



**ISSUES ARISING REPORT FOR
Morecambe Town Council
Audit for the year ended 31 March 2011**

Introduction

The following matters have been raised to draw items to the attention of Morecambe Town Council. These matters came to the attention of BDO LLP during the audit of the annual return for the year ended 31 March 2011.

The audit of the annual return may not disclose all shortcomings of the systems as some matters may not have come to the attention of the auditor. For this reason, the matters raised may not be the only ones that exist.

The matters listed below are explained in further detail on the page(s) that follow;

- Fixed Assets
 - Budgetary Process
 - Fidelity Guarantee
 - Minuting Approval of Annual Return
 - Risk Assessment
 - No review of effectiveness of internal audit
 - Asset Register
 - Preparation of the Statement of Accounts
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The following issue(s) have resulted in the annual return being qualified. They indicate a weakness in the council's procedures and require the council to take immediate action.

Risk Assessment

What is the issue?

The council did not undertake a risk assessment as part of its review of internal controls during the year ended 31 March 2011. The council have taken steps to assess the risks they face after the year end which has not been reviewed.

Why has this issue been raised?

This is a breach of regulation 4 of the Accounts and Audit (England) Regulation 2011 which requires authorities to review the effectiveness of internal control which includes arrangements for the management of risk.

What do we recommend you do?

The council must ensure that a risk assessment is carried out annually before the end of the financial year, as part of its review of effectiveness of internal control. This risk assessment must be reviewed and minuted as evidence of the review being undertaken annually before the end of the financial year.

The council is subject to a number of risks, only some of which can be covered by obtaining adequate insurance. The assessment should cover all risks the council face. Other risks which may also be present and not covered by insurance are:

- Fraud and corruption
- Outsourcing of services
- Activities being outside legal powers
- Electors rights not being followed
- Improper expenditure under S137

The council should decide which risks it faces and how it is going to reduce the impact of these risks on the council's ability to provide its services. An example risk table is available on our extranet to assist the council in assessing and clarifying their risks. If the council decides to utilise this table then it should be reviewed in detail, modified and adapted to the council's specific needs. If you do not have access to the internet, contact us and we can supply you with a copy.

Further guidance on this matter can be obtained from the following source(s):

Governance and Accountability in Local Councils in England - A Practitioners Guide, NALC/SLCC
Audit Briefing, Winter 2010 - BDOSH

The following issue(s) have been raised to assist the council in improving its internal controls or working practices. The council is recommended to consider these but is under no statutory obligation to act upon them.

Fixed Assets

What is the issue?

The council are depreciating the value of its assets. Assets should be included in the accounts of the council at purchase cost and the value of the assets held should only change if any assets are acquired or sold within the year.

Why has this issue been raised?

The value of assets recorded in the Annual Return may be under or overstated and are not recorded in accordance with practices set out in the Practitioners' Guide.

What do we recommend you do?

Going forward, box 9 of the Annual Return should include the value of all fixed assets recorded in the fixed assets register, measured at cost value. Assets comprise land, buildings, plant and equipment, vehicles, etc property that will be of economic benefit to the council over a period substantially longer than one financial year.

Assets which are held as community assets such as playing fields, war memorials etc should be included in the accounts at their historical cost or given a £1 value.

The cost value of assets is not expected to change unless an asset is ever disposed of or scrapped.

Further guidance on this matter can be obtained from the following source(s):

Governance and Accountability in Local Councils in England - A Practitioners Guide, NALC/SLCC

No review of effectiveness of internal audit

What is the issue?

The council has not considered and minuted as such a review of the effectiveness of internal audit as part of its internal control procedures.

Why has this issue been raised?

The council is required to undertake an annual review of the adequacy and effectiveness of its internal controls in accordance with Regulation 4 of the Accounts and Audit (England) Regulations 2011. A review of the effectiveness of internal audit is considered part of this review of internal controls.

What do we recommend you do?

The council should ensure that it considers the effectiveness of its internal audit as part of its control review. When performing their review of the effectiveness of the internal audit, the following areas should be considered and documented in the minutes:

- Scope of the internal audit
 - Independence
 - Competence
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- Relationships
 - Audit planning and reporting

Examples of how to undertake the review can be found on our Local Council extranet. If you do not have access to the internet please request copies of the documents from us.

Further guidance on this matter can be obtained from the following source(s):

Accounts and Audit (England) Regulations 2011
Local Council Briefing 2011
BDO Extranet - www.bdo.co.uk/BDOSH/councils

Asset Register

What is the issue?

The council's asset register does not contain some or all of the following information for each asset held;

- date acquired;
- purchase cost, and
- location held.

Why has this issue been raised?

The council is at risk of not safeguarding its assets.

What do we recommend you do?

The council must update its fixed asset register to include date acquired, purchase cost and location held of each asset held as soon as possible or in any event before the end of the current financial year.

An asset register should be in existence to help ensure that the recorded value of assets and investments is, as far as possible, accurate and to ensure the council is safeguarding its assets. The accuracy of such a register should be verified by the Internal Auditor in their annual review of the internal controls of the council.

Further guidance on this matter can be obtained from the following source(s):

Governance and Accountability in Local Councils in England - A Practitioners Guide, NALC/SLCC
Audit Briefing, Spring 2011 - BDO LLP

The following issue(s) have been raised to assist the council. The council is recommended to take action on the following issue(s) to ensure that the council acts within its statutory and regulatory framework.

Budgetary Process

What is the issue?

Although a precept was set by the due date the council did not prepare an adequate budget to support and evidence the precept request.

Why has this issue been raised?

The council demonstrated a lack of financial control over the spending and receipt of public money and were exposed to the risk of overspending. The council may also have contravened Part 1, Chapter IV, Para 50(1) of the Local Government Finance Act 1992 which states that every authority must 'make calculations required' under the 'calculation of budget requirement'.

What do we recommend you do?

The council must ensure in future years that an adequate budget is prepared to support its decision making process and to assist the financial management during the financial year. The council must regularly review, and ensure this review of the budget against the actual income and expenditure is minuted. The council should monitor the budget at least quarterly or more frequently if required. The amount of budget monitoring undertaken during the year will depend upon the size of the council and the complexity of its finances.

Further guidance on this matter can be obtained from the following source(s):

Governance and Accountability in Local Councils in England - A Practitioners Guide, NALC/SLCC

Fidelity Guarantee

What is the issue?

The council have reviewed the level of fidelity guarantee cover, however this still appears to be insufficient in light of the bank balances held at 31 March 2011.

Why has this issue been raised?

A council, under S114 of the Local Government Act 1972, must take security as it considers sufficient in the case of any of its officers likely to handle its money. The council may decide that insurance is not 'sufficient' for them, but in order to come to this opinion it must have reviewed the requirement annually and have objective grounds for such a conclusion.

What do we recommend you do?

The council should consider the level of insurance cover and set it to a level that will protect the council against potential loss. The council should review the level of cover at least annually as circumstances may change throughout the year.

The amount should be sufficient to cover the maximum amount of money the council holds at any one time during the year. A council does not have to have fidelity guarantee insurance if it considers that no security is 'sufficient' but there must be objective grounds for such a conclusion. Smaller councils may decide therefore that the cost of this insurance is disproportionate to the risk involved. If this is so the council should minute this decision annually.

Further guidance on this matter can be obtained from the following source(s):

Local Council Administration, 7th Edition, Charles Arnold-Baker, Chapter 9.8
Governance and Accountability in Local Councils in England - A Practitioners Guide, NALC/SLCC

Minuting Approval of Annual Return

What is the issue?

The minutes supplied did not specifically minute the council's approval of Section 1 - Accounting Statements, Section 2 - Annual Governance Statement and the yes/no answers to Section 2.

Why has this issue been raised?

Failure to minute the approval of the Statement of Accounts and the Annual Governance Statement has exposed the council to undue risk of non adoption of the Annual Return.

What do we recommend you do?

The council must ensure in future years that the minutes clearly state their acceptance of Section 1 - Accounting Statements and Section 2 - Annual Governance Statement and the minutes record their specific answers to Section 2.

It is essential that minutes clearly record the decisions of the council as they are the lawful record of the events of the council meetings.

Further guidance on this matter can be obtained from the following source(s):

Local Council Administration, 7th Edition, Charles Arnold-Baker; Chapter 7
Governance and Accountability in Local councils in England - A Practitioners Guide, NALC/SLCC

Preparation of the Statement of Accounts

What is the issue?

The internal auditor has prepared, or assisted in the preparation of the Statement of Accounts on Section 1 of the Annual Return.

Why has this issue been raised?

The internal auditor has potentially compromised his/her independence.

What do we recommend you do?

The council must review its procedures with regards preparation of the Statement of Accounts and ensure this conflict does not arise in future years. This will safeguard the internal auditor's independence and ensure the council fulfils its statutory obligations to prepare its accounts.

~~The council is entitled to delegate its responsibility for preparing the Statement of Accounts to the Responsible Financial Officer, Clerk or other external organisation provided that it obtains from its professional advisors an annual statement confirming their independence and that they have adequate procedures in place to mitigate the risk of any conflict of interest arising.~~

Further guidance on this matter can be obtained from the following source(s):

Governance and Accountability in Local Councils in England and Wales - A Practitioners Guide, NALC/SLCC

No other matters came to our attention.

For and on behalf of
BDO LLP

Date: 27 September 2011
