
Marlborough Town Council

Internal Audit Report 2015-16 (Final update)

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Background

All town and parish councils are required by statute to make arrangements for an independent internal audit examination of their accounting records and system of internal control and for the conclusions to be reported each year in the Annual Return. Auditing Solutions Ltd has provided this service the Council since the outset of the “Limited assurance” audit arrangements.

This report sets out the work undertaken in relation to the 2015-16 financial year, during our visits to the Council, which took place on 225th November 2015, 3rd February and 12th May 2016.

Internal Audit Approach

In undertaking the review for the year, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts/Annual Return. Our programme of cover has again been designed to afford appropriate assurance that the Council’s financial systems remain robust and operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council’s own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the ‘Internal Audit Report’ in the Council’s Annual Return, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

We have concluded that, on the basis of our annual programme of work, the Council has again maintained adequate and effective internal control arrangements, with a few minor areas identified at our interim visits where we considered that controls could be further strengthened: we acknowledge the responses to the resultant recommendations.

We have completed and signed the ‘Internal Audit Report’ in the year’s Annual Return, having concluded that, in all significant respects, the control objectives set out in that Report were being achieved throughout the financial year to a standard adequate to meet the needs of the Council.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Council uses the Omega software to maintain its accounting records, with periodic support and advice being provided by third party contract support accountants (RBS Software). Two operational bank accounts are maintained at Barclays plc, with a combined cashbook in the accounting records: these are supplemented by a Barclays Base Rate Reward deposit account.

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 in the financial software for 2015-16 with the closing detail contained in the 2014-15 Statement of Accounts and Annual Return;
- Ensured that the cost centre and nominal ledger income and expenditure coding structure remains appropriate for purpose;
- Ensured that the financial ledger remains “in balance” at the financial year-end;
- Checked and agreed detail in the combined account cashbook, examining four months’ transactions (April, September & December 2015, plus March 201) to supporting bank statements, including any inter-account “sweep” transactions for the same four months;
- Checked and agreed detail in the three supplementary cashbooks (Base Rate tracker, Herbert Leaf and Russell Trust) in full for the six months to 30th September 2015 to the relevant bank statements;
- Noted that, with the assistance of the software supplier, the two charity accounts have now been removed from the financial ledgers as required by the external auditors, with interest earned since their inception also disaggregated from the Council’s accounts: we note that the accounting transactions are now being maintained on separate spreadsheets;
- Checked and agreed detail on the combined cashbook’s month-end bank reconciliations, prepared routinely at each month-end using the Omega software facility, for the same four months to ensure that no long-standing uncleared or other anomalous entries exist; and
- Ensured the accurate disclosure of the combined year-end cash and bank balances in the Accounts and Annual Return.

Conclusions and recommendations

We are pleased to record that no major issues have been identified in this area of our review process, although, as indicated in our first report for the year, we considered that, in line with best practice, bank reconciliations and journals should be subjected to evidenced independent scrutiny by a nominated councillor.

In examining the records at our first visit, it became apparent that the Finance Officer (FO) was printing the monthly cashbooks off prior to finalising the bank reconciliations with the result that, on occasions, the combined Current and Active account cashbook balance, as recorded therein, did not match that on the month-end bank reconciliation, primarily as a result of late transactions through the bank account having not been entered in the ledgers prior to undertaking the monthly reconciliation.

We discussed this with the FO suggesting that monthly cashbooks and bank reconciliations should only be printed off as the final action prior to closing the accounting software for the month, also that she ensures that the cashbook balance in both records agrees prior to printing detail.

We have also discussed the status of the two charity accounts with the Town Clerk and Chairman of the Finance Committee agreeing that detail of these accounts should be excluded from the Annual Return and ideally also extracted from the Omega accounting records with separate cashbooks maintained ideally in spreadsheet format, which has now been done, as indicated above. (The exclusion of the balances from the Annual Return would have to be recorded as a payment / expense in the Return at Box 6 thereby reducing the overall Council fund balance accordingly).

- R1. In line with best practice, bank reconciliations should be subjected to independent and evidenced scrutiny by a nominated councillor. These are currently being reviewed by the Town Clerk, but will be reviewed and signed off by the Chair of Finance in future.*
- R2. The Finance Officer should ensure that the cashbook balance recorded at the close of each month-end agrees to that recorded on the month-end bank reconciliations generated by the accounting software, prints of both records being taken as the last action prior to month-end closedown and “roll-over”. Noted and being actioned accordingly.*

Review of Corporate Governance

Our objective here 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 (SOs) 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. Consequently:

- We have previously noted that the Council re-adopted both SOs and Financial Regulations (FRs) in 2012-13 with detail re-affirmed at the Full Council meeting in June 2014 and again, with minor revisions, in April 2015: we also note that, following our previous visit discussions with the Town Clerk, further revisions to both SOs and FRs to reflect the under-mentioned changes in EU legislation were agreed by full Council in January 2016;
- We discussed the above change in EU Legislation from 1st April 2015 (with the Town Clerk) that now requires that detail of all tenders in excess of £25,000 be formally advertised on the Government’s Contract Finder web site and provided electronic copies of further guidance issued by NALC in this respect in order to assist the Council in the development of appropriate procedures to comply with these requirements: the NALC model FRs have, as indicated previously, also now been revised to address these changes: we have provided officers with an electronic copy of the most recent update and suggest that, where appropriate, detail be incorporated into a further update of the Council’s own FRs;
- We also noted previously that a formal tender limit of £60,000 was identified in the extant SOs and FRs which we considered too high, especially in the light of the above change and suggested that a lower limit in line with the above £25,000 should be applied by the Council: we note that this change was approved by Council in January 2016 with the relevant revision made to extant documentation; and

- We have continued our examination of the Council's minutes, examining those for the Full Council and its Standing Committee meetings (with the exception of Planning) held throughout 2015-16 and to date in 2016 with a view to identifying whether or not any issues exist that may have an adverse effect on the Council's future financial stability, both in the short and longer term.

Conclusions and recommendation

Whilst no significant issues arise in this area currently, the Council should ensure that its governance framework complies with the EU requirements and also reassess the value at which formal tender action should be taken. We shall continue to monitor the Council's governance arrangements at future visits reporting our conclusions accordingly.

- R3. ***The Council should ensure that its working arrangements and governance controls are compliant with extant legislation, also considering a reduction in the value at which formal tender action is required. Detail of the revised arrangements has been presented to and agreed by full Council in January 2016 with an appropriate reduction in the tender threshold.***

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;
- That members are provided with, and approve, the regular schedules of payments made;
- 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 extended our examination of the controls over expenditure selecting a sample of payments individually in excess of £2,500 together with a more random selection of every 40th cashbook transaction (irrespective of value) for the current financial year. Our sample comprises 41 payments totalling £184,500 and equating to 48% by value of all non-pay costs for the year.

We note that VAT reclaims are now submitted to HMRC quarterly in electronic format, as required by extant legislation, with the four quarterly reclaims for 2015-16 prepared, with the final quarter's prepared in readiness for submission. We have examined the reclaim detail on these submissions, agreeing the value to the Omega control account.

Conclusions and recommendation

We are pleased to report that no issues have been identified in this area with all payments in our test sample complying with the above criteria.

However, following a relatively recent fraud at a town council on the South coast, we consider that in order to improve controls and reduce the risk of potential duplicated payments, a rubber certification stamp should be acquired and affixed to each invoice rather than the detachable certification / copy remittance advice slip in use currently. We drew this to the attention of the Clerk and FO during the course of our first interim visit suggesting that a suitable stamp should include provision for the invoice payment certification by the Clerk or FO, identification of cheque number or other payment cross-reference, cost centre and nominal account code, together with provision for the two authorising members to initial the stamp accordingly.

R4. In order to minimise the risk of the duplicated submission and payment of invoices, rather than using a separate certification slip, consideration should be given to the acquisition of a rubber certification stamp incorporating relevant detail as indicated in the body of the report. Members signing cheques are now initialling both the certification slips and invoices as evidence of their review: further consideration will be given to the acquisition and use of a rubber stamp as and when the Council switches to internet banking.

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 consequently noted that: -

- In addition to the event specific and play area related Health and Safety risk assessments, a wider Risk Assessment Register is also in place, which was reviewed by the Finance & Policy Committee in March 2015 and adopted subsequently by full Council in May 2015: we note that a further revision was considered and approved by the Finance and Policy Committee in February 2016 and subsequently adopted by full Council; and
- Noted that the Council's insurance cover remains with Zurich plc and have examined the current year's policy schedule noting that both Employer's and Public Liability stand at £10 million, Fidelity Guarantee cover at £1 million and Loss of Revenue at £33,000.

Conclusions

There are no issues arising in this area to warrant formal recommendation and will continue to monitor the Council's approach to risk management at future visits.

Budgetary Control & Reserves

Our objective 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 District Council or Unitary Authority (where applicable): 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.

We note that, following due deliberation, the 2016-17 Budget and Precept were finalised, the latter being formally adopted by Full Council in December 2015 as £509,814, excluding the "support grant" of £2,669.

We note that members of the Finance & Policy Committee and, by formal adoption of committee reports at their meetings, Full Council, continue to receive appropriate budget monitoring & management accounting reports routinely throughout the year, based on detail generated by the Omega accounting software. We have examined the year-end budget performance outturn obtaining appropriate explanation for the few variances existing.

As at 31st March 2016, Total Reserves stood at £514,921 (£482,465 at the prior year-end) comprising specific Earmarked reserves totalling £260,253 and a residual General Fund balance of £254,668, which equates to between 5 and 6 months' revenue expenditure at current levels: these reserves are considered appropriate for the Council's ongoing revenue spending requirements and development aspirations.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Review of Income

The Council receives income in addition to the Precept, primarily from Hall lettings, property rents, allotments, burial and associated fees, bank interest and occasional grants & donations, together with expended VAT recovered quarterly.

Our objective is to ensure that robust procedures are in place to ensure that all income due to the Council is identified and invoiced (where applicable) appropriately with recovery effected within a reasonable time span.

We focused attention on the Council's income streams at our interim update visit, examining detail of all interments recorded in the Burial Register in the year to 31st December 2015 to ensure that they are supported by appropriate undertakers' applications and the necessary legal documentation, also verifying that the appropriate fees have been charged and recovered within an appropriate time span. We also examined the monumental stonemasons' applications for the period 1st September to 31st December 2015, similarly ensuring that appropriate fees had been charged, recovered and banked in a timely manner.

We noted that the file of undertakers' applications, etc included detail of one interment in October 2015 that had not been entered in the register and drew this to the attention of the responsible officer for the register to be updated accordingly.

We also examined the detailed allotment records for the rental year commencing 1st September 2015 ensuring that fees had been charged in accordance with the approved scale of fees and charges noting that one or two tenants had terminated their rental and that one or two rents remained unpaid at the present date: no residual issues exist and we note that actual income exceeded the planned budget by a significant sum due to the "re-letting" of vacated plots.

We also examined the Town Hall bookings diary selecting a two week period at the start of November 2015 for review, ensuring that each booking was supported by an appropriate booking form and that the appropriate fees and charges had been either invoiced or paid in advance: we noted one or two outstanding debts that the RFO was aware of and had pursuing accordingly.

At this final visit, we have examined the arrangements in place for recovery of income in respect of commercial and residential properties owned by the Council. We note that, following acquisition of professional advice, revised tenancy agreements have been drawn up for the residential properties with rents due to be increased to the level advised by Carter Jonas in 2016-17.

Income from these properties generates over £80,000 revenue for the Council annually, split between commercial (£44,750) and residential (£37,700) in 2015-16. We noted at our interim visit that one private tenant was in arrears on their rent and, following agreement with the Council, is settling this monthly with additional payments of £22.60 to the monthly rent due with an outstanding balance of marginally in excess of £500 as at 31st March 2016: we will continue to monitor the effective recovery of these arrears at future review visits.

Finally in this area, we have reviewed the detailed nominal income transaction report for the year, ensuring that all fees due are, as far as we may reasonably be expected to ascertain, being paid in a timely manner:

Conclusions

No significant concerns have been identified in this area, noting that the scales of fees and charges have been reviewed formally in the current year.

Petty Cash Account

The Council operates a limited petty cash account to defray sundry administrative expenses: the account is “topped up” as and when required with cash withdrawals through the Barclays cash-point card. We are required, as part of the Annual Return certification process, to consider the effectiveness of the Council’s controls over any petty cash account or other cash holding in use.

We note that the FO maintains a monthly spreadsheet based cashbook to record these transactions and have, consequently, checked and agreed a sample of payments from 1st August to the date of this first interim visit ensuring that each individual payment is supported by an appropriate trade invoice or till receipt; that VAT is identified for recovery and that an independent officer periodically ensures verifies the physical cash balance held to the supporting record.

We have also checked the physical cash held at the time of this first visit, agreeing that to the underlying spreadsheet records.

Conclusions

There are no issues arising in this area to warrant formal recommendation.

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 further amended from 1st April 2015 with regard to

employee contribution percentages. We have consequently, by reference to the November 2015 payroll detail: -

- Ensured that the Council reviews and approves pay scales for staff annually, noting that the NJC award for 2014-16 was approved for implementation in December 2014;
- Noted that the processing of the Council's monthly payroll continues to be undertaken "in house" utilising bespoke Quicken software;
- Ensured that salary payments have been accurately processed for each employee agreeing gross pay to the Council's approved NJC pay scale spinal point and basic working hours;
- Ensured that Income tax and NI deductions from employees' and employer's NI contributions are calculated accurately;
- Ensured that superannuation deductions and employer's contributions have also been calculated appropriately, ensuring compliance with the revised employees' percentage scale of deductions effective from 1st April 2015;
- Examined the time sheets supporting the payment of overtime / enhanced hours in November 2015 to various employees ensuring that they are appropriately approved for payment and that accurate payments are made accordingly; and
- Verified the accurate payment of net pay to individual staff members and the payments made to HMRC and the pension fund administrators in respect of the November 2015 salaries.

Conclusions

We are pleased to record that no issues have been identified in this area warranting formal comment or recommendation.

Fixed Asset Register

The Governance and Accountability Manual - "The Practitioner's Guide" requires all Councils to establish and maintain formal asset registers. We are again pleased to acknowledge the existence of a suitable register, detail of which has been provided as part of the working papers for the Statement of Accounts.

As recorded previously, the Practitioners Guide advice has been updated in this area, with best practice now considered to be that all assets should be held in the registers at cost (or "proxy cost" at the time where the original is not known) in perpetuity with no depreciation charges or insurance policy "inflation".

We are pleased to note that this approach continues to be adopted at Marlborough, with no amendments in 2015-16 as no new assets were acquired or disposed of warranting amendment of the register's detail. Consequently we have verified the overall value disclosed at Box 9, Section 2 of the year's Annual Return to the Supporting Statements incorporated in the Accounts for the year.

Conclusions

There are no issues arising in this area to warrant formal recommendation.

Investments and Loans

Our objectives here are to ensure that the Council is investing “surplus funds”, be they held temporarily or on a longer term basis, in appropriate banking and investment institutions, that an appropriate investment policy is in place, that the Council is obtaining the best rate of return on any such investments made, that interest earned is brought to account correctly and appropriately in the accounting records.

The Council has no funds placed in investments currently, all funds being held in two deposit accounts with the limited interest earned added monthly. We note that the Clerk and members are considering future “investment” possibilities with a view to maximising the revenue raised. With the recent change in legislation to include councils in the Government’s “bail-out” scheme in the event of a bank failing up to the same level as individuals, we suggest that fairly urgent consideration be given to alternative “investment” opportunities in order to ensure interest earning potential is maximised.

We note that the Council has no loans either repayable by or to it currently.

Conclusions

No issues arise at present warranting formal comment, although, as indicated above, we consider that the Council should now be taking positive steps to ensure earned interest on surplus funds is maximised.

Statement of Accounts and Annual Return

As noted above, the Council reinstated the RBS Omega Software in a previous year. A contractor from the supplier attended the Council to assist the Finance Officer with the year-end closedown and production of supporting documentation such as the detailed Income and Expenditure Statement, Notes to Accounts and Annual Return detail.

We have checked and agreed the content of the Annual Return from the underlying Trial Balance and other appropriate documentation: we have also examined the approach to the identification of debtors and creditors at the financial year-end, noting that the aforementioned outstanding residential accommodation rent as at 31st March 2016 has been omitted from the schedule of outstanding debtors at the year-end. We have drawn this to the attention of the Town Clerk and Finance Officer, but do not consider it of sufficient materiality to warrant an amendment to the year-end Accounts or Annual Return detail.

As recorded in the opening overall conclusion to this report, we have duly “signed off the Internal Audit Certificate in the Annual Return assigning positive assurance s in each relevant area.

Conclusions

There are no issues arising in this area to warrant formal recommendation.

Rec. No.	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	In line with best practice, bank reconciliations should be subjected to independent and evidenced scrutiny by a nominated councillor.	<i>These are currently being reviewed by the Town Clerk, but will be reviewed and signed off by the Chair of Finance in future.</i>
R2	The Finance Officer should ensure that the cashbook balance recorded at the close of each month-end agrees to that recorded on the month-end bank reconciliations generated by the accounting software, prints of both records being taken as the last action prior to month-end closedown and “roll-over”.	<i>Noted and being actioned accordingly.</i>
Review of Corporate Governance		
R3	The Council should ensure that its working arrangements and governance controls are compliant with extant legislation, also considering a reduction in the value at which formal tender action is required.	<i>Detail of the revised arrangements has been presented to and agreed by full Council in January 2016 with an appropriate reduction in the tender threshold.</i>
Review of Expenditure		
R4	In order to minimise the risk of the duplicated submission and payment of invoices, rather than using a separate certification slip, consideration should be given to the acquisition of a rubber certification stamp incorporating relevant detail as indicated in the body of the report.	<i>Members signing cheques are now initialling both the certification slips and invoices as evidence of their review: further consideration will be given to the acquisition and use of a rubber stamp as and when the Council switches to internet banking.</i>