the situation recurs.***
- 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. **These have been amended accordingly.***

## 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: -

- Continued our review of minutes for the full Council and various standing committee meetings for the year and 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 both the May 2016 and 2017 meetings the former taking due account of revisions to section 150(5) of the LG Act 1972 and the revised EU procurement regulations.

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.

In examining the minutes we note that, whilst the January 2017 full Council minutes identify the discussion and agreement of the 2017-18 budget, they make no reference to the actual adopted value of the precept for the year.

### *Conclusions and recommendations*

***No significant issues arise in this area, although, as indicated above, the approved value of the 2017-18 precept should be recorded formally in the minutes. We shall continue to monitor the Council's approach to governance at future visits reporting our conclusions accordingly.***

*R3. The minutes approving the annual precept should formally identify the full value of the precept as adopted: a retrospective minute should be approved at the next full Council meeting to rectify the oversight.*

## 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 extended testing in this area selecting a total sample of payment invoices processed during the year for compliance with the above criteria: our test sample includes 62 payments comprising all 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: our sample totals £189,960 and equating to 55% by value of non-pay related invoices paid in the year.

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 year's reclaims submitted 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 this year, apart from noting the apparent misplacement of supporting documentation for a few grant payments. We have agreed with the responsible officer the implementation of a revised and simplified system for filing processed invoices, which is now being applied.*

## **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, were reviewed and updated with revised assessments completed, presented to the Council and formally adopted during 2015-16. Minutes of the full Council meeting in May 2016 indicate that the assessments had not been kept up to date subsequent to the last formal adoption and that they would be taken to working groups to be updated. The updated documentation was not, however, submitted to or adopted by the Council until May 2017.

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

***We are pleased to record that, other than reminding officers and members of the Governance and Accountability Manual's requirement for risk assessments to be subjected to at least once annual review and formal re-adoption, no other issues arise in this area. We shall continue to monitor the Council's approach to risk management at future visits, also ensuring that in future risk 17 assessments are reviewed and re-adopted formally by the Council.***

*R4. The Council must ensure compliance with the Governance and Accountability Manual formally reviewing and adopting risk assessments 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.

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 are pleased to note that members are provided with regular budgetary performance update reports during the year: we have reviewed the year-end outturn seeking and obtaining appropriate explanations for any significant variances existing.

Finally, in this area, we have also reviewed the level of retained reserves at the financial year-end noting that total reserves have increased to £461,720 (£421,848 as at 31<sup>st</sup> March 2016) with Earmarked Reserves (EMRs) also increased to £309,624 (£287,252 at 31<sup>st</sup> March 2016) also leaving an increased General Fund balance of £152,096 (£134,596 at 31<sup>st</sup> March 2016), which equates to 3½ months' revenue spend at present levels and sits comfortably within the generally recognised 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 (albeit that these pertain to the Laverton Trust) and recoverable VAT. At our first visit for the year, we focused attention on the controls in place over the identification and recovery of income in relation to Laverton Hall hire.

We 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 have also noted that members approved implementation of the Omega Sales Ledger software for the Council although this remains to be actioned at the time of this final visit.

We 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.

At our interim update visit, we examined the bar stock and cash handling procedures identifying a number of areas where improved controls were, in our view, required, as detailed in the stand-alone report. We understand that appropriate action has been taken to address these and will revisit the area at our next visit.

We have also examined the detailed Omega income transaction reports at the financial year-end with no apparent anomalous postings arising or evidence of any significant delays in the recovery of outstanding debts.

### ***Conclusions***

***No additional issues arise in this area currently to the matters referred to in our interim update report, which, as indicated above, we shall follow up and check on the progress towards implementation of our recommendations.***

## **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 (1<sup>st</sup> September to 30<sup>th</sup> November 2016) to ensure that each payment was supported by an appropriate till receipt, invoice or signed acknowledgement of receipt. We also checked that, where applicable, any VAT expended had 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 checked the physical cash held at the time of our first visit, which, together with un-reimbursed expense vouchers, totalled £199.86 compared with the imprest holding of £200. We did not consider the £0.14 deficit material and 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.***

R5. *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. **Appropriate changes have been made to the procedures in place to help ensure compliance with the recommendation.***

## **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 1<sup>st</sup> April 2015 in relation to employee contribution bandings. To meet that objective, we have:

- Noted that the Council adopted and approved implementation of the national pay award for 2016-2018;
- Verified the accurate payment of gross salaries to staff for October 2016 by reference to the Council's approved rates of pay;
- 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 were identified warranting comment or recommendation in this area.***

## **Fixed Asset Registers**

'Proper practice', as set out in the Governance and Accountability Manual, 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 2016-17, 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 in line with current reporting requirements.

We have examined the 2016-17 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 based on the detailed Statement of Accounts.

A number of our clients have also developed photographic registers of their assets, which has proved of assistance in progressing any insurance claims where assets have either been stolen or vandalised. We consider this a further example of best practice and commend it to the Council for future consideration.

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

***The Pear Technology asset register should be reviewed in conjunction with the contracted accountant's records to ensure that detail in both documents is synchronised, thereby ensuring a consistent value which should be disclosed in the Annual Return. We request that the necessary review is undertaken in a timely manner to ensure consistency of detail and values by the close of the financial year.***

*R6. Appropriate action should be taken to ensure that the asset detail and values recorded in the Pear Asset Register and the detailed year-end Statement of Accounts are synchronised.*

*R7. Consideration should be given to the development of a photographic register of the Council's asset stock in order to assist in the smooth progression of any insurance claim that may arise as a result of theft or damage to the property.*

## **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, also verifying the accurate disclosure of the residual loan liability at the financial year-end in the annual Return, having verified the value by reference to the UK Debts agency website.

### ***Conclusions***

*No issues arise in this area this year.*

## **Statement of Accounts 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 by the Council's contracted accountants 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.***

Rec. No.	Recommendation	Response
<b>Review of Accounting Records and Bank Reconciliations</b>		
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.	<i>Noted for future action.</i>
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.	<i>Amended appropriately.</i>
<b>Review of Corporate Governance</b>		
R3	The minutes approving the annual precept should formally identify the full value of the precept as adopted: a retrospective minute should be approved at the next full Council meeting to rectify the oversight.	
<b>Assessment and Management of Risk</b>		
R4	The Council must ensure compliance with the Governance and Accountability Manual formally reviewing and adopting risk assessments at least once annually.	
<b>Review of Petty Cash</b>		
R5	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.	<i>Appropriate changes have been made to the procedures in place to help ensure compliance with the recommendation.</i>
<b>Asset Registers</b>		
R6	Appropriate action should be taken to ensure that the asset detail and values recorded in the Pear Asset Register and the detailed year-end Statement of Accounts are synchronised.	
R7	Consideration should be given to the development of a photographic register of the Council's asset stock in order to assist in the smooth progression of any insurance claim that may arise as a result of theft or damage to the property.	