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

*Internal Audit Report (Final update) 2016-17*

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## **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 2016-17 financial year, during our three visits to the Council for the year, which took place on 5<sup>th</sup> September 2016; 3<sup>rd</sup> February and 12<sup>th</sup> May 2017, together with work undertaken subsequently off site on receipt of the 2016-17 Accounts from the Council’s external contract accountants.

## **Internal Audit Approach**

In conducting our review for 2016-17, 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 is also 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 Trust. Consequently, this report incorporates detail of the work undertaken in respect of the Trust as well as the Council.

## **Overall Conclusion**

We are pleased to again conclude that the Council continues to maintain adequate and effective internal control arrangements, with one or two minor issues identified during the course of our two visits to date, detail of which is set out in the body of the report with any resultant recommendations further summarised in the appended Action Plan.

On the basis of the satisfactory completion of our review programme for the year, we have duly signed off the Internal Audit Report in the year’s Annual Return assigning positive assurances in each relevant area.

# 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 Trust & Coppershell Charity), HSBC and Santander banks (Council only). Further surplus funds of £100,000 also continue to be retained 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 2015-16 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;
- Examined detail in the Council & Trust's current a/c cashbooks for April, July and December 2016, plus March 2017 agreeing detail to the relevant bank statements;
- Examined the full year's transactions, in view of their low volume, on all other accounts to bank statements;
- Checked and agreed detail on the Council and Trust's current account bank reconciliations as at 30<sup>th</sup> April, 31<sup>st</sup> July and December 2016, plus 31<sup>st</sup> March 2017 including those on the other accounts as at 31<sup>st</sup> July and December 2016, plus March 2017; and
- Ensured the accurate disclosure of the combined cash and bank balances in the year's Annual Return.

We have noted previously that, in order to spread risk, two treasury term deposits of £49,999 each were opened with HSBC, both of which were further renewed on maturity in April / May and October / November 2016 respectively for further six month investment periods. We note the continued existence of an HSBC current bank account into which the half yearly interest earned on the two term deposits is paid, again noting that a monthly charge of £5.50 continues to be 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 noted previously that the Chief Executive (CX) had discussed this with the bank, who are not prepared to waive the charge.

### *Conclusions*

*We are pleased to record that no issues arise in this area warranting formal comment or recommendation this year: we note that the CX is considering moving funds from HSBC to an alternative investment opportunity such as the CCLA Deposit Fund in order to attract a better rate of interest.*

## 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.

Both Standing Orders and Financial Regulations (FRs) were 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 note that they have been subjected to further review with members determining that no changes were required in their detailed content.

We have continued our review of minutes for the financial year and to date in 2017-18 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 continuing progress towards acquiring additional land for a cemetery extension and will continue to monitor progress at future visits,

### ***Conclusions***

***No matters arise in this area warranting formal comment or action by officers or members at present. 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 again 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 extended our review of payments for the full financial year to ensure compliance with the above criteria examining a sample of 64 Town Council payments totalling £233,800 equating to 59% of non-pay related payments in the financial year with all the above criteria appropriately met. Due to their relatively small number and ease of verification, all Trust payments for the financial year have also been examined for compliance with the above criteria.

We noted at our first visit for the year completion of a VAT Partial Exemption calculation by the Council's contracted accountants with no concerns or liabilities identified. We also note an HMRC / VAT inspection with, we understand, no significant concerns identified.

We have examined the four quarterly VAT reclaims prepared and submitted for the Council and Trust: whilst no issues have been identified on the Council's returns with detail agreeing to the Omega control account balance at each quarter end, we note that the year-end balance on the Trust's final return is marginally different to the control account balance: enquiry of officers has confirmed that the source of the imbalance has been identified and been corrected by the contract accountants accordingly and will be included with the Trust's first quarterly reclaim for 2017-18.

### ***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 consider that adequate cover remains in place and is appropriate to the Council's / Trust's present requirements.

We also noted previously that the CX had 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 2016 and again in April 2017.

### ***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 completed its budget and precept deliberations for 2017-18 approving the latter at £667,717 at the January 2017 full Council meeting: we also note that no Council Tax Support Grant will be paid by Wiltshire Council in 2017-18.

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 year-end Omega budget report detail following up and obtaining appropriate explanations for the few minor variances existing with no issues identified 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 £719,439 (£639,654 as at 31/3/16) with the General Fund (GF) balance standing at £337,293 (£346,541 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**

*We are again pleased to record that no issues arise in this area this year 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 allotment registers, verifying the recovery and banking of all income due for the year, also noting that the income recorded in the registers is accurately reflected in the relevant nominal income code in the financial ledger with no issues identified warranting further action or comment.

In undertaking our check of hanging baskets at our first visit, we noted a number of apparent anomalies, detail of which we discussed with the relevant officer and are pleased to acknowledge the subsequent action taken to address them. The spreadsheet register of traders, etc provided with hanging baskets matches the total income recorded in the nominal ledger apart from the inclusion of the Methuen Hall Trust contribution of £320 (net of VAT) towards the cost of the baskets. We discussed the position with the CX and agreed that an appropriate journal would be raised transferring the £320 from the income code to be shown as an offset against the Council's costs of purchasing the baskets.

We note the continued use of a detailed spread sheet identifying income arising from burial and associated fees: we examined the Burial Register at our interim update visit with a few apparent omissions in the Register's detail: we have revisited this area at this final visit and ensured that the previously identified potential anomalies have been addressed and that fees due for all interments recorded therein are recovered and recorded appropriately in the spread sheet record: no issues arise in this respect.

We have also, at this final visit, examined the Methuen Hall booking diary for January 2017 checking to ensure that, for all bookings, the appropriate fees have been charged and recovered, also noting that the Town Council is recharged for its usage of the hall on a single monthly invoice. We noted two potential anomalies on the invoices raised with the monthly Council invoice including a duplicated charge, albeit for only £15.00 incl. VAT) for one booking, whilst a Heywood School booking invoice (no. 2320) appears to have not yet been settled: we have drawn this to the attention

of the relevant Council officer who has agreed to follow up and check on the position, as the booking may have been cancelled due to ongoing maintenance work at the hall at the time).

### ***Conclusions and recommendations***

***No significant or substantive concerns have been identified in the areas examined this year: we are pleased to acknowledge the actions taken to address the issues identified at our earlier visits.***

- R1. *The misposting of the Methuen Hall's contribution towards the costs of providing hanging baskets should be corrected by journal treating it as an offset to the Council's purchase costs of the baskets rather than be shown as hanging basket income. This has been corrected accordingly by journal.*
- R2. *The apparent anomalies between the burial register and income spreadsheet register should be reviewed and explained accordingly. Detail has been reviewed and corrected accordingly.*
- R3. *The status of the January 2017 Heywood School booking of the Methuen Hall and settlement of the resultant invoice should be examined further.*

## **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 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 11<sup>th</sup> November 2016 to 3<sup>rd</sup> February 2017 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 (i.e. 3<sup>rd</sup> February 2017).

### ***Conclusions and recommendation***

***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 relatively small sums, has again not been identified for recovery.***

- R4. *When compiling the monthly petty cash account transaction spreadsheet, care should be taken to ensure that any and all recoverable VAT is identified and coded appropriately to the Vat control account for periodic recovery. In most instances the sums involved are very small. The position will be reviewed and where VAT is identifiable, it will be coded appropriately for inclusion in the periodic reclaims.*

## 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 removal of National Insurance Table D relief for members of the LG Pension scheme (unless of pensionable age, all employees should now pay contributions in accordance with Table A) and the implementation of the nationally agreed pay award payable from 1<sup>st</sup> April 2016. To meet the above objective, we have:

- Agreed the gross salaries paid to all staff in August 2016 by reference to the Council's approved pay scales and 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 August 2016 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 again for August 2016.

### *Conclusions and recommendation*

***We are pleased to report that no significant issues have arisen from our work in this area, although we identified an apparent miscalculation of the revised salary payable to one employee (no. 38), which would result in a gross underpayment of £30 for the financial year***

***R5. The apparent miscalculation of one employee's gross salary payable for 201-17 should be checked and, if the underpayment is confirmed an appropriate adjustment should be made to the next month's salary with the resultant arrears paid accordingly. The error has been agreed and adjusted accordingly with the October 2016 salary.***

## 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 and also verified the accurate disclosure of the residual year-end loan liability by reference to the UK Debt Agency website detail of all such outstanding balances for councils.

### *Conclusions*

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

## **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 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.

We have received detail of the year-end Accounts prepared by the contract accountants and have agreed detail to the underlying records.

### *Conclusions*

*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>Review of Income</b>		
R1	The misposting of the Methuen Hall's contribution towards the costs of providing hanging baskets should be corrected by journal treating it as an offset to the Council's purchase costs of the baskets rather than be shown as hanging basket income.	<i>This has been corrected accordingly by journal.</i>
R2	The apparent anomalies between the burial register and income spreadsheet register should be reviewed and explained accordingly.	<i>Detail has been reviewed and corrected accordingly.</i>
R3	The status of the January 2017 Heywood School booking of the Methuen Hall and settlement of the resultant invoice should be examined further.	<i>An invoice has been raised and payment was received on 1 June 2017.</i>
<b>Review of Petty Cash Account</b>		
R4	When compiling the monthly petty cash account transaction spreadsheet, care should be taken to ensure that any and all recoverable VAT is identified and coded appropriately to the Vat control account for periodic recovery.	<i>In most instances the sums involved are very small. The position will be reviewed and where VAT is identifiable, it will be coded appropriately for inclusion in the periodic reclaims.</i>
<b>Review of Salaries and Wages</b>		
R5	The apparent miscalculation of one employee's gross salary payable for 201-17 should be checked and, if the underpayment is confirmed an appropriate adjustment should be made to the next month's salary with the resultant arrears paid accordingly.	<i>The error has been agreed and adjusted accordingly with the October 2016 salary.</i>