

Warminster Town Council

Internal Audit Report 2019-20 (Final update)

Chris Hackett

*For and on behalf of
Auditing Solutions Ltd*

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.

Background and Scope

Statute requires all town and parish councils to arrange 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 Governance and Accountability Return (AGAR) which is provided to the External Auditor.

This report sets out the work undertaken in relation to the 2019-20 financial year, during our initial visit to the Council, which took place on 3rd December 2020. Due to the impact of the Covid-19 pandemic, we have undertaken our final review for the year remotely. We wish to thank the Clerk and the Office Manager for facilitating the process, providing all necessary additional (to that examined at our interim visit) documentation in electronic format to enable completion of our review for the year. We have, obviously in the circumstances, reduced the volume of transactions examined, whilst still ensuring governance and financial controls remain effective.

Internal Audit Approach

In completing our review for the year, we have again had regard to the materiality of transactions and their susceptibility to potential mis-recording or mis-representation in the year-end Statement of Accounts and AGAR.

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' which forms part of the Council's AGAR and requires that we give independent assurance over eleven internal control objectives.

Overall Conclusion

Based on the work we have completed, the Council continues to operate effective control systems that should help ensure that transactions are recorded accurately in the financial ledger and, subsequently, the detailed Statement of Accounts and AGAR. We have made some recommendations aimed at strengthening control as set out in the detailed report. We have signed the Internal Audit Report in the AGAR assigning positive assurance against the control objectives.

We wish to thank the officers for their help during our audit and request this report is presented to Members.

Detailed report

Accounting Records and Bank Reconciliations

The Council uses the Rialtas accounts software, with external contractors (DCK Beavers Ltd) preparing the accounts from detailed records maintained by the officers. A single combined cashbook for the Current & Instant Access bank accounts, operated at HSBC, remains in place. 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 and nominal ledger structure remains in place;
- Confirmed the accounting system remained in balance at the date of our interim visit and final review by running a data check to confirm the trial balance agreed to the nominal ledger (the main accounting record);
- Checked and agreed the opening Trial Balance in the Rialtas software for 2019-20 to the closing Financial records for 2018-19 to ensure that all balances had been properly rolled forward;
- Confirmed the External Auditor raised no issues following their work on the 2018/19 accounts;
- Reviewed arrangements for processing journals which are done by DCK;
- Discussed arrangements for backing up the system which we understand is done regularly to a Cloud by the Council's IT provider, with DCK also taking backups of the Rialtas system;
- Checked and agreed two sample months' transactions in the cashbook (October 2019 and March 2020) to the bank statements, including the regular "sweep" transfers to maintain the instant access account balance at a constant £5,000; and
- Checked and agreed the software based bank reconciliations as at 30th September, 31st October 2019 and 31st March 2020 confirming there were no long standing, un-cleared adjustments or any other abnormal entries arising.

Conclusions

We are pleased to record that no issues arise in this area requiring formal comment or recommendation. We note the Finance and Assets Committee monitor the bank reconciliations and transfers between bank accounts, which we regard as good practice.

We have confirmed the accurate disclosure of the combined year-end cash and bank balances in the year's Accounts and AGAR.

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:

- Noted that Standing Orders and Financial Regulations have again been reviewed and re-adopted in the financial year of audit, being considered at the Full Council meeting in May 2019 with further consideration also at the June meeting. We note further they were re-adopted most recently at the meeting in May 2020;
- Noted that other policies are kept under review such as the Treasury Management Policy, which was considered and adopted in June 2019, that Full Council oversees key governance matters approving for example the Annual Governance Statement, with the Finance and Assets Committee undertaking a more detailed review;
- Completed our examination of the minutes of the Full Council and its extant Committee meetings (except for Planning);
- Enquired whether the 2018/19 audit of accounts was advertised to the public, this is a new requirement this year for internal auditors specifically to check in relation to the prior year; and
- Reviewed the data posted on the Council's website to ensure it is transparent in reporting matters to the public.

Conclusions and recommendation

The Council is monitoring and up-dating its key governance arrangements. At the time of our final review detail of payments for 2018/19 and the asset register needed to be added to the 'Transparency Section' of the Council website, we understand this is now being done.

The Clerk confirmed the 2018/19 audit was advertised on the Council website, although the link is routinely taken down when the period for public examination ends. The Clerk has confirmed she will provide a screen shot for 2019/20 showing the link before it is taken down.

The Statement of Accounts in note 7 confirms the Council has adopted the General Power of Competence, this did not appear to be formally recorded in the minutes for the year. The ability to adopt this can vary according to the number of elected members.

R1. The Council should note formally in the minutes when approving other key governance matters that it has adopted the General Power of Competence.

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.

At our interim visit we tested a sample of payments examining all those individually in excess of £3,500, together with a more random sample of every 40th cash book transaction to the end of October 2019 ensuring compliance with the above criteria. Our test sample comprised 37 items plus NNDR payments and totalled £423,712 representing 68% of non-pay costs for the year to the above date. Payments were supported by documentation.

At our final review we extended our testing selecting a random sample of 26 cash book payments totalling £155,502 by value covering the period November 2019 to March 2020. All payments in our sample were supported by invoices or suitable documentation.

We note that coding slips are attached to invoices to evidence Member approval of the expenditure. Also, that a monthly list of payments is approved at each Finance and Assets Committee and signed by the Chairman.

We noted last year the letting of the contract to build the skate park. Our sample testing referred to above, included reviewing invoices from the contractors working on the project. We note per the Rialtas ledger that total capitalised costs were £284,961, (per cost centre 4999) and from the minutes that members receive reports on progress. The Clerk provided us with a copy of a report by the Council's Quantity Surveyor at the end of the works confirming it was completed satisfactorily.

We noted from our review of the minutes that the Devolved Services and Assets Committee agreed a contract in February 2020 for work on the play areas. The Clerk provided us with the Tender Report confirming suitable tenders were obtained.

We have reviewed the VAT control account on the Rialtas system noting that returns continue to be prepared and submitted quarterly utilising the HMRC on-line facility. We have verified the quarterly reclaims to the underlying control account records.

At our final review we looked at total expenditure for the year against budget and compared to that incurred in prior years.

Conclusions

No issues arise from our work in this area requiring formal comment or recommendation.

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 the annual risk assessment was adopted in the year of audit, in May 2019. It uses the national LCRS software and covers a full range of risks. It is a requirement the risk assessment is done annually and the Council needs to up-date its review and approval of the risk assessment;
- Reviewed the Council's insurance cover for the year provided by Royal and Sun Alliance Plc with Public and Employer's Liability in place at £15m and £10 million respectively, Hirer's Liability at £2m and Fidelity Guarantee cover at £0.999 million; and
- Confirmed with officers that regular safety inspections are completed on the Council's play areas.

Conclusions

The Council has arrangements for managing risks. Whilst the Council is carrying insurance for Fidelity Guarantee, it is likely that following precept instalments received in April and September its cash balances may exceed for a time its level of cover in this area. The Council needs to review its risk assessment to ensure this is done annually.

R2. The Council should up-date and approve its risk assessment.

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 are pleased to note that regular budget monitoring reports and variance commentaries continue to be considered by Members.

After due consideration by the Committees, Full Council set the 2020/21 budget and precept at their meeting on 13th January 2020 with the precept being set at £1,180,666. A detailed analysis of income and expenditure was provided to Members to support the decision with the Locum Clerk providing a verbal commentary on changes. The minutes record due consideration was given to service developments including devolution of services.

At the 31st March 2020 the Council's balances totalled £719,186 including a general reserve of £209,948. We note members have reviewed and approved earmarked reserves. Spending in 2019/20 was some £1,191,000, although this total figure includes one off items, such as the skate park. General reserves are some two months spending at 2019/20 levels. The norm is 3-6 months spending.

Conclusion

No issues arise in this area requiring formal comment or recommendation

Review of Income

Our objective here is to check that robust procedures are in place to ensure that all income due to the Council is identified and invoiced (where applicable) with recovery effected within a reasonable time span. In addition to the precept the Council receives various grants and income from letting and service provision. During the year we have:

- Agreed the 2019/20 precept as recorded in the minutes to the amounts receipted into the Cash Book and to the list of precepts demanded by English authorities in 2019/20 published by the Government;
- Reviewed income collected from Civic Centre lettings testing a sample of August bookings on the Rialtas bookings diary to confirm invoices were raised at the correct fee and that a booking agreement was held. For one long term hirer we noted the letting agreement was dated 2014 and the contact details appeared to have changed, although invoices were raised in respect of the lettings;
- Reviewed the unpaid invoices report on Rialtas. The balance outstanding at the time of our interim visit was £8,577 of which some £2,364 was raised in 2018/19. At our final review there were amounts totalling some £1,800 relating to invoices raised in 2018/19;
- Reviewed CIL and Plain Action Grants. The Rialtas ledger indicates the Council has received £129,000 in these grants during the year. We have agreed this to remittance advices from Wiltshire Council;
- Reviewed income arising in the year against budget and compared to prior years; and
- As noted earlier in this report, we have tested two sample month's receipt transactions from the cashbook to the bank statements with no issues arising.

Conclusions and recommendation

The Council has systems in place to manage and monitor income. We make one recommendation regarding the supporting paperwork for regular hirers.

R3. Officers should review lettings agreements for long standing regular hirers to ensure the information is up to date. (AGREED).

Petty Cash Account

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 examined the sheet prepared covering transactions from 20th August to 5th November 2019 testing to ensure that each transaction is appropriately supported by a trade invoice or till receipt.

We note that Finance and Assets Committee checks the petty cash sheet and that the Chairman signs it off, which we regard as good practice.

Conclusion

No issues arise in this area from our work completed.

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 last revised from 1st April 2017 in relation to the employees' contribution bandings.

We note the Council employs a bureau to process its payroll. The Clerk or Deputy submits a monthly schedule to the Bureau confirming who has been employed and details of overtime or hours worked where applicable. The Bureau provide pay-slips with the Council recording the actual payments to staff and HMRC/pensions in its cash book.

We have examined the payroll procedures in place and the physical payments made to staff in 2019-20 by sample checking transactions in July and August 2019. Specifically, we have:

- Confirmed gross pay is correct on a sample basis by reference to national spinal column points and HR minutes;
- Tested that PAYE, NI and pension deductions are correctly made by reperforming a sample;
- Tested that the payroll summary report showing amounts due to the HMRC, the Pension Fund Administrator and the amount due for net pay agree to the cash book; and

- Completed our monthly trend analysis of payroll payments to ensure there were no material anomalies.

Conclusions

We are pleased to record that no issues have arisen from our payroll testing this year.

Asset Register

The Accounts and Audit Regulations 1996 (as amended periodically) require that all Councils establish and maintain inventories/asset registers of buildings, land, plant and equipment, etc. owned by them.

We have checked the Council's asset register confirming assets are recorded at cost and that items acquired or expensed in the year are added. There was a minor difference between the asset register which recorded assets of £2,373,432 and the AGAR which recorded assets of £2,383,514. The difference of £10,082 related to additional land and buildings items. Officers are investigating and will correct as necessary to ensure the two records agree.

Conclusions

The Council is maintaining an asset register as required by the Regulations.

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 and 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.

The Council has moved funds during the year to its CCLA account. At the time of our interim visit the balance recorded on the Rialtas system was £255,345. We agreed this to a statement from the CCLA dated 31st October 2019. We also confirmed dividends were being brought to account. At the year-end we agreed the CCLA balance per the Statement of Accounts to the CCLA statement and confirmed it was included in the AGAR cash balances. We confirmed further the dividend income for March 2020 was included in the accounts and reviewed we total interest income for the year.

We also note the existence of one PWLB loan and agreed the repayments made in September 2019 and March 2020 to the PWLB statements. We agreed the balance at the year-end reported in the Statement of Accounts and AGAR to the list of PWLB balances published for town and parish councils by the Government's Debt Management Office.

Conclusions

No issues arise in this area requiring formal comment or recommendation.

Statement of Accounts / Annual Governance and Accountability Return (AGAR)

We have reviewed the year end accounts prepared by DCK considering any major variations year on year in reported figures and reviewing the supporting working papers confirming key amounts. We have agreed the main statements in the accounts to the trial balance on the Rialtas ledger. We tested debtors and creditors to supporting information.

In addition, we have agreed the amounts in the draft AGAR to the supporting records specifically verifying the accuracy of detail contained within Section 2.

Conclusions

We have agreed the amounts in the accounts and the AGAR to the underlying records. As stated in the introduction we have signed off the Internal Audit Report in the AGAR assigning positive assurance on the specified control objectives.

Rec. No.	Recommendation	Response
Review of Corporate Governance		
R1	The Council should note formally in the minutes when approving other key governance matters that it has adopted the General Power of Competence.	
Assessment and Management of Risk		
R2	The Council should up-date and approve its risk assessment.	
Review of Income		
R3	Officers should review lettings agreements for long standing regular hirers to ensure the information is up to date.	<i>Agreed.</i>