
Marchwood Parish Council

Internal Audit Report 2011-12 (Final)

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Background and Scope

The Accounts and Audit Arrangements introduced from 1st April 2001 require all Town and Parish Councils to implement an independent internal audit examination of their Accounts and accounting processes annually. The Council complied with the requirements in terms of independence from the Council decision making process appointing a local contractor to provide the service from the introduction of the new regulations. We, at Auditing Solutions Ltd, were subsequently approached and appointed to provide the service from 2010-11 forward.

This report provides detail of the work undertaken during our two visits to the Council for 2011-12, which took place on 3rd October 2011 and 19th April 2012.

Internal Audit Approach

In conducting our review of the Council's accounting, governance and other records, we have again paid due regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts, also following up on any issues identified in prior year reports.

As the Council's Internal Auditor and under the revised audit arrangements, we have a duty to complete the internal audit certificate in the Council's Annual Return, which covers the basic financial systems and requires assurances in ten separate areas. Consequently, our programme of cover is designed to examine the control systems and procedures in place, together with applying selective sample testing to ensure that those controls are operating in the approved manner and thereby give assurance not only to us that they are sound, but also to members and the local electorate.

Overall Conclusion

Overall, we are pleased to conclude that, in the areas examined this year, we consider that the Council continues to maintain effective control systems to ensure that transactions are accurately recorded in the financial ledgers and are reported accurately in the Statement of Accounts and Annual Return for the financial year.

On the basis of the work undertaken this year, we have signed off the Internal Audit Certificate at Section 4 of the Annual Return assigning positive assurances in each relevant area, with one minor qualification in relation to the need for the update of financial risk assessments to be expedited as soon as is practicable.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Council uses the Omega accounting software to maintain the financial and management accounting records with three bank accounts in operation with Lloyds TSB. Detail of transactions on those accounts is recorded on three separate cashbooks within the accounting software. A further fixed sum has been re-deposited in a twelve month Treasury Deposit due to mature in June 2012.

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: -

- Agreed the opening trial balance detail with the 2010-11 Statement of Accounts and closing financial ledger Trial Balance for that year;
- Checked that the financial ledger has remained “in balance” throughout the financial year;
- Ensured that the cost and expenditure coding structure remains appropriate for the Council’s reporting needs;
- Checked and agreed detail of current account transactions for three months of the year (April & August 2011, plus March 2012) agreeing detail to the relevant bank account statements;
- Checked and agreed in full (in view of their relatively low number) detail of the year’s transactions on the other accounts to relevant bank statements;
- Checked and agreed detail on the three accounts’ bank reconciliations as at 31st August 2011 and 31st March 2012 to ensure that no cheques or deposits remain uncleared at bank for an undue period and that no anomalous entries exist.

Conclusions

We are pleased to record that no issues have been identified in this area of our review with the year-end balances confirmed as accurately disclosed in the Annual Return.

During the course of last year’s review, we suggested to the Clerk an enhancement as regards checking and signing off of journals raised during the course of and at the financial year-end and note that no action has been taken to implement this suggestion: consequently, we have again raised it as a specific recommendation this year. We also suggest that, in order to further demonstrate the fulfilment of their fiduciary responsibilities, a nominated member should review the content of and check the accuracy and timely completion of bank reconciliations, again initialling the documents to indicate satisfactory completion of the review.

- R1. *In order to provide a measure of independent review and further improve governance, either a nominated member or the Clerk should review and sign off journals raised during the year.*
- R2. *In order to further strengthen and demonstrate the effectiveness of the Council's fiduciary controls, either the clerk or a nominated member should review and sign off bank reconciliations on each account periodically.*

Review of Corporate Governance

Our objective is to ensure that the Council has a robust series of corporate governance policies, procedures and documentation in place, that Council and Committee meetings are conducted in accordance with the adopted Standing Orders and that no actions of a potentially unlawful nature have been or are being considered for implementation that may adversely affect the Council's financial standing or result in a legal challenge. We have, consequently, undertaken the following work in this area:

- We note that the Council has reviewed both Standing Orders and Financial Regulations in the past twelve months, determining that no significant changes are warranted at present;
- We have continued our review of the Council's minutes for the current year to determine whether or not any issues exist that may have an adverse effect, through litigation or other causes, on the Council's current or future financial stability;
- We are again pleased to note the existence of various policies and procedures, together with a staff handbook, which we consider affords the Council with an appropriate degree of protection should any long-term absences of key personnel occur.

Conclusions

We are pleased to report that no significant matters have arisen in this area: we shall continue our review of minutes at our final visit for the year. However as indicated last year, we still consider that the present limit of £50,000 for formal tender action is set too high for a council the size of Marchwood: whilst we note members' consideration of our recommendation and indication that they wish to retain the requirement at that level, we would urge that further consideration be given to the matter.

Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and approved budgets;
- Payments are supported by appropriate documentation, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due and/or an acknowledgement of receipt, where no other form of invoice is available;

- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct expense codes have been applied to invoices when processed; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have again examined the controls in place over the placement of orders, receipt and approval of invoices for payment and release of relevant funds to traders, etc. and consider them to be generally sound, with members physically examining and initialling each invoice as and when they sign cheques. We also understand that, following our recommendation last year, members now examine the payroll documentation and verify the accuracy of payments to individuals.

We have extended testing in this area examining to cover the full financial year selecting a sample of non-pay related payments including all individual payments in excess of £1,000 plus every fifteenth payment throughout the year. In all we have examined 39 payments totalling £59,500 equating to 67% of all non-pay related expenditure in the year.

We are also pleased to note that VAT reclaims continue to be prepared and submitted quarterly to HMRC: we have examined the final quarter's reclaim, which has still to be submitted to HMRC agreeing detail to the financial ledger's control account and disclosure in the Annual Return.

Conclusions

No issues have been identified in this area of our review process. We have also updated our year-on-year analysis of expenditure across the various headings in the Statement of Account produced from the Omega accounting system examining any significant variances and obtaining explanations for their existence.

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 with Aviva to ensure that appropriate cover is in place for the current year, noting that Employers and Public Liability are in place at £10 million, with Fidelity Guarantee cover at £434,000, which we consider appropriate for the Council's requirements.
- Noted that the Council has undertaken various risk assessments in recent years and that, following our recommendation last year, acquired and commenced the development of the Local Council Risk System (LCRS) software to provide a more formalised financial risk register.

Conclusions

We are pleased to record that the level of insurance cover is appropriate in each area: however, we are concerned to note that little real progress has been made towards completing the financial risk assessment process using the LCRS software.

R3. *The Council should ensure that an effective financial risk assessment process is in place and that it is subject to regular review, formal update and re-adoption by the Council annually.*

Budgetary Control & Reserves

Our objective here is to ensure that the Council has robust procedures in place for identifying and approving its future budgetary requirements and the level of precept to be drawn down from the District 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 note that the Council has undertaken a detailed and effective budget consideration exercise resulting in the approval and adoption of a precept of £206,936 for 2012-13;
- We also note that members periodically consider and approve detail of movements in budgets and reserves during the course of the year, detail being minuted appropriately;
- We have examined the year-end budget outturn report noting a few variances, detail of which we have reviewed and acquired, in conjunction with the Finance Officer, explanations for their existence; and
- Considered the level of retained reserves at the financial year-end, noting a total holding of £304,000, with a General Reserve balance of £80,000 which sits comfortably within the CiPFA guideline of between three and six months' net revenue spend.

Conclusions

No matters arise in this area: we consider that the Council has an appropriate level of retained reserves to meet ongoing revenue spending, together with meeting future development aspirations.

Review of Income

The Council receives income from a relatively limited range of sources in addition to the annual precept, primarily by way of newsletter advertising fees, sports field bookings and casual tennis court hire fees.

Our aim here is to ensure that all income due to the Council is identified and recovered within a reasonable time period and that the Council is receiving value for money from the “investment” of surplus funds.

At our interim visit, we have examined the control records and invoices raised in relation to the recovery of advertising fees in the quarterly village news booklet and are pleased to acknowledge the improved controls in this area following our suggestions in 2010-11. No further issues have been identified in this area this year and we consider the controls and audit trail now in place to be appropriate for the Council’s requirements.

We also examined the records maintained by the Deputy Clerk in respect of tennis / all-weather court key deposits at our interim visit, noting that these deposits were retained in envelopes with the covering documentation in each case and that the deposits were not banked or reflected in the Council’s Accounts in any way. We also note that the payment for use of the tennis courts is very much run on trust, with key holders supposedly visiting the Council offices periodically and paying over any fees due. It was evident from the accounting system’s nominal ledger that only very limited income arises in this respect and, whilst we acknowledge that the cost of policing usage would be prohibitive, we indicated that a more pro-active approach would ensure a higher return from users of the facilities.

We also noted the recent action aimed at ensuring key holders visit the office and return their keys in exchange for a refund or renewal of their deposits: indications were that little further income would arise from this initiative. We have discussed possible options with the Clerk, her Deputy and the RFO and suggested that consideration be given to the following:-

- Changing the lock on the courts and re-issuing keys (ideally of a type that may not be duplicated) on receipt of an appropriate deposit;
- Banking all deposits received, recording them in a control account on the financial ledger and reporting them on the year-end Balance Sheet as a liability of the Council (i.e. they should be regarded as a creditor): this will also require the establishment of a separate control account on the ledger with a supplementary record identifying the name of the depositor, date and amount of deposit and, if appropriate, the date when a deposit is refunded; and
- Any currently held deposits not reclaimed should be banked as miscellaneous court hire income.

In order to endeavour to ensure recovery of a more reasonable level of casual court usage fees, we have also suggested that a quarterly form be issued to all key holders with a request that they identify the dates and times of court usage and remit the amount due to the Council accordingly.

We have also re-examined the detailed income transaction reports on the accounting software for the year to ensure that no obvious miscodings or anomalous entries exist, also checking a sample through to the bank paying in slips.

We have reviewed the basis on which the Finance officer has assessed year-end debtors agreeing the detail to the relevant supporting documents.

Finally in this area, we updated our year-on-year analysis of expenditure across the various headings in the Statement of Account produced from the Omega accounting system examining any significant variances and obtaining explanations for their existence.

Conclusions and recommendations

As indicated above, no major issues have been identified in this area, although we consider that scope exists for improved controls and greater income identification / recovery in relation to the usage of the tennis court and entry keys.

We note that little or no progress has been made in this area since our interim visit, apart from depositing the funds held for court hire in the Council's bank account. We also note that, due to an oversight, the funds have been recorded as an income item, rather than be shown as a liability on the Balance Sheet at the year-end. In view of the low value involved (£60), we have agreed with the Finance Officer that the necessary journal adjustment will be made in 2012-13, rather than retrace and reproduce the Accounts for 2011-12.

R4. *The Council should consider changing the keys affording access to the hard courts and subsequent banking of deposits received, which should also be identified as liabilities in the accounting records.*

R5. *Further consideration should be given to improving identification of ad hoc usage of tennis courts along the lines discussed with the Clerk and her staff during the course of our visit.*

Petty Cash Account

A petty cash account is in use within the parish office on an imprest basis with a cash float of £200.00: actual expenditure is reimbursed periodically (generally quarterly) during the course of the year to return the float to the £200 level.

Our aim in this area is to ensure that all payments are appropriately supported by either a trade invoice or appropriate till receipt that VAT is identified for recovery and that reimbursement payments are made accurately.

We examined the reclaim prepared as at the date of our interim visit covering the three months to 3rd October 2011 to ensure compliance with the above criteria and have, at this final visit, also examined a subsequent reclaim as part of the expenditure testing referred to previously in this report.

We also verified the physical cash holding at the time of our interim visit, noting that surplus moneys are retained in the cash tin in case of any future shortfall.

Conclusions and recommendation

No issues were identified in this area, other than the excess cash holding. Whilst not a significant issue, we would suggest that the surplus cash holding be paid into

the bank as “Miscellaneous income” and the actual float be retained at exactly £200.

R6. *The surplus cash held in the petty cash tin should be paid into bank as “miscellaneous income” and the cash float be retained at the approved £200 level.*

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 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 further amended from 1st April 2011 as regards employee contribution bandings. To meet that objective, we have undertaken the following work at this interim visit: -

- Noted that no changes in staff pay, other than by way of incremental progression, where applicable, has occurred in the current financial year;
- Noted that the RFO prepares the monthly payroll “in-house” using Sage payroll software;
- Checked and agreed detail of the September 2011 payroll to the RFO’s schedule of approved salaries;
- Verified that deductions for those individuals contributing to the pension scheme have been accurately computed in line with the revised national procedures across the annual salary bandings;
- Ensured that tax and NI deductions have been made applying the appropriate tax code and NI Table;
- Examined the time records prepared identifying the RFO’s basic and Amenities Maintenance and Facilities Supervisor’s enhanced hours payable for the month; and
- Checked and agreed the physical payment of net salaries through the Telepay system.

Conclusions

We are pleased to record that no issues have been identified in our review of the payroll procedures this year.

Asset Register

Councils are required, in accordance with the Accounts and Audit Regulations 1996 (as amended) to maintain a detailed asset register and to report the value of assets held in Section 1 of the Annual Return. Assets have traditionally been recorded in accordance with the detailed register maintained by the Finance Officer, which has included values at purchase cost and also with the annually uplifted value for insurance purposes, the latter being applied for reporting in the Annual Return.

The Accounting regulations regarding reporting of the value of assets in the Annual Return were amended in 2009-10 and now require that values are reported at purchase cost or, where that value is unknown, at the nearest approximation thereto: consequently, the value of assets reported in the Annual Return should not alter from year to year other than to include the purchase cost (net of VAT) of any new acquisitions less the purchase cost of any disposals.

Conclusions

We have discussed the relatively new reporting arrangements with the Finance Officer who has agreed to rework the asset values to be reported in the 2011-12 Return in line with the latest extant guidance.

Investments and Loans

In this area of our review, we seek to confirm that the Council is utilising its available resources to best effect and is maximising its interest earning potential.

We note that the Council has “re-invested” the sum of £50,912.45, including interest received on the previous deposit, in a further treasury term deposit for twelve months from 9th June 2011.

The Council now has no loans repayable either by or to it.

Conclusions

No issues arise in this area at present: we shall ensure the correct disclosure of the funds “invested” in the treasury term deposit in the Annual Return at our final visit.

Statement of Accounts and Annual Return

We are required, as part of the Internal Audit certification process to assess the adequacy and effectiveness of the Council’s procedures for ensuring the accurate assessment of debtors and creditors and disclosure of year-end data in the Annual Return at Section 1. As an Omega user, the Council is well placed to identify the necessary detail, as the software actually generates the necessary financial information in every respect apart from boxes 9 & 10, which would be identifiable from additional documentation.

We are pleased to acknowledge the effectiveness of the procedures in place for identifying year-end adjustments on respect of debtor and creditor balances. We have also ensured that the detail to be recorded in the Annual Return accurately reflects the detail in the Omega accounting software for the financial year.

Conclusions

We are pleased to record that no issues have arisen in this area and we have duly signed off the Internal Audit Certificate at Section 4 of the Annual Return assigning positive assurances in each relevant area.

We are also pleased to acknowledge that the Finance Officer has prepared an appropriate analysis of significant variances in Section 1 of the Return between 2010-11 and 2011-12 for submission to the external auditor.

Rec. No.	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	In order to provide a measure of independent review and further improve governance, either a nominated member or the Clerk should review and sign off journals raised during the year.	
R2	In order to further strengthen and demonstrate the effectiveness of the Council's fiduciary controls, either the clerk or a nominated member should review and sign off bank reconciliations on each account periodically.	
Assessment and Management of Risk		
R3	The Council should ensure that an effective financial risk assessment process is in place and that it is subject to regular review, formal update and re-adoption by the Council annually.	
Review of Income		
R4	The Council should consider changing the keys affording access to the hard courts and subsequent banking of deposits received, which should also be identified as liabilities in the accounting records.	
R5	Further consideration should be given to improving identification of ad hoc usage of tennis courts along the lines discussed with the Clerk and her staff during the course of our visit.	
Petty Cash Account		
R6	The surplus cash held in the petty cash tin should be paid into bank as "miscellaneous income" and the cash float be retained at the approved £200 level.	