

## Morecambe Town Council - Internal Audit Report 2012-13

Prepared by: Neil Leadbetter, Internal Auditor

### **1 Background and Scope**

The Accounts and Audit Regulations 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 the requirements in terms of independence from the Council decision making process by appointing myself to provide the function to the Council.

I was appointed in March 2012 and hence this is my second year as internal auditor. I include in my report follow-up comments to my findings in my report for 2011/12. I will be revisiting the office sometime later in the year as agreed is the role of the independent internal auditor.

This report sets out those areas examined during the course of my visit to the Council, which took place on 14 May 2013.

### **2 Internal Audit Approach**

The CIPFA (Chartered Institute of Public Finance and Accountancy) definition of internal audit is as follows:

*Internal audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the degree to which the internal control environment supports and promotes the achievement of the organisations objectives. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.*

My main role is to provide assurance to the Council that the internal control environment is operating soundly.

In undertaking our internal audit review for 2012/13, I have taken regard to the materiality of transactions and their susceptibility to potential misreporting or misrepresentation in the year-end Statement of Accounts.

As the Council's Internal Auditor I 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.

This report sets out the areas of work examined during the course my visit to the Council and will be subject to appropriate revision and update following my return visit later in the year

### **3 Overall Conclusion**

I conclude that, in the areas examined to date this year, the Council was noted to have effective systems of financial control in place. No major issues have been identified: any minor points arising during the course of the visit were discussed with the clerk at that time. This report contains recommendations that I believe if implemented would further strengthen and improve the systems and procedures in place at Morecambe Town Council.

I would highlight the need to improve payment control for grants to third parties. The Council makes significant grants to companies and voluntary bodies to undertake approved activity. Whilst payments are correctly approved there is a lack of evidence to ensure that such public monies have been expended as agreed. Activities from these grants vary so it is hard to generalise but given the sums involved it would appear to be "high risk" for the Council not to demand greater accountability for this expenditure (see 4 iii below).

### **Detailed Report**

#### **4 Maintenance of Accounting Records/ Bank Reconciliations / Payment Controls**

The 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.

I therefore:

- a) Checked a random sample of the detailed cashbook transactions;
- b) Reviewed the timing and the accuracy of detail on the bank reconciliations;
- c) Are payments in the cashbook supported by invoices, authorised and minuted
- d) Verified that VAT on payments had been identified, recorded and reclaimed;
- e) Examine the level of financial reserves maintained

#### **Findings:**

- i. There were no matters arising from the sample transaction testing.**
- ii. The cashbook was previously maintained by the clerk on spreadsheet. This has been replaced, as recommended, by a specialised package for a Town Council. A coding structure was in place with the option for instant reports and search functions.**
- iii. The Council makes significant grants to companies and voluntary bodies to undertake approved activity e.g. Festivals budget, ward budgets, Regents Park Redevelopment etc. Whilst payments are correctly approved there is no evidence required to ensure that such public monies have been expended as agreed. Activities from these grants vary so it is hard to generalise but given the sums**

involved it would appear to be “high risk” for the Council not to demand greater accountability for this expenditure. This could be in the form of copy invoices, receipts or even copies of audited accounts. The contract devised for the Morecambe Jazz Festival would seem to be a good template for such controls and should be replicated and actioned for similar grant funding.

- iv. From sample testing VAT on payments had been identified, recorded and reclaimed.
- v. I again note that the level of reserves in relation to the precept is high<sup>1</sup>. This has been subject to previous reporting. From discussion with the clerk this has been acknowledged. Concerns over future funding are noted as a need for some contingency. The footnotes below cover the need for the Responsible Finance Officer to report to members on the robustness and plans to utilise the Council’s reserves and balances. I repeat from last year’s internal audit report how that statement could possibly be set out<sup>2</sup>.

### **5 Review of Corporate Governance and Risk Management**

---

<sup>1</sup> There are no specific limits on reserves but a number of good practice guidelines. The requirement for financial balances and reserves is acknowledged in statute. CIPFA published guidance in 2003 in support of these matters and it is a requirement of the guidance, backed by legislation through the provisions contained in the local government Act 2003 that the Responsible Finance Officer reports to members on the robustness and plans to utilise the Council’s reserves and balances.

<sup>2</sup> The Council’s RFO is also required to provide a statement on the adequacy of the General Revenue Fund, reserves and provisions in relation to the forthcoming financial year and also over the medium term. In reporting generally on the reserves and balances, the RFO is also required to report on the Specific Reserves of the Council, outlining the purpose for which each is held, establishing an appropriate level of reserve and highlight any proposed changes during the forthcoming year.

In order to assess the adequacy of balances and reserves the following principles should be considered:

- In order to assess the adequacy of unallocated General Reserves when setting the budget, the RFO should take account of the strategic, operational and financial risks facing the Council.
- The financial risks should be assessed in the context of the Town Council’s overall approach to risk management. The RFO needs to ensure that the Town Council has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards.
- Setting the level of General Reserves is just one of several related decisions in the formulation of the medium term financial strategy and the budget for a particular year. Account should be taken of the key financial assumptions underpinning the budget alongside a consideration of the Council’s financial management arrangements.

## **Morecambe Town Council - Internal Audit Report 2012/13**

---

The objective is to ensure that the Council has a robust series of corporate governance 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.

I have therefore undertaken the following work in this area:

- a) Does a review of the minutes identify any unusual financial activity?
- b) Do minutes record the council carrying out an annual risk assessment?
- c) Is insurance cover appropriate and adequate?
- d) Are internal financial controls documented and regularly reviewed?

I reviewed of the minutes of the Full Council and Committee meetings for 2012/13 to identify whether or not any issues exist that may have an adverse effect, through litigation or other causes, on the Council's future financial stability.

### **Findings**

- i. The standing orders and financial regulations were in order and had been formally adopted by the Council.**
  
- ii. An annual risk assessment had been reported to Council 17/1/13 and is strengthened by making the responsibility for actions more specific.**
  
- iii. There were no matters arising from as a result of other testing in this area.**

### **6 Review of Budgetary Control**

My aim 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 the City 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.

I have therefore undertaken the following work in this area:

- a) Has the Council prepared an annual budget in support of its precept?
- b) Is actual expenditure against the budget regularly reported to the Council?
- c) Are there any significant unexplained variances from budget?
- d) Has the RFO reported at least quarterly to Council Financial Statements which include budget comparisons?
- e) Has the RFO reported and explained any significant variations to Council?

### **Findings:**

**It was noted that a detail budget had been prepared and that there was regular reporting to the Council through the Finance Committee of expenditure.**

### **7 Review of Income Controls**

The aim here is to ensure that appropriate arrangements are in place for the identification of all income due to the Council, that invoices are raised (where appropriate) to recover that income and that monies are received and banked within a reasonable time frame.

The only income received at present by the Council is its precept.  
There have been no cash transactions in the year

#### **Findings:**

**No issues arising**

### **8 Asset Control**

The objective here is to ensure that appropriate arrangements are in place for the safeguarding of the Councils assets.

I have therefore undertaken the following work in this area:

- a) Does the Council maintain an appropriate Asset Register?
- b) Does an annual review of the Asset register take place annually?

#### **Findings:**

**No issues arising**

### **9 Member & Officer Training and Development**

My aim here is to examine what training and development processes are in place to help both the members and the officers make the most effective decisions. Any successful organisation will have a good training and development programme. Training and development aids in organisational development i.e. organisations get more effective at decision making and problem solving. It helps in understanding and carrying out organisational policies. Training and development helps in developing leadership skills, motivation, loyalty and better attitudes.

I have therefore undertaken the following work in this area:

- a) Is a Training Strategy in place?
- b) What training has taken place?
- c) Have decisions been made which could be better informed with further training?

#### **Findings:**

- i. I noted that was no overall formal training strategy in place.**
- ii. The clerk had undertaken CiLCA training and was awaiting results of examination.**
- iii. The Council had adopted the Lancaster City Council Code of Conduct from 1 July 2012 and two training sessions had taken place.**

- iv. I would again repeat a previous recommendation from last year that consideration of wider training based on individual skill sets would I believe lead to more effective decision making and problem solving. I stress I would base this on accepted good practice rather than any evidence of questionable decision making to date.

**Prepared by: Neil Leadbetter BA, CIPFA**  
**Report date: June 2013**