
Warminster Town Council

Internal Audit Report 2017-18 (Final)

Prepared by Nigel Archer

*For and on behalf of
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 for the Council.

This report provides detail of those areas examined during the course of our recent final visit, which took place on 18th May 2018 and supplements the interim work undertaken on 3rd October 2017.

Internal Audit Approach

In concluding our review for 2017-18, we have continued to have 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 present 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.

Overall Conclusion

Overall, we are pleased to conclude that, in all areas examined this year, the Council continues to have effective control systems in place to help ensure that transactions will be recorded accurately in the financial ledger and, subsequently, the detailed Statement of Accounts and revised Annual Governance and Accountability Return (AGAR in short) that now forms the statutory accounts of the Council subject to external audit certification. We are also pleased to acknowledge that sound Governance and Risk Assessment documentation is in place and subject to regular (quarterly and annually) review and update.

The Council's external contractors have recently attended the Civic Centre to obtain the necessary detail to enable them to complete the production of the Statement of Accounts at their offices but, at the time of writing this report, the exercise had yet to be completed.

Notwithstanding this, given our experience of the accountants both here at Warminster in prior years and at a number of other locations currently, we do not anticipate any significant matters to arise and have duly signed off the Internal Audit Report at Page 3 of the revised AGAR, leaving the original with the Clerk for submission to members in due course when the accounting detail has been provided.

This report has been prepared for the sole use of Warminster Town Council. To the fullest extent permitted by law, no responsibility or liability is accepted by Auditing Solutions Ltd to any third party who purports to use or rely, for any reason whatsoever, on this report, its content or conclusions.

Detailed report

Accounting Records and Bank Reconciliations

The Council remains a full Omega accounts software user, with external contractors (DCK Accounting Services Ltd) continuing to provide a monthly accounts processing service. One combined cashbook for the Current & Instant Access bank accounts operated at HSBC is in place, supplemented by a small series of periodic Term deposits (also with HSBC).

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. We have, consequently: -

- Verified that an appropriate cost centre and nominal ledger structure is in place;
- Checked and agreed the opening Trial Balance in the Omega software for 2017-18 to the closing Financial Statements for 2016-17 to ensure that all the detailed balances have been properly rolled forward;
- Checked and agreed three sample months' transactions (April & August 2017 and March 2018 in both accounts, including the daily "sweep" transfers to maintain the current account balance at a constant £5,000, to relevant bank statements; and
- Checked and agreed the software based bank reconciliations as at 30th April & 30th August 2017 and as at 31st March 2018 with no long standing, un-cleared effects or any other abnormal entries arising.

Conclusions

We are pleased to record that no issues arise in this area of our testing work.

Review of Corporate Governance

Our objective is to ensure that the Council has a robust series of corporate governance documentation in place; that Council and Committee meetings are conducted in accordance with the adopted Standing Orders and that, as far as we may reasonably be expected to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation. Consequently, we:

- Are pleased to note that Standing Orders and Financial Regulations have again been reviewed and re-adopted in the current financial year at the Full Council meeting in May 2017;
- Are also pleased to note that comprehensive Corporate Policies and Protocols remain in place, which have previously been embodied in the latest Staff Handbook; and

- Continued our examination of the minutes of the Full Council and its extant Committee meetings (with the exception of Planning) to end March 2018, noting that the General Power of competence was re-adopted in May 2017 and that the Precept for 2018-19 was properly recorded as adopted in January 2018.

Conclusions

We are pleased to record that no issues arise in this area of our testing work.

Review of Expenditure

Our aim here is to ensure that: -

- 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;
- 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 completed testing in this area examining a sample of all those payments individually in excess of £3,000, together with a more random sample of every 30th cash book transaction, for the year to 31st March 2018 to ensure compliance with the above criteria. Our test sample comprised approximately 130 items in all, totalled more than £318,000 and represented 60% of all non-pay costs for the year.

We are again pleased to note from our examination of minutes that quotations are sought where considered appropriate and that no larger items of expenditure requiring a formal tender process has arisen in the current year.

We also note that VAT returns continue to be prepared and submitted quarterly utilising the HMRC on-line facility, as now required under extant legislation, and have verified the June 2017 and March 2018 submissions to the underlying Omega control account balance and the year-end debtor disclosure in the draft closing Trial Balance.

Ordinarily in this area, we would also update our year-on-year analysis of expenditure incurred across the range of Council activities but, as noted earlier, at the time of writing the Statement of Accounts were not yet available and we will follow this up as part of next year's interim work.

Conclusions

We are pleased to report that all the above criteria have been met in respect of the sample of payments examined with sound control exercised over the authorisation and payment of supplier invoices and other similar expenditure.

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 and 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: -

- Noted in our final audit report for 2016-17 that the LCRS risk assessment software had been updated with revised “scores on the doors” most recently adopted by members in May 2017: subsequently, at this final visit, we note that this exercise has also been duly completed for 2018-19 subsequent to the year-end closedown; and
- Noted that the Council’s insurance cover continues to be provided by Aviva plc; examination of the current year’s policy schedule (to 30th November 2018) has identified that both Public and Employer’s Liability stand at £10 million, with Fidelity Guarantee cover at £0.5 million and adequate Business Interruption cover at more than £235,000.

Conclusions

We are pleased to record that no issues arise in this area of our testing work.

Precept Determination and Budgetary Control

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 annual precept; 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 note from our examination of minutes and supporting Agenda papers that the Finance & Asset Committee, with support from officers and contractors, had agreed a recommended budget and Precept for 2018-19: this was duly considered at the Full Council meeting on 22nd January 2018 at which time the Precept for next year was formally adopted, and properly recorded, at £749,012 (with no further Council Tax Support Grant payable).

We are pleased to note that regular budget monitoring reports and variance commentaries continue to be considered by members, the sample reviewed at the interim visit for August 2017 required no further variance analysis or explanation and this remained the case at March 2018 in relation to the draft outturn for the year.

Conclusions

We are pleased to record that no issues arise in this area of our testing work.

Review of Income

Our objective here is to ensure that robust procedures are in place to ensure that all income due to the Council is identified and invoiced (where applicable) appropriately with recovery effected within a reasonable time span. Therefore,

- We note from our examination of minutes and other documentation provided that members periodically review its scales of fees and charges for use of Council facilities (such as the Civic Centre, Dewey House and CCTV support) and have obtained copies of the most recent at this interim visit, with no changes noted compared with 2015-16, for subsequent detailed testing as considered necessary;
- As noted earlier in this report, we have tested two sample months of all receipt transactions from cashbooks to relevant bank statements with no issues;
- We noted in our interim report that the Council has taken over the running of the café in the Town Park and have examined a sample of the cash-up sheets and discussed the procedures in place with officers. Whilst we appreciate that two members of staff are not always present at the close of daily trading, best practice indicates that, in order to protect the individuals cashing-up from any potential risk of allegations of misconduct in the event that takings are significantly different to the totals as recorded on the “Z” till readings, two officers should undertake the cash-up and both sign the cash-up sheet;
- In similar vein to protect staff, where cash is handed over to another officer prior to banking, the receiving officer should check the cash and verify it to the cash-up sheet detail and sign that record accordingly confirming the value of cash received and acknowledging receipt of the cash;
- We also note the existence of a £100 cash till float, which is stored overnight in a safe at the café: we understand that the safe key is “hidden” on the premises and consider that, to improve security, a combination key safe be acquired with the key more securely housed therein when not required;
- We have previously tested a sample week’s diary entries for Civic Centre bookings in March 2017 to ensure that all were invoiced the correct fee for times of day hired and type of organization: we note that there has been no changes in either personnel or operational procedures in this area in 2017-18 and did not consider it necessary to repeat this testing again at present;

- We have visually examined all nominal ledger income code transactions reports for the year ending March 2018 (excluding those for the Civic Centre) to ensure that no obvious errors or omission exist where receipts could ordinarily be expected, such as periodic property rentals and CCTV re-charges, with no matters arising; and
- We note that the total value of sales ledger invoices outstanding at 31st March 2018 totalled only £7,000 with no significant matters worthy of note.

Ordinarily in this area, we would also update our year-on-year analysis of income arising across the range of Council activities but, as noted earlier, at the time of writing the Statement of Accounts were not yet available and we will follow this up as part of next year's interim work.

Conclusions and recommendations

We are pleased to record that no issues of significant concern arise in this review area, although, as indicated above, we consider that the cashing-up and safe security procedures at the Town Park café could and should be further strengthened.

- R1. Wherever practicable, two officers should undertake the café till cash-up at the close of business each day.*
- R2. When cash is transferred from one officer to another prior to banking, the receiving officer should check the physical cash received agreeing it to the till cash-up sheet and sign the sheet accordingly confirming the amount received (the cash-up sheets should be re-designed accordingly).*
- R3. A combination key safe should be acquired and installed at the café to more securely "store" the safe key.*

Petty Cash Account and Charge Card Usage

The Council continues to operate a limited petty cash scheme with an Excel control sheet forming the basis of the periodic re-imburement to the agreed maximum holding level of £250. We have obtained copies of the Excel control spreadsheets for the two periods in the year to date (July 2017) and ensured that each transaction is appropriately supported by supplier invoices & till receipts and verified the separation of any relevant VAT for periodic recovery via the nominal ledger postings to Omega at this final audit.

We have also checked the physical cash holding, together with unreimbursed vouchers, at this interim visit noting a surplus cash holding of £5.00. This appears to have been a bank error as a "packet" purportedly holding 20 new £5 notes held 21. The surplus cash should either be banked as a miscellaneous income receipt or, when next the account is "topped-up" the physical "top-up" be adjusted accordingly, again with the surplus being coded as a miscellaneous receipt.

In examining the petty cash nominal ledger account in the cashbook, we noted that the petty cash expenditure (£178.86) to May 2017 has been posted to the petty cash as a debit through the purchase ledger thereby inflating the cash holding balance to £428.86, rather than the correct value of £250: this will require correction by journal.

The Council currently does not operate a corporate credit or debit charge card currently.

Conclusions and recommendations

We are pleased to record that no significant issues arise in this area other than, as above, to suggest that the surplus £5 cash be treated as a miscellaneous receipt.

R4. The surplus £5.00 cash in the petty cash tin should either be banked or the next reimbursement be adjusted accordingly with the £5 recorded as a miscellaneous receipt. This was actioned accordingly.

R5. The erroneous entry in the petty cash control account in the Omega nominal ledger should be corrected by an appropriate journal. This was actioned accordingly.

Salaries and Wages

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the requirements of HM Revenue and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme as most recently updated from 1st April 2017 in relation to the employees' contribution bandings.

We have examined the payroll procedures in place and the physical payments made to staff in 2017-18, by reference to the September 2017 payroll documentation, which continues to be produced by external contractors (Safeguard World) using their own bespoke software. Our review included: -

- Ensuring that the Council had approved employee pay rates for the financial year, noting that the national pay award effective from April 2017 has been applied;
- Checking to ensure that appropriate PAYE tax codes are being applied for the year following the annual budgetary increases in personal allowances with effect from April 2017;
- Checking to ensure that national insurance deductions were being computed accurately;
- Checking that the correct scales of superannuation deductions, based on the revised LGPS salary bandings, as further updated in April 2017, are being applied (where appropriate);
- Ensuring that appropriately approved timesheets are submitted by all employees in support of any flexible hours worked and / or claimed as overtime; and

- Verifying detail of the net salary payments by reference to payslips, payroll summary reports and the subsequent BACS listings.

Conclusions

We are pleased to record that no issues arise in this area of our testing work.

Asset Registers

The Governance and Accountability Manual requires all Councils to develop and maintain a comprehensive register of all assets owned and leased by the Council. In this area, we aim to ensure that such a register is in place and contains all the basic information that should, ideally, be embodied in the records.

We are again pleased to note the existence of such a register, that the Clerk has ensured that it has been appropriately updated for any acquisitions and / or disposals in 2017-18 and she will ensure that the detail disclosed at Box 9, Page 5 of the revised AGAR is in accord with the registers when data is completed by the accountants.

Conclusions

We are pleased to record that no issues arise in this area of our testing work.

Investment and Loans

Our objectives here are to ensure that the Council is “investing” surplus funds, be they held temporarily or on a longer term basis in appropriate banking and investment institutions, that an appropriate investment policy is in place, that the Council is obtaining the best rate of return on any such investments made, that interest earned is brought to account correctly and appropriately in the accounting records. We also aim to ensure that any loan repayments due to or payable by the Council are transacted in accordance with appropriate loan agreements.

We note that the Council holds “surplus” funds in the form of periodic Term deposits and have checked and agreed the “investments” throughout the financial year to 31st March 2018 from the HSBC bank advice notes to relevant cashbooks and the closing draft Trial Balance for the year, also ensuring that interest arising on maturities has been entered accurately in Omega.

We also note the existence of one PWLB loan and have checked and agreed the two instalment repayments (September 2017 and March 2018) from supporting documentation to cashbooks as part of the higher value payment testing noted earlier in this report and the Clerk will ensure that the residual balance disclosed at Box 10, Page 5 of the revised AGAR is in accord with the PWLB Statement at 31st March 2018 when data is completed by the accountants.

Conclusions

We are pleased to record that no issues arise in this area of our testing work.

Statement of Accounts & Annual Return

As noted in the preamble to this report, the accountants had yet to complete the Statement of Accounts but notwithstanding this, and as a result of our testing work undertaken during the year, we have duly signed off the Internal Audit Report at Page 3 of the revised AGAR, assigning positive assurances in all relevant categories