
Wilton Town Council

Internal Audit Report 2016-17 (Final update)

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Background and Scope

The Accounts and Audit Arrangements introduced from 1st April 2001 and as amended periodically require all Town and Parish Councils to apply an independent internal audit examination of their Accounts and accounting processes annually. The Council has complied with the requirements in terms of independence from the Council decision making process appointing us, at Auditing Solutions Ltd, to provide the service. This report records detail of the work undertaken at our two visits to the Council for 2016-17, which took place on 11th November 2016 and 21st April 2017.

Internal Audit Approach

As in previous years, we have employed a combination of selective sampling techniques, where appropriate, and 100% detailed checks on the key areas covered by the Internal Audit Certificate embodied in the Council's Annual Return that now forms the statutory Accounts of the Council in order to gain sufficient assurance that the Council's financial and regulatory systems and controls are appropriate and fit for the purposes intended.

We have also checked progress on the implementation of issues identified in our previous reports, with detail of the current status set out in the body of the report and appended Action Plan. Where additional issues have been identified at this final visit, they are similarly detailed in the body of the report with resultant recommendations again summarised in the appended action Plan.

Overall Conclusions

Whilst we are pleased to record that the Council continues to operate generally effective financial and governance procedures, we have identified a number of areas during the course of our two visits for the year where appropriate remedial action is or was required in order to further strengthen existing internal controls to protect the Council and Clerk. Detail is set out in the body of the report with detail of actions taken to address the interim report issues duly recorded in the body of the test and in the appended Action Plan.

On the basis of the generally satisfactory conclusions reached in the areas examined this year we have duly signed off the Internal Audit Certificate in the year's Annual Return assigning positive assurances in each relevant area.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Clerk uses the Rialtas Alpha accounting software to maintain the Council's accounting records. As indicated previously, the software is a market leader for local councils and, consequently, we consider it appropriate to meet the accounting requirements of the Council providing both financial and management accounting detail at any stage of the financial year, together with automatically generating a year-end detailed Statement of Accounts and information for reporting at Section 2 of the Annual Return. The Council continues to operate two bank accounts with Lloyds TSB: we note that the daily sweep facility between each to retain a balance of £1,000 in the current account has now been removed following difficulties experienced with the bank earlier in the year.

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 balances recorded in the certified Annual Return for 2015-16 have been correctly rolled forward to the current year in the accounting software;
- Ensured that an appropriate Cost Centre and Nominal Account Coding Schedule remains in place;
- Ensured the Alpha accounting ledger remains in balance at the financial year-end;
- Checked and agreed detail of all transactions in the bank / accounting records for the full financial year to supporting bank statements;
- Verified bank reconciliation detail as at 31st October 2016 and March 2017 on the combined bank accounts;
- Examined the nominal account posting detail for the year to date checking for any significant mis-postings;
- Ensured the accurate disclosure of the combined year-end cash at bank balances in the Annual Return; and
- Examined the computer back-up arrangements.

Conclusions and recommendations

In reviewing the accounting records for the year, we identified a number of mis-postings detail of which we have discussed with the clerk and ensured that appropriate correcting journals have been raised prior to the year-end closedown. One example of this is the recording of reclaimed VAT as an offset to the expenditure control account rather than being recorded as a receipt, which, if not corrected, would result in the understatement of both receipts and payments in the year's Annual Return.

In our interim report, in view of the problems experienced previously at the year-end and resultant adverse external audit comments, we urge that, as suggested previously, the Clerk be provided with further training in use of the software. One specific area we again noted is that the year's budget has not been entered to the software resulting in the need for budget detail to be exported manually to a spreadsheet to provide comparative performance data. We consider this to be wasted effort and poor use of the Clerk's time when the detail is readily available from the software at any stage of the year, once budget data has been input.

Whilst we understand the intent to make provision for appropriate training within the 2017-18 budget, we urge that this is not overlooked and that arrangements are made for that training to take place early in that financial year in order that maximum benefit is gained from the software. Consequently, we reiterate our previous recommendation in this respect.

We have also made previous reference to the need, as set out in the Governance and Accountability Manual, for the Council to periodically be provided with and review detail of bank reconciliations, evidencing that review on the face of the reconciliation with the reviewing member(s)' initials and review date and are pleased to note that appropriate action has been taken.

We understand from the clerk that the office PC is regularly backed-up to a laptop PC: whilst that arrangement is considered sound, the laptop is left in the office and not securely locked away in a fireproof safe. In the event of a break-in or other damage to the premises, all of the Council's computer data would most probably be lost.

- R1. The Council / Clerk should ensure that further training in use of the Alpha Rialtas software is provided to the Clerk in order to maximise the available benefits that the software offers. The "Software working group" is meeting on Thursday 11th May 2017 to look at this.*
- R2. Full use of the software's management accounts and budget reporting facility should be made in order to avoid duplicated effort for the Clerk in transferring data to spreadsheets in order to report budget performance during the year (the software will generate this information at any stage of the year with a few keyboard depressions). As for R1 above.*
- R3. Appropriate arrangements should be made for the automatic daily back-up of data to the cloud, an off-site facility or, as a bare minimum, the removal of the laptop from the office when not manned.*

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 continued our review of the full Council and standing Committee minutes examining them for the financial year for compliance with the above criteria. We are pleased to note that, in line with the revised NALC model Financial Regulations (FRs) reflecting recent changes in Public Contract Regulations, the Council has adopted revised and updated Financial Regulations.

However, in examining their content, we note that the Standing Orders (SOs) still record [paragraph 18 (c)] a financial limit of £20,000 for formal tender action, whereas the recently revised FRs now identify a value of £25,000 in line with above changes in Contract Regulations: a consistent value should be recorded in both documents.

Conclusions and recommendation

We are pleased to record that no significant issues of concern have been identified in this area from the work undertaken to date, although, as indicated above either the SOs or the FRs require amendment to ensure that a consistent value not above £25,000 is in place for formal tender action. We shall continue to monitor the Council's approach to governance issues at future visits, also ensuring that, if and when implemented, appropriate controls are enacted over the use of internet banking facilities.

R4. The Clerk and Council should ensure that a consistent value is recorded in the Standing Orders and Financial Regulations for formal tender action. Updated Standing Orders will be confirmed and adopted at the Annual Town Council meeting May 2017.

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 considered the Council's approach to the review and authorisation of payments for release and are pleased to note the continued use of the certification stamp on invoices presented to members for approval: we are also pleased to note that, following our interim report recommendation, members have started to initial the invoices or other supporting payment documentation as evidence of their review, although this is, on occasions, somewhat sporadic. We consider this an essential control following a relatively recent fraud perpetrated by a Town Clerk where invoices were being resubmitted for payment on one or more occasions and, as they were not initialled approving the payment, members were not aware of the invoices' previous payment.

We have examined all payments made in the financial year for compliance with the above criteria having, at our interim visit, noted a number of apparent anomalies, as detailed in Appendix 1 to that report, detail of which we have drawn to the Town Clerk's attention for appropriate remedial action, as indicated on that Appendix. We note the actions taken to address the various issues identified and, consequently, do not include that Appendix in this final report.

One main area of concern was the quality of detail provided in the travel expenses claims being submitted by members for reimbursement: we have made reference to this in prior year reports and again urge that an appropriate proforma expenses reclaim form is developed and

implemented immediately: all such claims should be appropriately signed by the claimant and be counter-signed as agreed by another member of the Council. We now note that greater detail is being provided with a more appropriate reclaim form in use.

Whilst we acknowledge that the covering monthly payment schedules are signed off and wish to imply no inappropriate action by the Town Clerk, we request that each payment document is appropriately “evidenced” as reviewed and agreed for payment by members in order to reduce the risk of duplicated payments arising and to formally evidence their review and agreement of payments in respect of all relevant supporting documentation.

Additionally, as highlighted previously, 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 (it would also further help ensure that **all** payments are reported and presented to members for approval).

Conclusions and recommendations

As indicated above, it was evident from our work at the interim visit that further improvements were required in the checking and processing of purchase invoices, etc for payment, particularly in relation to the quality of detail in members’ expense claims: we acknowledge the subsequent improvements made in this respect.

Additionally, in examining the Clerk’s monthly payslips for the year, we noted that the net pay calculations were not always correct, as they did not reflect the, albeit minor, changes in the monthly tax payable. We also note that the pay slips bear no evidence of member review and agreement.

We understand that the overpayment identified in last year’s report in relation to one of the member’s 2015-16 travel expense claims has still not been adjusted / recovered and urge that appropriate action is taken immediately.

Finally in this area, we understand and note that the error in submission of the final quarter’s VAT reclaim for 2015-16 has been addressed with assistance from an external contractor: we have checked the quarterly reclaims for 2016-17 and agreed detail to the accounting software, although we note that the full second quarter’s reclaimable VAT was not included in the reclaim. We have discussed this with the Clerk suggesting that she contact the software supplier to ensure that the amounts omitted from the second quarter’s reclaim will be incorporated in the third quarter’s reclaim.

R5. Members should ensure that all documentation supporting payments (i.e. invoices, pay slips, etc) is examined, that examination being confirmed by inclusion of members’ signatures on the individual documents, not just the covering payment summary sheets. Councillors are now actioning intermittently. Cheques will be cross-referenced with invoices, signed and stubs initialled after the finance schedule has been approved, i.e. within the meeting, not afterwards.

R6. The identified anomalies in the processing of payments, as detailed in Appendix 1 of the interim report, should be addressed and corrected accordingly. Noted and actioned accordingly.

- R7. *The identified overpayment of travel expenses in 2015-16 should either be recovered directly or through an adjustment to the next expense reclaim submitted. A refund has been received and credited to the Council's accounts on 20th April 2017.*
- R8. *The Clerk should ensure in conjunction with the software supplier that the third quarter's VAT reclaim will include detail of the recoverable amounts omitted in error from the second quarter's reclaim. To be actioned at end of year reclaim.*

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: -

- Examined the Council's approach to the identification, recording and management of risk noting that, following a further review by the Clerk, detail has again been presented to members, the resultant document being adopted formally at the March 2017 meeting; and
- Examined the current year's Council's insurance policy with Zurich Municipal to ensure that appropriate cover is in place, noting that Public and Employer's Liability stand at £10 million, Hirer's Liability at £2 million and Fidelity Guarantee cover at £100,000, all of which we consider appropriate for the Council's present requirements.

Conclusions

No issues arise in this area warranting formal comment or recommendation this year.

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 are pleased to note that the Council has concluded the determination of its budget and precept requirements for 2017-18 formally adopting, at the February 2017 full Council meeting, a precept of £175,193, with no CT Support Grant being paid by Wiltshire Council for the year.

We again note that the clerk is producing and updating each month a spreadsheet analysis comparing the approved budget with actual expenditure incurred throughout the year. As indicated above, the Alpha software will generate comparative performance information automatically once the budget has been input: we understand from discussions held with the Chairman during this final visit that the Alpha system software will be applied more fully in 2017-18 with the budget detail loaded accordingly and the reporting facility applied thereby avoiding the current duplication of effort for the clerk.

We have reviewed the year-end budget outturn, as recorded in the Alpha software examining and obtaining appropriate explanations for the few significant variances existing. Total reserves as at

31st March 2017 have decreased to £89,000 (£96,000 as at 31st March 2016), which equates to almost six months' revenue spending at the current level, which sits within the generally recognised CiPFA guidance of between three and six months' revenue spending currently. We also note the intention to identify funds for specific projects early in 2017-18 and remind members of the need to ensure an appropriate level of General Reserve is retained to finance ongoing revenue spending.

Conclusions and recommendation

We note the intention to determine and identify formally reserves earmarked for specific projects early in 2017-18 and will monitor the outcome of those deliberations at our interim visit for the year.

Review of Income

In this area of review, we aim to ensure that income due to the Council is identified, invoiced (where applicable) in accordance with the approved sale of fees and charges and recovered within a reasonable time scale, also that it is banked promptly in accordance with the Council's Financial Regulations.

We have, as previously, reviewed a sample of the Council's non-precept income sources, also examining the detailed transaction reports for the year to ensure that all income has been identified appropriately and recorded accurately noting that two electricity supply refunds and one insurance claim resettlement had been miscoded to a creditor control account (code 520) in the ledger rather than as offsets to the relevant expense: we discussed these with the clerk with an appropriate correcting journal raised. We also note that the minor error identified at the interim visit, relating to the September 2016 bank interest of £4.80 mis-posted to Code 100 (Recreation Ground fees) instead of code 1090 has not been corrected: we consider this de minimus and, at this stage to not warrant a further journal adjustment.

We reviewed the Burial Register at our interim visit examining detail of the three interments recorded therein for the year to that date to ensure that all appropriate supporting documentation was in place (i.e. undertakers' applications and burial / cremation certificates) and that the appropriate fees had been charged and recovered in a timely manner.

We noted that the documentation in respect of one interment had still to be received from the undertakers and that the Clerk was actively pursuing this. We were pleased to acknowledge the improved manner in which the records were being "filed", noting that our previous suggestion that a more robust means of storing these records (e.g. in a lever arch file) had still to be actioned. We also again suggested that consideration be given to the secure storage of these documents, together with the formal Burial Register, in a fireproof safe or filing cabinet in order to reduce the risk of loss of vital primary documentation.

As last year, with the exception of the one above item, each entry recorded in the Burial Register was supported by an appropriate application form and burial / cremation certificate: however, the available supporting documentation afforded no clear trail through to either the Burial Register or bank deposit slip identifying and confirming settlement of fees due. We acknowledge that, with so little activity during the course of the year, the Clerk is able to remember detail and provide the appropriate "trail": however, should she be absent from work for any length of time, members or a covering locum Clerk would experience difficulties in ensuring that all income due has in fact been received.

We also examined the Clerk's diary identifying bookings of the sports pavilion and pitches for August 2016, noting that invoices were being raised for such bookings. We examined the invoices raised in respect of the August 2016 hires confirming that the appropriate fees had been charged. However, as last year, it appeared that most of the booking detail was undertaken by e-mail with information retained in the Clerk's head rather than in formal records.

As with the burial records, it is important that a formal and appropriate audit trail supporting all hires is maintained, also that hirers complete an appropriate hire agreement form acknowledging acceptance of the hire terms and conditions, as, without such agreement, should any damage be done to the pavilion, the Council would be hard pressed to take appropriate legal action and make an effective claim for damages on the hirer.

Conclusions and Recommendations

Overall, whilst we consider the controls over income arising at the cemetery and pavilion to be generally sound, we consider that the absence of effective documentation evidencing control over the income leaves the Council at a considerable degree of risk should any unfortunate incident result in the Clerk's long-term absence and also affords no clear audit trail from the pavilion booking diary through to the recovery of income. We therefore consider it essential that fully detailed, cross-referenced and appropriately filed supporting documentation is maintained in relation to the identification of burials and pavilion hires, together with the acquisition of signed hire agreement forms and an effective system of cross-referencing the primary documents through to recovery of income due and its subsequent banking.

As a minimum, the following procedures should be implemented in relation to pavilion hires: -

- ***The booking diary should include a cross-reference to the invoice raised in respect of each booking and ideally the receipt / bank paying-in-slip reference number;***
- ***A formal signed hire agreement and acceptance of hire terms and conditions should be obtained for each individual or block of hires;***
- ***Strict sequential number control should be exercised over the raising of invoices;***
- ***A copy of each invoice should be printed and retained on file;***
- ***On receipt of payment, the invoices should be annotated with the date of receipt and receipt or bank deposit slip reference number;***
- ***When entering detail of income received to the accounting software, the invoice number should be clearly identified in the narrative (this happens currently to an extent but not exclusively).***

R9. The Clerk and Council should ensure that detail of interments is entered in the Burial Register in a timely manner and that appropriate documentation is obtained, held and filed chronologically for all interments. This is now being undertaken routinely.

R10. Undertaker and memorial application documentation should be filed appropriately and be effectively cross-referenced to the Burial Register entry number: it should also identify the bank paying-in-slip reference number in order to provide a clear and complete audit trail. Action is in hand to address this issue.

R11. Full documentation relating to hire of the sports pavilion and associated facilities should be printed and held on file, with full and effective cross-referencing between the booking diary, invoice raised and date of income recovery and banking, as indicated in the body of the report. Appropriate documentation is now being retained.

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.

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 amended with effect from 1st April 2015, as regards employee contribution bandings. To meet the above objective, we have: -

- Again reviewed the Council's payroll procedures;
- Checked to ensure that the Council has reviewed and approved appropriate pay scales for staff, noting adoption of the national pay award detail announced only recently;
- For all staff on the payroll we have checked and agreed the amounts paid to individuals by reference to the NJC schedule, examining payments made in October 2016;
- Ensured that PAYE, NIC and superannuation deductions have been made accurately by reference to the HMRC Basic PAYE Tools software and the current Pension Fund contribution bands; and
- Ensured that appropriate amounts have been paid to HMRC accurately and Pension Fund Administrators accurately and in a timely manner.

Conclusions

We are pleased to record that no issues arise in this area and understand that contracts of employment have now been prepared and signed for all staff members: we shall examine these at our final visit.

Asset Registers

The Governance and Accountability Manual requires all councils to develop and maintain a register of assets identifying detail of all land, buildings, vehicles, furniture and equipment owned by the Council. As pointed out previously, the Annual Return reporting arrangements in respect of asset values were amended in 2010, following issue of an updated Guide to Governance and Accountability. That guidance now requires asset values to be reported in the Annual Return at purchase cost or, where that value is unknown at the previous year's Return level uplifted or decreased to reflect the acquisition of any new assets or disposals.

We are again pleased to note that the Council maintains an asset register containing detail of individual asset values in accordance with the insurance schedule. We have again compared the content of the asset register with the insurance schedule, noting that both are consistent in their content, also noting that the register has now been updated to include new assets acquired in the financial year.

Conclusions and recommendation

As reported at the interim audit stage, the asset register required reworking to include all appropriate detail including the purchase cost (where known) or prior year Annual Return value, together with new purchases at purchase cost, net of VAT, added annually. Similarly, any deletions should be clearly identified together with the date of disposal and any sales income received. We are pleased to acknowledge the appropriate action taken to update the register accordingly

*R12. The asset register should be revamped to identify all Council assets, including new additions each year, identifying both the nominal value (as per the Annual Return at purchase cost) and insurance value, which will help members assess potential future years' budgets in relation to replacement costs. **The register has been updated and will again be reviewed at F&GP committee in June 2017.***

Investments and Loans

The Council has no surplus funds at present placed in short or long-term investments. We have verified detail of the two PWLB loan repayment instalments in the current year to the third party PWLB demand notices, also ensuring the accurate recording of the residual loan liability in the annual Return by reference to the PWLB website register of all council's outstanding loans as at 31st March 2017.

Conclusions

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

Statement of Accounts and Annual Return

The Rialtas Alpha software generates a formal Summary of Receipts and Payments, together with the necessary detail for preparation of Section 2 of the Annual Return, detail of which we have duly checked and agreed. As indicated earlier in this report, we have identified a few mis-codings that have required journal adjustments, detail of which we have agreed with the clerk and that have been made prior to finalising the accounting records / software detail for the year in readiness for "rollover" into 2017-18.

Conclusions

On the basis of our review process for the year, we have duly signed off the Internal Audit Certificate assigning positive assurances in each relevant area.

Rec. No	Recommendation	Response
Review of Accounting Arrangements and bank reconciliations		
R1	The Council / Clerk should ensure that further training in use of the Alpha Rialtas software is provided to the Clerk in order to maximise the available benefits that the software offers.	<i>The “Software working group” is meeting on Thursday 11th May to look at this.</i>
R2	Full use of the software’s management accounts and budget reporting facility should be made in order to avoid duplicated effort for the Clerk in transferring data to spreadsheets in order to report budget performance during the year (the software will generate this information at any stage of the year with a few keyboard depressions).	<i>See above</i>
R3	Appropriate arrangements should be made for the automatic daily back-up of data to the cloud, an off-site facility or, as a bare minimum, the removal of the laptop from the office when not manned.	
Governance and Accountability		
R4	The Clerk and Council should ensure that a consistent value is recorded in the Standing Orders and Financial Regulations for formal tender action.	<i>Updated Standing Orders will be confirmed and adopted at the Annual Town Council meeting May 2017.</i>
Review of Expenditure and VAT		
R5	Members should ensure that all documentation supporting payments (i.e. invoices, pay slips, etc) is examined, that examination being confirmed by inclusion of members’ signatures on the individual documents, not just the covering payment summary sheets.	<i>Councillors actioning intermittently. Cheques will be cross referenced with invoices, signed and stubs initialled after the finance schedule has been approved, i.e. within the meeting, not afterwards</i>
R6	The identified anomalies in the processing of payments, as detailed in Appendix 1 of the interim report, should be addressed and corrected accordingly.	<i>Noted and actioned accordingly.</i>
R7	The identified overpayment of travel expenses in 2015-16 should either be recovered directly or through an adjustment to the next expense reclaim submitted.	<i>A refund has been received and credited to the Council’s accounts on 20th April 2017.</i>
R8	The Clerk should ensure in conjunction with the software supplier that the third quarter’s VAT reclaim will include detail of the recoverable amounts omitted in error from the second quarter’s reclaim.	<i>To be actioned at end of year reclaim.</i>

Rec. No	Recommendation	Response
Review of Income		
R9	The Clerk and Council should ensure that detail of interments is entered in the Burial Register in a timely manner and that appropriate documentation is obtained, held and filed chronologically for all interments.	<i>This is now being undertaken routinely.</i>
R10	Undertaker and memorial application documentation should be filed appropriately and be effectively cross-referenced to the Burial Register entry number: it should also identify the bank paying-in-slip reference number in order to provide a clear and complete audit trail.	<i>Action is in hand to address this issue.</i>
R11	Full documentation relating to hire of the sports pavilion and associated facilities should be printed and held on file, with full and effective cross-referencing between the booking diary, invoice raised and date of income recovery and banking, as indicated in the body of the report.	<i>Appropriate documentation is now being retained.</i>
Asset Register		
R12	The asset register should be revamped to identify all Council assets, including new additions each year, identifying both the nominal value (as per the Annual Return at purchase cost) and insurance value, which will help members assess potential future years' budgets in relation to replacement costs.	<i>The register has been updated and will again be reviewed at F&GP committee in June 2017.</i>