
Marchwood Parish Council

Internal Audit Report 2012-13 (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 has complied with these requirements appointing us, at Auditing Solutions Ltd, to provide the service from 2010-11 forward.

This report provides detail of the work undertaken during our visits to the Council for 2012-13, which took place on 12th November 2012 and 2nd May 2013.

Internal Audit Approach

In carrying out 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, the Council continues to maintain effective control systems that help ensure that transactions are accurately recorded in the financial ledgers, Statement of Accounts and Annual Return for the financial year. We understand that the new RFO has undergone training in order that he may gain swift familiarity with the Omega accounting software and ensure its effective operation and application and that he is now able to contribute to the requirements of this post.

On the basis of the work undertaken at our visits to the Council this year, we have duly signed off the Internal Audit certificate at Section 4 of the Annual Return, assigning positive assurances in each relevant area.

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 now due to mature in June 2013.

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 2011-12 Statement of Accounts and closing financial ledger Trial Balance for that year;
- Checked that the ledger has remains “in balance at the financial year-end;
- 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 April & September 2012 plus March 2013 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 all three accounts’ bank reconciliations as at 30th April and September 2012 plus 31st March 2013 to ensure that no cheques or deposits remain uncleared at bank for an undue period and that no anomalous entries exist; and
- Ensured the correct disclosure of the year-end balances in the Statement of Accounts and Annual Return for the financial year.

Conclusions

We are pleased to record that no issues have been identified in this area of our review. We noted, at our interim visit, the appointment of a new RFO and are understand that he has been provided with appropriate training in the use of the Omega accounting software:

We have undertaken further work in this area at this final visit, ensuring that the year-end balances are accurately reported in the year-end Statement of Accounts and Annual Return for submission to the external auditors.

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, as far as we are able to ascertain, 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. Consequently: -:

- We note that the Council has adopted the new Members Code of Conduct and General Power of Competence having fulfilled the appropriate criteria in accordance with the Localism Act 2011. We also note that both Standing Orders and Financial Regulations have been re-examined, the latter being re-adopted with relevant amendments in the light of the above legislative changes, whilst members determined that no amendments were required currently to Financial Regulations;
- We have continued our review of the Council's minutes for the financial 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

No significant matters arise in this area of our review process at present. We have previously indicated that we consider the present limit of £50,000 for formal tender action to be too high for a council the size of Marchwood: we note members' previous consideration of our recommendation and their indication that they wish to retain the requirement at that level.

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 reviewed 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 note that, following our previous recommendation, members now examine the payroll documentation and verify the accuracy of payments to individuals.

We have continued testing in this area for compliance with the above criteria examining a total sample of non-pay related payments comprising all individual payments in excess of £1,000 plus every fifteenth payment throughout the year. Our test sample includes 45 payments totalling £146,615 and equating to 62% 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 quarterly reclaims for the year, verifying detail to the Omega ledger's control account and ensuring the appropriate disclosure of the final quarter's reclaim as a debtor in the year-end Accounts.

Conclusions

No significant issues have been identified in this area of our review process: however, we noted that an invoice from Newport Electricity Services in February 2013 contained a totalling error when adding the VAT, which staff have agreed to pursue and recover the £5 overpayment when the contractor is next used by the Council.

R1. The Clerk should ensure the totalling error on the Newport Electricity invoice in February resulting in an overpayment of £5 is recovered as soon as practicable.

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 Employer's and Public Liability remain in place at £10 million, with Fidelity Guarantee cover at £434,000, which we consider appropriate for the Council's requirements.
- Noted previously that the Council had undertaken various risk assessments and that, following our prior year recommendation, had acquired and commenced development of the Local Council Risk System (LCRS) software to provide a more formalised financial risk register. We understand that, due to computer upgrades, the Clerk had experienced difficulties in loading the software onto the updated system and suggested that she contact the supplier to obtain an updated disc that should prove compatible with the latest Microsoft systems. This work has been progressed with the Risk Management and Assessment documents reported to the Council's January 2013 meeting with a strategy to complete the process by Committees agreed.

Conclusions

We are pleased to record that no issues arise in this area this year and will continue to monitor the development of the risk assessments at future visits.

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 Clerk prepared an outline budget for 2013-14, which was submitted to full Council for formal approval and adoption in January 2013L whilst the documents were approved, the value of the precept is not specifically identified in the minutes. In order that Council meets its legal obligations, the value of the adopted precept (and Council Tax Support Grant) should be formally and retrospectively minuted at the next full Council meeting. The Clerk has agreed appropriate action in this respect and consequently no formal recommendation is considered necessary at present.

We are pleased to note that members are provided with, consider and approve detail of movements in budgets and reserves during the course of the year, detail being minuted appropriately. We have also reviewed the year-end budget outturn in conjunction with the update of our year-on-year analysis of income and expenditure across the various budget headings, also examining the level of retained reserves.

Conclusions

No matters arise in this area warranting formal comment at present: we shall ensure that an appropriate minute adopting the precept (and Council Tax Support Grant) at our next visit.

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.

We examined the control records and invoices raised in relation to the recovery of advertising fees in the quarterly village news booklet at our interim visit and were

pleased to acknowledge the ongoing improvement in control in this area, with no procedural issues arising at present.

We have also reviewed the RFO's register of invoices raised to ensure that no significant or long-standing debts remain unsettled. The VAT year-end VAT reclaim accounts for £14,440 of the total debtor balance of £17,892 leaving "Trade debtors" of only £1,560.

We have also examined the detailed nominal income account records in Omega to ensure that there is no indication of apparent non-recovery of income or significant mis-coding.

Conclusions

As indicated above, no major issues have been identified in this area. We consider that the Clerk and RFO should take action, where appropriate to ensure recovery of outstanding debt or to present cases to members for formal write off approval, should recovery prove excessively difficult.

We have not considered income potentially arising from hire of the tennis courts this year, as due to the inclement weather during last summer, there was unlikely to have been any significant income arising.

Petty Cash Account

A petty cash account is in use within the parish office on an imprest basis with a cash float of £200: actual expenditure is reimbursed periodically 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, at our interim visit, one reclaim prepared and reimbursed in June 2012 to ensure that each payment was appropriately supported and that, where applicable, VAT had been identified and coded accordingly for recovery with the quarterly VAT reclaims submitted to HMRC.

We also checked the physical cash holding at that time, noting that a small surplus of £1.80 existed within the petty cash account tin.

Conclusions

No issues warranting formal comment or recommendation arise in this area, although we would reiterate our previous suggestion that the physical cash should be independently checked and verified periodically by an independent officer to that maintaining the records.

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, the deduction and payment over of income tax and NI contributions, and meeting the requirements of the local government pension scheme, most recently amended with effect from 1st April 2012 and employee contribution bandings. To meet that objective, we have undertaken the following work at this interim visit: -

- Noted that no changes in staff pay have occurred in the current financial year;
- Noted that an appropriate employment contract has been prepared and signed by the newly appointed RFO;
- Noted that the RFO has again prepared the monthly payroll "in-house" using Sage payroll software, although we understand that consideration is being given to switching to use of the HMRC Basic PAYE Tools software in future;
- Checked and agreed detail of the October 2012 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 verifying that, where variable hours have been paid, they are subject to independent certification and approval; and
- Checked and agreed the physical payment of net salaries and payments to external agents (HMRC and the County Pension Fund) 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 Registers

The Accounts and Audit Regulations 1996 required all councils to develop and maintain a register of assets identifying detail of all land, buildings, vehicles, furniture and equipment owned by the Council. We are pleased to note that the Clerk has produced and updated a detailed asset register which we considered adequately met the requirements of the revised Accounts and Audit Regulations. The register is based on the value used previously with any changes during the year being based on purchase cost and is not on insurance value.

We also note that the Council's external accountants, contracted to assist with the year-end closedown and formal Accounts preparation, have produced a revised asset register incorporating asset values at purchase cost where known, or best

approximation thereto: these values have been reported, as now required by the revised arrangements incorporated in the Accounting Governance Manual issued in 2010, in the 2012-13 Annual Return.

We also note a few new acquisitions during the year arising mainly from an extension to the Pavilion and in relation to "Vehicles and Equipment" totalling £105,552 as stated in Note 6 to the detailed Statement of Accounts prepared by the contract accountants.

Conclusions

No issues arise in this area at present, with current guidance on asset valuation reporting in the Annual Return being observed appropriately.

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 £51,708.08, including the interest received on the previous deposit, in a further treasury term deposit for twelve months from June 2012.

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

Conclusions

No issues arise in this area this year, with the term deposit balance appropriately reported in the year's Annual Return

Statement of Account and Annual Return

The 1996 Accounts and Audit Regulations required all Councils to prepare annually a detailed Statement of Accounts, together with supporting statements identifying other aspects of the Council's financial affairs. We are pleased to acknowledge compliance with this guidance this year with the contract accountants preparing a detail Statement of Accounts for presentation to members.

We have reviewed the content of the detailed Account and verified detail to the underlying accounting and other records generated by the contract accountants.

Conclusions

We have duly signed off the Internal Audit certificate at Section 4 of the Annual Return, assigning positive assurances in each relevant area. We would ask that the Clerk provides us with a copy of the completed Sections 1 & 2 once they have been adopted by the Council and certified by herself and the Chairman.

Rec. No.	Recommendation	Response
Review of Expenditure		
R1	The Clerk should ensure the totalling error on the Newport Electricity invoice in February resulting in an overpayment of £5 is recovered as soon as practicable.	