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**Corsham Town Council**  
**(Incorporating The Methuen Hall Trust)**

*Internal Audit Report (Final update) 2015-16*

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*Stuart J Pollard*

*Director*  
*Auditing Solutions Ltd*

## **Background**

All town and parish councils are required by statute to make arrangements for an independent internal audit examination of their accounting records and system of internal control and for the conclusions to be reported each year in the Annual Return. Auditing Solutions Ltd has provided this service the Council since the outset of the “Limited assurance” audit arrangements.

This report sets out the work undertaken in relation to the 2015-16 financial year, during our visits to the Council, which took place on 29<sup>th</sup> September 2015, 16<sup>th</sup> February and 9<sup>th</sup> May 2016.

## **Internal Audit Approach**

As in previous years, 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. We have also paid due cognisance to recent legislative changes in planning our work programme for the year affecting, inter alia, those relating to EU Regulations in relation to the advertising of tenders and the revised NALC Model Financial Regulations.

In undertaking the review for the year, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts/Annual Return. Our programme of cover has also been designed to afford appropriate assurance that the Council’s financial systems remain robust and operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council’s own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the ‘Internal Audit Report’ in the Council’s Annual Return, which requires independent assurance over a number of internal control objectives.

In view of the close links between the Council and Methuen Hall Trust, we have again included coverage of transactions on the separately maintained accounting records of the Methuen Hall Trust. Consequently, this report incorporates detail of the work undertaken in respect of the Trust as well as the Council.

We have also followed up those matters raised in previous reports to ensure that the agreed courses of action have been taken and are pleased to record that no residual issues exist in that respect.

## **Overall Conclusion**

We have concluded that, on the basis of our annual programme of work, the Council has again maintained adequate and effective internal control arrangements.

We have completed and signed the ‘Internal Audit Report’ in the year’s Annual Return, having concluded that, in all significant respects, the control objectives set out in that Report were being achieved throughout the financial year to a standard adequate to meet the needs of the Council.

**This report has been prepared for the sole use of Corsham 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 contents or conclusions.**

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

Officers have continued to maintain the Council and Trust accounting records using Omega software with separate current bank accounts in place at Lloyds (one each for the Council, Methuen Hall & Coppershell Charity), HSBC and Santander banks. We also noted last year the placement of further surplus funds of £100,000 in the CCLA Property Fund.

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 the accurate carry forward of closing trial balance detail in the 2014-15 Statement of Accounts for both the Council and Trust to the current year's Omega records;
- Verified that the financial ledgers remain "in balance" for both entities at the financial year-end;
- Noted that a revised cost and expenditure coding structure has been implemented for the Council in 2015-16, which appears appropriate for purpose;
- Examined detail in the Council's current a/c cashbook for April and August 2015, plus January and March 2016 agreeing detail to the relevant bank statements;
- Examined the full year's transactions, in view of their low volume, on all other accounts, including the Methuen Hall's, to bank statements; and
- Checked and agreed detail on the bank reconciliations as at 30<sup>th</sup> April and 31<sup>st</sup> August 2015, plus 31<sup>st</sup> January and March 2016 on all accounts.

We also noted previously that, in order to spread risk, two treasury term deposits of £49,999 each were opened with HSBC, both of which have been further renewed on maturity in October and November 2015 respectively. We also noted the existence of an HSBC current bank account into which the half yearly interest earned on the two term deposits is paid by the bank, also noting that a monthly charge of £5.50 is still being levied by the bank for operation of this account effectively resulting in a reduction in the interest earned on both deposits of £66.00 per annum. We note that the Chief Executive (CX) has taken this up with the bank, who it appears are not prepared to waive the charge.

### *Conclusions*

*No issues arise in this area warranting formal comment or recommendation. Unfortunately production of the year's detailed Statement of Accounts had not been finalised by the Council's accounting contractor at the time of our final visit: consequently, we shall ensure the accurate disclosure of year-end balances in those Accounts and the Annual Return once they have been finalised and we have received the relevant detail.*

## Review of Corporate Governance & Regulatory Framework

Our objective here is to ensure that the Council has a robust regulatory framework in place, that Council and Committee meetings are conducted in accordance with the adopted Standing Orders

and that, as far as we are able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation.

We note that both Standing Orders and Financial Regulations (FRs) have been updated and re-adopted by the Council at the March 2016 meeting in line with the content of the latest NALC model documents, together with the previous adoption of an FR checklist also prepared by the CX, which highlights the timing of various actions to be performed necessarily during the course of the year.

We were pleased to note at our first interim visit that the CX was aware of the changes in EU legislation regarding the advertising of tenders in excess of £25,000 and has taken appropriate action to update SOs and FRs accordingly.

We have continued our review of minutes for the full financial year and to date in 2016-17 (as available) to ensure that the Council has neither considered nor is considering taking any action that may result in ultra vires expenditure being incurred.

We note the progress now being made to acquiring additional land for a cemetery extension and will monitor progress at future visits,

### ***Conclusions***

***No matters arise in this area warranting formal comment or action by officers or members. We shall continue to review minutes at future visits, also monitoring the Council's overall approach to governance.***

## **Review of Expenditure**

Our aim here is to ensure that: -

- Council and Trust resources are released in accordance with the approved procedures and budgets;
- Payments are appropriately supported, 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;
- An official order has been raised on each occasion when one would be expected;
- 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 reviewed the procedures in place for the placement of orders, approval and release of funds in respect of expenditure and consider them sound. We have also extended our review of payments for the year for compliance with the above criteria examining a sample of 58 Town Council payments totalling £362,500 equating to 72% of non-pay related payments in the financial year with all the above criteria appropriately met: the high percentage is primarily due to the cost of replacement play equipment supplied by Proludic (£190,800, including VAT).

Due to their relatively small number and ease of verification, all Trust payments for the financial year have also been examined to ensure compliance with the above criteria.

No significant issues were identified from the above review; however, we noted that the Methuen Hall payment for insurance included IPT that had inadvertently been regarded as VAT and added to the first VAT reclaim for the year: we drew this to the attention of the CX with appropriate corrective action duly taken.

We also note that some confusion arose in relation to VAT reclaims between the Council and Trust during the course of the year, which has been satisfactorily resolved with assistance from the accounting contractor.

### **Conclusions**

*We are pleased to report that no issues arise warranting formal comment or recommendation in this area.*

## **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: -

- Examined the Council's insurance policy, which includes detail for the Methuen Trust with specific and relevant areas pertaining to that body paid by the Trust accordingly. We are pleased to acknowledge that adequate cover remains in place and appears appropriate to the Council's / Trust's present requirements; and
- Noted that the CX has produced a revised Risk Management Strategy and more detailed risk assessment register, detail of which was presented to the Finance and Administrative Committee for formal review and was consequently re-adopted in April 2015 with a further subsequent review and re-adoption occurring in April 2016.

### **Conclusions**

*No issues arise in this area: we shall continue to review the Council's approach to risk management at future visits.*

## **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 level of precept to be drawn down from Wiltshire Council: 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 satisfactorily completed its budget and precept deliberations for 2016-17 approving the latter at £658,852, excluding the Council Tax Support Grant of £5,167 receivable from Wiltshire Council.

We are again pleased to note that members continue to receive routine budget reports throughout the year based on the accounting software, with a commentary explaining any significant variances that might exist: we have examined detail of the final year-end outturn and CX's covering report with no issues noted warranting comment or further action.

Finally in this area, we have examined the level of retained reserves at the year-end noting that, overall, they have increased to £638,750 (£595,200 as at 31/3/15) with the General Fund (GF) balance standing at £344,850 (£250,300 at the previous year-end). The GF balance now equates to approximately eight months' revenue spending at present levels and is considered more than appropriate for the Council's current requirements, given the retention of Earmarked funds of approximately £306,000.

### **Conclusions**

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

## **Review of Income**

Our objective in this area is to ensure that the Council and Trust identify and recover all income to which they are entitled and have appropriate arrangements in place to ensure its prompt recovery.

We have examined the controls in place over the identification and recovery of fees in respect of allotments, burial and associated fees, hanging baskets, also ensuring the recovery of rents for the two flats at Arnold House noting the sad demise of one tenant with no further income arising since November 2015 until the new financial year when it has been re-let following refurbishment.

We have examined the allotment registers, verifying the recovery and banking of all income due for the year noting the underpayment of £6 by one tenant, which neither officers nor we considered warranted pursuing. We have also ensured that the amount recovered is reflected appropriately and accurately in the year's financial ledger.

We note the continued use of a detailed spread sheet identifying income arising from burial and associated fees and reviewed detail in the formal Burial Register with the spread sheet record and undertakers' and stonemasons' applications for interment and placement of headstones, etc for the financial year to end January 2016. No issues were identified apart from noting the miscoding of one ashes interment fee of £165 re "James" to code 2355 (Memorials) rather than code 2352 (Interments): we drew this to the attention of the CX and HOFA who have duly made the necessary journal adjustment. We have also verified the accuracy of fees recovered by reference to the approved scale of fees and charges applying from 1<sup>st</sup> April 2015.

We have similarly examined the spread sheet record of shops / traders paying for hanging baskets during the summer 2015 season, agreeing detail to supporting documentation and the banking of received income: we noted the existence of one outstanding payment, which was effectively written off as the shop was forced to close due to drainage / sanitary problems.

### **Conclusions**

*We are pleased to record that no issues arise in this area warranting formal comment or recommendation: we shall update our year-on-year analysis of income across the various income sources once DCK Beavers have completed preparation of the year's Accounts, detail of which will be used to add focus to our review programme for 2016-17.*

## Petty Cash Account

We are required, as part of the internal audit certificate in the Annual Return to assess the Council's approach to and control of the management of petty cash account transactions.

In order to meet that requirement, we have again ensured that appropriate documentation is being maintained; that the account is being used for appropriate purchases and that individual purchases are not made for too high value items (i.e. purchases are for "petty" amounts only where it is not practicable for an account to be established with suppliers) and that VAT is being identified accordingly for periodic recovery. To that end, we have: -

- Examined transactions for the period 1<sup>st</sup> December 2015 to 16<sup>th</sup> February 2016 to ensure that all expenditure has been appropriately supported by a trade invoice or till receipt;
- That VAT has been identified for recovery, where appropriate; and
- Physically verified the petty cash physically held at the time of this update visit.

### Conclusions

*We are pleased to record that no significant issues have been identified in this area, although we again note that VAT incurred in the test period, albeit for a very small sum, was not identified for recovery.*

## Review of Salaries

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenues and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the changes that have occurred in relation to the further revision in the local government pension scheme employee contribution bandings from 1<sup>st</sup> April 2015. To meet the above objective, we have:

- Examined employment contracts for the six new appointees since last year's review;
- Agreed the gross salaries paid to all staff in September 2015 by reference to the Council's approved pay scales and above revised / new employment contracts;
- Ensured that tax and NI deductions have been made applying the appropriate tax code and NI Table by reference to the relevant HMRC web site calculators and that they are being paid over to HMRC accurately and in a timely manner each month;
- Ensured that appropriate employee and employer contributions to the pension scheme have been determined and paid over to the Pension Fund Administrators also in a timely manner;
- Reviewed the timesheets and travel claims processed with the September 2015 payroll agreeing detail to the physical payments made to employees and ensuring that each has been signed appropriately by the employee and certified as appropriate for payment by their line manager; and
- Ensured the accurate payment of staff net salaries and deductions due to HMRC and Pension Fund Administrators.

### Conclusions

*We are pleased to report that no significant issues have arisen from our work in this area.*

## Fixed Asset Registers / Inventories

The Governance and Accountability Manual requires all councils to maintain an appropriate register of its asset stock: the Council has complied with the requirement differentiating, to a great degree, between those assets that would be regarded as capital spending were the Council subject to full FRSSSE accounting principles requiring the assets to appear on the Balance Sheet and capital charges to be applied. We are pleased to note the continued maintenance and update of this very comprehensive register to reflect new acquisitions and / or disposals during 2015-16.

However, in comparing the values as recorded in the register with the prior year detail, we note that they have been uplifted to reflect movements in the insured values of individual assets. Whilst acknowledging the benefits of identifying the potential replacement costs to the Council, the register should reflect the total value as reported in the Annual Return and not be inflated annually in line with movements in the RPI and insured values.

We are, however, pleased to note that the Council's external contract accountants have observed the extant guidance and purely shown the prior year reported asset value in the detailed Statement of Accounts and Annual Return to reflect the cost of new purchases / acquisitions in 2015-16, less the nominal value of any disposals. They have also ensured that the value of the CCLA "investment" (as below) is also recorded appropriately as a fixed asset in the year's Annual Return.

### *Conclusions and recommendation*

*As indicated above, we consider that the asset register requires reworking in order to identify not only the replacement cost of individual / groups of assets, but also their nominal value as reported in the year's Annual Return.*

*R1. The asset register should be revised to record detail of all Council assets identifying not only the insured / replacement value, but also the nominal / purchase cost value as reported in the year's Annual Return.*

## Investments and Loans

We aim here to ensure that the Council is maximising its interest earning potential through "investment/deposit" of surplus funds in high interest bearing accounts/deposits. We have made previous reference in this report to the HSBC current account and term deposits and the placement of £100,000 in the CCLA Property Fund in March 2015 and, consequently, do not reiterate that detail here.

We have checked and agreed the two half-yearly PWLB loan repayment instalments for the year by reference to the relevant PWLB demand notices, as part of our aforementioned expenditure testing.

### *Conclusions*

*No additional issues arise in this area warranting formal comment or recommendation at present. We will verify the accurate disclosure of the year-end loan liability at Section 1, Box 10 of the year's Annual Return at our final visit, also ensuring the accurate disclosure of the year-end "investment" deposits.*



## **Statement of Accounts & Annual Return**

We are required as part of the internal audit reporting process to provide assurance to the external auditor that the financial detail reported in Section 2 (Section 1 in prior years) of the Annual Return corresponds to the underlying financial and other records of the Council and that appropriate arrangements exist for the identification and reporting of any year-end debtors and creditors due to or payable by the Council.

As indicated earlier in this report, the contract accountants (DCK Beavers) have still to finalise preparation of the formal Statement of Accounts, detail of which provides the basis for data entry in the Annual Return. We have made arrangements to receive the detailed Accounts once finalised, together with relevant supporting documentation, and will review the detail on receipt and confirm the detail as accurate, or otherwise, in due course.

### ***Conclusions***

***Notwithstanding the unavailability of the formal Statement of Accounts and Annual Return date, we do not anticipate any significant problems based on prior year experience, and, on the basis of the satisfactory conclusions drawn from the work undertaken this year, we have signed off the Internal audit Certificate in the year's Annual Return assigning positive assurances in each relevant area.***

Rec. No.	Recommendation	Response
<b>Fixed Asset Registers</b>		
R1	The asset register should be revised to record detail of all Council assets identifying not only the insured / replacement value, but also the nominal / purchase cost value as reported in the year's Annual Return.	The has been completed. An additional column has been added to the Asset Register to record original purchase price of the asset.