



Wilton Town Council

Internal Audit Report 2018-19 (Final update)

*Chris Hackett
Consultant Auditor*

*For and on behalf of
Auditing Solutions Ltd*

Background

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 sent to the External Auditor.

This report sets out the work undertaken during our two visits to the Council which took place on November 8th 2018 and 3rd June 2019 in relation to the 2018-19 financial year together with the preparatory work done off site. The matters arising from our interim visit have been left in for completeness.

Internal Audit Approach

In undertaking 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 Accounts / AGAR. Our programme of cover is designed to afford appropriate assurance that the Council has robust financial systems in place that 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 is included as part of the AGAR, which requires independent assurance on ten internal control objectives.

Overall Conclusion

Based on the testing we have completed the Council operates effective systems. Consequently, we have signed off the Internal Audit Certificate in the AGAR assigning positive assurance in respect of the controls operated by the Council. We noted in the return, however, that the Council has done its accounts on a receipts and payments basis. The accounting requirements are that if income or expenditure exceeds £200,000 for three consecutive years, in the third year the accounts should be prepared on an income and expenditure basis. This means debtors and creditors are created to accrue expenditure to the year the service was received or provided regardless of when it was paid for. The year of audit, 2018/19 is the third year that income and/or expenditure has exceeded £200,000, therefore the accounts should have been done on a receipts and payments basis. Based on discussion with officers and review of the ledger we note that no significant debtors or creditors would have been required at 31st March 2019 if an income and expenditure basis had been followed. The Clerk is liaising with the software supplier of the accounting to package and will prepare income and expenditure accounts next year.

We wish to thank the Council's officers for the courtesy and attention afforded during our visits to the Council for 2018-19 and ask that members consider the content of this report and acknowledge that the report has been reviewed by Council.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Clerk uses the Rialtas Alpha accounting software to maintain the Council's accounting records. The Council continues to operate two bank accounts with Lloyds TSB which are combined into a single cash book in the accounting system. Our objective in this area is to ensure that the accounting records are being maintained accurately and in a timely manner and that no anomalous entries appear. We have consequently:

- Verified that the closing balances for the financial year 2017/18 have been rolled forward correctly on the Rialtas accounting system for 2018/19;
- Confirmed the outcome of the work of the external auditor on the 2017/18 accounts and that there were no matters impacting our work;
- Ensured that an appropriate Cost Centre and Nominal Account Coding Schedule remains in place;
- Confirmed the accounting system was in balance at the year end by running a data check to confirm the trial balance agreed and was reconciled to the nominal ledger;
- Checked and agreed detail of all transactions in the cash book for four sample months, May and September 2018 and February and March 2019, to supporting bank statements; and
- Verified all monthly bank reconciliation details for April to September 2018 on the combined bank accounts and at the final visit verified the year end bank reconciliation at 31st March 2019.

We discussed the management and operation of the accounting system with the Clerk. We understand the accounting system is backed up regularly to the hard drive on a Council PC. Control would be improved if an offsite back up, through the use of a cloud were implemented. The Clerk may need to do journal adjustments, (manual adjustments to the accounting entries to correct errors or prepare for year-end accounts), arrangements would be strengthened if journals were subject to a second person checking them as is common in other councils.

During our initial visit we discussed with the Clerk the benefits of using the budget management tools in the accounting system as a more efficient approach to the previous excel spreadsheets. We are pleased to note they are being used now.

Conclusions and recommendation

We extended our testing at our final visit confirming the year end bank reconciliation and that there were no anomalous adjustments. We confirmed also the ledger was in balance.

Arrangements can be further enhanced by improving back up arrangements, clarifying controls over journals and making greater use of the accounting system's budgetary control module. Our recommendation from our interim visit is left in for completeness with a response recorded in the action plan.

R1. In conjunction with the forthcoming training on the Rialtas accounting system the Clerk should confirm arrangements for:

- *Backing up the system to a remote location*

- *Independently approving journals*
- *Implementing the use of the budgetary control modules; and*
- *Clarifying the accounting system anomaly relating to the amount of £55.*

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, that financial transactions are made in accordance with the extant Financial Regulations 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 reviewed the Council's minutes for the year to 31st March 2019. The Standing Orders and Financial Regulations were previously reviewed and adopted in November 2016. We note the Council has recently asked Policy and Resources to carry out a review of all key policies and that the Committee has prioritised the following for consideration:

- Financial Regulations;
- Procurement Policy;
- Risk Management Policy; and
- Grievance Procedure.

Conclusions

No issues have arisen from our work this year, although we note the need to up-date the review of standing orders and financial regulations.

Review of Expenditure

Our aim here is to ensure that:

- 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;
- 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 examined a sample of payments made in the financial year to 31st March 2019 for compliance with the above criteria. The sample included all amounts with a value in excess of £2,000 and randomly every twentieth item in the cash book. The total value of our sample was £134,194 being 64% of the total value of non-pay expenditure in the year. No significant matters were identified from our work. One payment to SSE for £1,334 relating to a new electricity supply in Minster Street was based on a quote, albeit a detailed breakdown. The Clerk needs to ensure the Council retains the final invoice to support the reclaim of VAT.

We have again considered the Council's approach to the review and authorisation of payments for release. We note that members are no longer initialling individual invoices but that a schedule is being prepared for signing by the Chair. At the time of our final visit in June this schedule had not been signed since the previous November. We note that the Council is implementing a new arrangement wherein a member, other than the Chair, will review on a quarterly basis a sample of invoices and that they will also review the bank reconciliations.

Given the changes in staff we again wish to draw to the attention of the Council that the Rialtas / Alpha accounts' software has the facility to provide two optional prints of payments between date ranges and, in order to ensure that all payments are identified for member approval and to also reduce the workload of the Clerk in preparing a typed schedule, we suggest this software facility be should be applied.

At the year end we completed a review of outturn and comparison of spend to the prior year discussing variances with the Clerk, no additional matters were identified.

Conclusions and recommendations

Based on our sample invoices are supported by suitable documentation, although the Clerk should obtain a final invoice for the new SSE supply. Controls recording the approval of payments require to be strengthened. At many councils Members sign the invoices which we regard as a stronger control, however the Council's approach of signing a schedule would evidence authorisation.

- R2. *Members should ensure the schedule of payments for approval is signed in a timely manner. This would most effectively be achieved by signing it at the meeting when the payments are approved. The Chair should sign on behalf of all the Members at the meeting and it should be minuted as such.*
- R3 *The independent check on invoices and bank reconciliations by a member other than the Chair should be evidenced on a form to provide an audit trail.*

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. To this end, we have:

- Noted that the Amenities and Planning Committee at its meeting on 19th March 2019 considered and approved the Council's risk assessment which in turn considered risks across a range of areas including, financial, property, legal, IT and reputational; and
- Examined the current year's Council insurance policy with Axa to ensure that appropriate cover is in place, noting that Public and Employer's Liability stand at £10 million, Hirer's

Liability at £5 million and Fidelity Guarantee cover at £310,000, all of which we consider appropriate for the Council's present requirements.

Conclusion

No issues have arisen in this area of our work. The Council has arrangements to manage risk.

Budgetary Control and Reserves

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and the value of precept to be drawn down from the Unitary Authority: also, that an effective reporting and monitoring process is in place. We also aim to ensure that the Council retains appropriate funds in general and earmarked reserves to finance its ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

We note that members are receiving budget monitoring reports.

The Council set its 2019/20 budget and precept at its February 2019 meeting, with the precept required being £216,927. A detailed budget report was presented to Members considering reserves, projects and the tax base. Prior to this meeting the Council's committees considered details of the budget prior to submission to Full Council for approval.

The Council's overall spending in 2018/19 was £237,838 whilst reserves at year end totalled £102,136. Reserves in total therefore equating to some five months spending based on 2018/19 which we regard as suitable.

Conclusions

No issues have arisen in this area of our work.

Review of Income

In addition to the precept the Council receives income from grants, burial fees and hire charges relating to the pavilion and sports pitches and from the tenant in the Council's offices, Harvey & Snowden.

At our interim visit in addition to confirming receipt of the precept we tested income in relation to burials and pavilion hire. For burials we tested a sample of income for interments and memorials for the period April to June confirming the correct fee had been charged and agreeing the amount to the accounts. We noted officers had a backlog of entries to make in the burial register. This is an important document and time should be allocated to ensure that it is kept up to date.

We tested a sample of pavilion and sport pitch lettings from September and October testing from the letting's diary ensuring invoices were raised and income collected. We discussed the posting of invoices on to the Rialtas accounting system and noted a backlog which the Clerk was addressing. For the amounts in our sample we confirmed collection of the debt by agreeing the

receipt directly to the bank, with one exception relating to an invoice raised on October 23rd, which at the time of our visit officers had not had sufficient time to clear but was not regarded as an aged debt.

We note the lease agreement with the Council's tenants at Kingsbury Square is still in negotiation with solicitors now requiring an energy performance certificate. We note, however the tenant continues to pay the rent.

Conclusions

No issues have arisen in this area of our review warranting formal comment or recommendation.

Petty Cash Account

The Council no longer operates a petty cash account, any out-of-pocket expenses being reimbursed by separate payment as with other trade payments. Resultantly, there are no issues arising in this area of our review warranting formal comment or recommendation.

Salaries and Wages

In examining the Council's payroll function, we aim to confirm that salary payments are in line with the Council approved pay rates and that extant legislation is being appropriately observed as regards adherence to the requirements of HM Revenue and Customs (HMRC) legislation in relation to the deduction and payment over of income tax and NI contributions, together with pension contributions in accordance with the latest announced percentage contribution rates effective from 1st April 2017.

We note pay is processed by the Clerk using the HMRC on-line payroll tools. We have:

- Agreed the Clerk's monthly pay for February as a sample month to the contract of employment also agreeing the calculation of tax and NI;
- For one officer in the local government pension scheme checked the calculation of pension deductions; and
- Confirmed that payments are made over to the HMRC.

Conclusions and recommendation

We noted that for the sample month we inspected in relation to pension deductions, (April 2019), the percentage employee pension contribution deducted was 5.8%, the national pay related contributions rates suggested the correct deduction should have been 5.5%.

R4 The Clerk should confirm the correct pension deductions have been made in connection with the Local Government Pension Scheme by contacting Wiltshire Council.

Fixed Asset Register

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. We have reviewed your asset register and confirmed that it is being kept up to date with new acquisitions recorded at cost and disposals being removed. We have agreed the balance on the fixed asset register to the draft AGAR line 9.

Conclusion

No matters have been identified from this area of our work requiring recommendations, the Council is maintaining its asset register.

Investments and Loans

We have verified detail of the PWLB loan repayment instalments in the current year to the third party PWLB demand notices. At our final visit we have agreed the balance outstanding at 31st March 2019 in the draft AGAR to the information on the Government's debt management office website detailing the balances outstanding for Wilton Town Council.

The Council holds no specific investments, although we have agreed the balances on the current and deposit accounts to the bank statements, the Rialtas ledger and the AGAR as part of our bank reconciliation testing referred to earlier in this report.

Conclusion

No issues have arisen in this area of our work.

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

The Accounts and Audit Regulations, as amended periodically, require all councils to prepare annually a Statement of Accounts, which is now in the form of the Annual Governance and Accountability Return at Section 2, which is, together with the Annual Governance Statement at Section 1, subject to independent external audit examination and certification.

We have agreed the draft accounts summarised in Section 2 of the AGAR to the underlying records. We note the accounts have been prepared on a receipts and payments basis ie on a cash basis, rather than an income and expenditure basis as required for councils which spend more than £200,000. The Council's level of spend and income over the last three years has exceeded the £200,000 threshold. The clerk is liaising with the software provider to ensure that income and expenditure accounts are prepared next year.

Conclusions

We have signed off the Internal Audit report in the AGAR giving positive assurances in respect of the Council's controls but noting the accounts were not prepared on an income and expenditure basis.

Rec. No	Recommendation	Response
Review of Accounting Arrangements and bank reconciliations		
R1	<p>In conjunction with the forthcoming training on the Rialtas accounting system the Clerk should confirm arrangements for:</p> <ul style="list-style-type: none"> - Backing up the system to a remote location - Independently approving journals - Implementing the use of the budgetary control modules; and - Clarifying the accounting anomaly relating to the amount of £55 	<p><i>The budgetary control module is in use. The anomaly £55 was a timing issue in the ledger system and has been resolved.</i></p> <p><i>Other matters under consideration.</i></p>
Review of expenditure		
R2	<p>Members should ensure the schedule of payments for approval is signed in a timely manner. This would most effectively be achieved by signing it at the meeting when the payments are approved. The Chair should sign on behalf of all the Members at the meeting and it should be minuted as such.</p>	
R3	<p>The independent check on invoices and bank reconciliations by a member other than the Chair should be evidenced on a form to provide an audit trail.</p>	<p><i>A form is being drawn up.</i></p>
Salaries and wages		
R4	<p>The Clerk should confirm the correct pension deductions have been made in connection with the Local Government Pension Scheme by contacting Wiltshire Council.</p>	