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# **Marchwood Parish Council**

*Internal Audit Report 2012-13 (Interim)*

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## **Background and Scope**

The Accounts and Audit Arrangements introduced from 1<sup>st</sup> 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 interim visit to the Council for 2012-13, which took place on 12<sup>th</sup> November 2012.

## **Internal Audit Approach**

In commencing 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 to date, the Council continues to maintain effective control systems that should help 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. We note the recent change in RFO and would suggest that appropriate training be arranged for the new incumbent as soon as is practicable in order that he may gain swift familiarity with the Omega accounting software and ensure its effective operation and application from the outset.

# 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 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 April & September 2012 agreeing detail to the relevant bank account statements;
- Checked and agreed in full (in view of their relatively low number) to 30<sup>th</sup> September 2012 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 30<sup>th</sup> April and September 2012 to ensure that no cheques or deposits remain uncleared at bank for an undue period and that no anomalous entries exist.

### *Conclusions and recommendation*

*We are pleased to record that no issues have been identified in this area of our review with the accounting records entered fully to 30<sup>th</sup> September, only limited detail of October transactions having been entered to date.*

*We note the appointment of a new RFO and would urge the Council to ensure that the new incumbent is provided with appropriate training in the use of the Omega accounting software as soon as is practicable: we appreciate that there will be a cost to this but consider it important that the new RFO gains a sound understanding of the system as soon as practicable in order that data entry may proceed smoothly and in a timely and accurate manner in order to also ensure that the Council continues to get full value from the software’s capabilities.*

*We shall undertake further work in this area at our 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.*

- R1. In order to ensure that the accounting records are entered promptly and accurately, the Council should arrange urgent training for the newly appointed RFO.*

## **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. We have, consequently, undertaken the following work in this area:

- We note that the Council has adopted the new Code of Conduct and General Power of Competence having fulfilled the appropriate criteria in accordance with the Localism Act. 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 commenced 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***

***No significant matters arise in this area of our review process at present: we shall continue our review of minutes at our final visit for the year. However as indicated previously, we consider that the present limit of £50,000 for formal tender action is too high for a council the size of Marchwood: whilst we note members' previous 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 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 commenced testing in this area for compliance with the above criteria examining a sample of non-pay related payments including all individual payments in excess of £1,000 plus every fifteenth payment throughout the year to 31<sup>st</sup> October 2012. Our test sample includes 29 individual payments totalling £110,600 and equating to 67% of all non-pay related expenditure to date.

We are also pleased to note that VAT reclaims continue to be prepared and submitted quarterly to HMRC: we have examined the first two quarter's reclaims, verifying detail to the Omega ledger's control account.

### *Conclusions*

*No issues have been identified in this area of our review process to date: we shall extend our test sample for the remainder of the year at our final visit, also examining the last two quarterly VAT reclaims for the year and ensuring the accurate disclosure of the year-end residual reclaim balance in the Annual Return for the financial year.*

## **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 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 has experienced difficulties in loading the software onto the system and have suggested that she contact the supplier to obtain an updated disc that should prove compatible with the latest Microsoft systems. We shall revisit this area at our final visit to ensure that appropriate financial risk assessment documentation is in place and has been adopted formally by the Council for 2012-13.

### *Conclusions and recommendation*

*We are pleased to record that the level of insurance cover is appropriate in each area: however, we are concerned to note that progress to develop formal financial risk assessments has stalled due to IT difficulties following the upgrade of the PC's computers: efforts should be made to ensure that an updated and compatible disc is obtained from LCRS so that the financial risk assessments may be completed satisfactorily and be presented to members for formal approval and adoption for 2012-13.*

R2. *The Clerk and Council should ensure that an effective financial risk assessment process is in place and that the difficulties with the acquired LCRS software are resolved to facilitate its application in completing the relevant assessments.*

## **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 has prepared an outline budget for 2013-14, which will be presented to and discussed by the P&R Committee at its November 2012 meeting, the outcome being submitted to full Council for formal approval and adoption in due course: we shall monitor the outcome of these discussions at our final visit and report any matters that might arise accordingly at that time.

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;

### *Conclusions*

*No matters arise in this area at present: as indicated above, we shall review 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, which is used to assist in determining our annual review programme. We shall also examine the level of retained reserves and, as indicated above, the Council's deliberations on the budget and required level of precept for 2012-13 at our final 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 have consequently 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 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: we have noted the existence of one or two such debts, which have been actively pursued by the RFO in August 2012. We would suggest that further action is required to ensure recovery of these few long overdue advertising debts or that, should they be deemed irrecoverable, they are reported to Council for formal write off approval.

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 (apart from that as above) and that income is being recorded appropriately against the appropriate nominal account code.

### *Conclusions and recommendation*

*As indicated above, no major issues have been identified in this area, although we consider that the Clerk and RFO should take appropriate action to either ensure recovery of outstanding debt or that it be presented to members for formal write off approval.*

*We have not considered income potentially arising from hire of the tennis courts as due to the inclement weather this summer, there has been no significant income arising, with only £286 received to date this financial year: we shall review the year-end position at our final visit and ensure that appropriate arrangements are in place to identify usage of the Council’s facilities and the appropriate recovery of any income arising therefrom.*

R3. *The Clerk and Council should ensure that all long overdue debt is either actively pursued or, if deemed irrecoverable, submitted to full Council for formal write-off approval.*

## 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 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 have to date examined one reclaim prepared and reimbursed in June 2012 to ensure that each payment is appropriately supported and that, where applicable, VAT has been identified and coded accordingly for recovery with the quarterly VAT reclaims submitted to HMRC.

We also checked the physical cash holding at the time of this interim visit, 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 at present, 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 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 most recently further amended with effect from 1<sup>st</sup> April 2012 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 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.*

## **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, which includes 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 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.*

Rec. No.	Recommendation	Response
<b>Review of Accounting Arrangements and Bank Reconciliations</b>		
R1	In order to ensure that the accounting records are entered promptly and accurately, the Council should arrange urgent training for the newly appointed RFO.	
<b>Assessment and Management of Risk</b>		
R2	The Clerk and Council should ensure that an effective financial risk assessment process is in place and that the difficulties with the acquired LCRS software are resolved to facilitate its application in completing the relevant assessments.	
<b>Review of Income</b>		
R3	The Clerk and Council should ensure that all long overdue debt is either actively pursued or, if deemed irrecoverable, submitted to full Council for formal write-off approval.	