

Morecambe Town Council - Internal Audit Report 2011/12

N. Leadbetter, Internal Auditor Page 1

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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 visited the office for the first time 22 May 2012, after the clerk completed the accounts for 2011/12. Although I have been initially asked to review and comment on 2011/12 accounts and systems I will be much better placed to do so in the current year 2012/13. To that end I will be revisiting the office sometime later in the year as part of this on-going review as an independent internal auditor.

This report sets out those areas examined during the course of my visit to the Council, which took place on 22 May 2012.

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 2011/12, 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

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3 Overall Conclusion

I am pleased to 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 note in particular that the clerk has benefited from CiLCA training and had put the knowledge to good effect. He is improving systems and procedures and in my opinion the Council is moving positively forward.

Detailed Report

4 Maintenance of Accounting Records & Bank Reconciliations

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) Verified that VAT on payments had been identified, recorded and reclaimed;
- d) Examine the level of financial reserves maintained

Findings:

i. There were no matters arising from the sample transaction testing. The high level of expenditure incurred through a contract arrangement for photocopying was noted. From discussion with the clerk it was noted that good action had been taken to reduce liabilities.

ii. The cashbook was maintained by the clerk on spreadsheet. It is recommended that the Council considers purchasing simple accounting software that would give a number of advantages in the form of control, efficiency and effectiveness. I informed the clerk of such specialised packages for a Town Council, available at relatively low cost on licence. A coding structure could easily be put in place resulting in instant reports together with powerful search functions. The clerk agreed to investigate the cost of such packages. I believe that efficiency savings in his time would have significant benefit in excess of any annual licence cost and also provide more control assurance to the Council.

iii. VAT on payments had been identified, recorded and reclaimed was now being correctly administered. It was noted that the Council had not been operating this function correctly until 2011/12 when the clerk noted this error of his predecessors and correctly amended the process. All previous under claiming of VAT had now been reclaimed

iv. I noted that the level of reserves in relation to the precept was high. 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.

I would suggest that the statement should include the following:

- The estimated opening and closing General Revenue Balances for the year;**
- The estimated addition to and withdrawal from Balances**
- 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 and 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.**

5 Review of Corporate Governance and Risk Management

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 2011/12 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; and Identified from the above review that the Council's Standing Orders and Financial Regulations have been reviewed and adopted.

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 in November 2011. It is recommended that this could be strengthened by making the responsibility for actions more specific i.e. rather than the Council generically, specifically the Chairman or Clerk etc.

iii. Moving ahead into 2012/13I believe there are a number of actions the Council could take to improve its corporate governance.

iv. The Accounts and Audit (England) Regulations 2011, regulation 4(2) requires that the relevant body must conduct a review at least once in a year of the effectiveness of its system of internal control. This includes the management of risk. This review must be minuted as reviewed by the full Council.

v. For further background an effective system of internal control can be split into three parts:

- Identification of the potential risk (risk assessment)**
- Controls or procedures in place to mitigate the risks identified (control systems)**
- Systems for testing the adequacy of internal controls (internal audit)**

All three of these should be undertaken so that the body can demonstrate it has an effective system of internal control.

I will supply the clerk with template documents have I have prepared which when taken as whole ensures that this Council has reviewed the effectiveness of its system of internal control and has complied with the fore mentioned Accounts and Audit (England) Regulation.

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?

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Findings:

i. I would advise the following amendments and additions to the Asset Register:

- The list needs to include 2011/12 purchases;**
- It would be more comprehensive with the inclusion of serial numbers where appropriate;**
- The location of assets, if away from the office, should be noted;**
- Annual approval by the Council is recommended**

ii. I also noted that, and the clerk was already aware, that depreciation had wrongly been applied to the value of the assets. This error was then reflected in the figures submitted in the Annual Return to the external auditors. I will leave the clerk to discuss this matter with the external auditors but I have suggested to the clerk he may wish to inform the external auditors that he may wish to “restate” previous year’s figures incorrectly recorded so that there is no distortion in the level of assets year on year.

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 training strategy in place.

ii. The clerk was undertaking CiLCA training and I could see the Council was receiving immediate benefit from this. He was improving systems and procedures as a result.

iii. As regards members there had been some training on standing orders.

iv. Impending changes to the Code of Conduct from 1 July 2012 will demand some training.

v. Induction training for new members should be seen as essential.

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

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