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# **Thame Town Council**

*Internal Audit Report 2012-13 (Final update)*

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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 complied with this requirement re-appointing Auditing Solutions Ltd to provide the service in 2010 following a retendering exercise. To ensure that an appropriate level of cover is provided across all the Council's financial systems, an updated strategic internal audit plan covering the five financial years from 2010-11 was agreed with the Town Clerk and Council.

This report sets out detail of the areas examined in 2012-13 incorporating our coverage at the interim visits which took place in October 2012 and February 2013 and our final visit on 16<sup>th</sup> May 2013.

## **Internal Audit Approach**

In continuing our review for 2012-13 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, also paying due heed to the potential for inappropriate action. Consequently, as and when we examine each individual financial system, we examine the key controls built into the system and update our recorded documentation accordingly.

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. All aspects of our review work are aimed at providing an appropriate level of assurance as to the soundness of the controls in place and to inform our opinion on those for completion of the internal audit certificate in the Annual Return.

Our reports for the year and file of work completed can be made available, on request, for review by the Council's external auditors (BDO Stoy Hayward) and should assist them in gaining the required level of assurance on the adequacy of those Council's systems examined and detailed in this report.

## **Overall Conclusion**

We are pleased to conclude that, in the areas examined this year, the Council continues to operate effective control systems that help ensure that transactions are free from material misstatement and are reported accurately in their detailed Statement of Accounts and Annual Return for 2012-13.

We have extended our testing in certain areas to cover the remainder of the financial year at this final visit, also examining and testing those additional aspects covered by the Internal Audit Certificate in the Annual Return. We are also pleased to record that no issues have been identified warranting formal comment or recommendation. Consequently, we have signed off the Internal Audit Certificate in the Annual Return assigning positive assurances in each relevant area.

# Detailed Report

## Maintenance of Accounting Records & Bank Reconciliations

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 therefore: -

- Agreed the opening Omega trial balance detail with that in the final Statement of Accounts and certified Annual Return for 2011-12;
- Verified that the ledger remained “in balance” at the financial year-end;
- Ensured that the cost centre and nominal ledger coding structure remains appropriate for purpose;
- Checked detail of transactions in the current account cashbook, agreeing four months (April, August, December 2012 and March 2013) receipts and payments records to the relevant Co-op Bank account statements;
- Checked and agreed the daily “sweep” transfers to and from the Current account to maintain the Community Plus account balance at a consistent £2,500 for the same three months;
- Checked and agreed detail of receipt and payment transactions in the Barclays account cashbook for the full year to 31<sup>st</sup> March 2013; and
- Checked and agreed detail on bank reconciliations prepared using the Omega accounting software as at 30<sup>th</sup> April, plus 31<sup>st</sup> August, 31<sup>st</sup> December 2012 and March 2013 for the Co-Op and Barclays accounts.

### Conclusions

*We are pleased to report that no issues have been identified in this area of our review process, apart from noting, at our first interim visit, the absence of one Co-op current account bank statement covering the end of August 2012. The Office Administration Manager contacted the bank during the course of our visit and obtained the missing detail on that statement. We understood that some difficulties had been experienced with the quality of service recently provided by the Co-op bank and, whilst it is not for us to advise the Council to change bankers, we suggested that Council may wish to consider discussing the provision of banking services with other bankers, including Unity Trust Bank, which is actively looking for new clients at this level of local government and has, as far we have been able to determine from other clients who have already switched to Unity, proved to be very efficient in the service they provide.*

## Review of Corporate Governance

Our objective is to ensure that the Council has a robust regulatory framework 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, has taken no actions of a potentially unlawful nature nor is considering such actions.

We have completed our review of minutes of the Council and its Standing Committees for the current year against the above criteria and have no issues to raise

We have previously been pleased to note and acknowledge the adoption of various governance policies including those on Financial Management, Anti-Fraud and Corruption, together with an Investment Strategy, all of which we consider further enhance the Council's governance controls.

### *Conclusions*

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

## **Review of Expenditure**

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and 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 examined the procedures in place for the authorisation and release of funds in this respect, ensuring that appropriate controls are in place and that members are undertaking appropriate reviews and checks on payments in order to discharge their fiduciary duties effectively.

We have extended our sample of payments for examination to now include 55 payments processed in the financial year in order to confirm compliance with the above criteria: as previously, our test sample is based on the selection of every payment in excess of £2,500 and every 25<sup>th</sup> payment in the year and totals £223,235 equating to 49.2% of non-pay related payments.

### *Conclusions*

*We are pleased to record that no issues have been identified warranting formal comment or recommendation: we have also completed the examination of the quarterly VAT reclaims now submitted on line as required by HMRC, also ensuring the accurate disclosure of the year-end balance as a debtor in the Accounts.*

## **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. To meet that objective, we have:

- Noted that the Council has reviewed its extant risk assessments, including those relating to financial control, and re-adopted them at its January 2013 meeting; and
- Examined the Council's current insurance schedule for the year to May 2013 with cover again provided by Aviva, together with a separate policy for motor vehicles: we are pleased to record that cover in all areas appears appropriate for the Council's current requirements.

### *Conclusions*

*No issues have arisen in this area warranting formal comment or recommendation: we shall continue to monitor the Council's approach to risk management at future visits reporting the outcome of that work accordingly.*

## **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 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.

The Council has again, as evidenced by the supporting documentation and minutes, undertaken an appropriate exercise in determining the budget and precept requirement for 2013-14: we note that the precept for that year was recommended and approved by full Council at £503,045 at its meeting on 15<sup>th</sup> January 2013.

We have also examined the year-end budget outturn report in conjunction with the update of our year-on-year analysis of income and expenditure across the various budget headings and following up any significant variances that might exist with no issues identified warranting further action or explanation by officers.

### *Conclusions*

*We are pleased to confirm that there are no issues that have arisen in this area warranting formal comment or recommendation.*

## Review of Income

In this area of our review work, we aim to ensure that all income due to the Council is identified, invoiced (where applicable) and recovered at the appropriate rate and within a reasonable time scale, also that it is banked promptly in accordance with the Council's Financial Regulations.

We have, at our previous visit, examined the procedures in place for the receipt of income at the reception desk, checking two weeks transactions in November 2012, as recorded on the new till "cash-up" slips and till generated spreadsheet detail following transactions through the bank paying in slips to ensure the appropriate deposit of cash and cheque income in the Barclays and Co-Op banks respectively and verifying the analysis of income across the various nominal ledger income accounts in the Omega software.

One or two seeming anomalies were noted as part of this and our subsequent review of the recovery of car parking excess charge fees, as regards the sequencing of receipts and apparent absence of such when the till is opened and closed daily and where receipts are "voided": these were discussed with the Admin Officer and satisfactory explanations obtained: the officer has agreed to follow these up with the till supplier and to implement an appropriate control confirming their status and providing protection for the desk staff against any possible future query re missing detail.

As indicated above, we have examined the procedures for recording and recovery of excess charge car parking fees in respect of those tickets issued in November 2012, following through to ensure appropriate recovery of the fees in accordance with the required time scale.

We have also examined visually the detailed nominal income account transaction reports for the year to ensure that no obvious miscodings have occurred and that where regular income is due, such as for the weekly market rent fees, it has all been received and recorded appropriately.

We have also again examined the Sales Ledger to ensure that no significant or long-standing debt is in existence and are pleased to acknowledge the continuing improvement in the position reported previously with no significantly long-standing debts remaining at that date. We also note that members have considered and approved increases in room and football pitch hire fees during the current year.

### *Conclusions*

*We are pleased to record that no matters have been identified in this area warranting formal comment or recommendation: we have, as indicated earlier in this report, updated our year-on-year analysis of income across the various nominal account headings. The results of that will be fed into our planning of the 2013-14 audit review.*

## Petty Cash Account

Whilst the amount of spending involved in use of petty cash monies is very limited, we are required, as part of the annual Internal Audit Certification process on the Annual Return, to indicate the soundness of controls in this area of the Council's financial activities.

Consequently, we aim to ensure that all petty cash payments are appropriately supported by a trade invoice or relevant till receipt, that where applicable VAT has been identified for recovery and appropriate entries are made in the Omega expenditure codes.

The Council operates an “imprest” account, with an approved maximum float of £250, payment detail being summarised in a monthly spreadsheet analysing expenditure accordingly to the relevant nominal codes. We have tested a sample of two months’ payments (August & September 2012) and are pleased to report that all items were supported appropriately, that VAT had been identified accordingly for recovery from HMRC and that monthly reimbursements made from the Barclays cashbook were agreed.

We have, at our interim update visit, also checked the physical cash held, agreeing the cash and vouchers for expenses incurred subsequent to the last “top-up” to the imprest holding of £250. We noted that the Omega ledger records a petty cash account holding of £280, which it is assumed should include both the petty cash imprest of £250 and the till float. However, the latter was increased from £30 to £40 some time ago and it appears that the financial ledger was not updated accordingly at that time.

### **Conclusions**

*Whilst no significant issues have been identified warranting formal comment or recommendation in this area, the financial ledger detail requires amendment to reflect the increased value of the till float from £30 to £40. We can also confirm that, following our interim update visit, an appropriate adjustment was made to the financial ledger identifying both the petty cash imprest balance of £250 and till float of £40 as separate control ledger balances.*

## **Review of Salaries**

In examining the Council’s payroll function, we aim to confirm that extant legislation is being appropriately observed and the requirements of HM Revenue and Customs (HMRC) legislation, as regards the deduction and payment over of income tax and NI contributions is also being adhered to, together with observing the revised requirements of the local government pension scheme, as most recently revised from 1<sup>st</sup> April 2012 in relation to employee contribution bandings.

The Council continues to use the services of an external payroll bureau (Moorepay Limited) to service its payroll requirements: in order to meet the above objectives, we have: -

- Ensured that the Council reviews and approves pay scales for staff annually, noting that all employees are on formal SCP scales;
- Agreed the amounts paid to individuals in September 2012 by reference to the Council’s approved pay scales;
- Checked and agreed detail of all enhanced payments processed with the September salaries to supporting appropriately certified time sheets and travel expense claims;
- Ensured that Tax and NIC deductions and employer’s contributions to the latter have been paid over to HMRC in an accurate and timely manner; and

- Ensured that the appropriate employee and employer contributions to the pension scheme have been determined in accord with the salary bandings, as further amended from 1<sup>st</sup> April 2012, and have been paid over to the County's Pension Fund administrators in a timely manner.

### *Conclusions*

*We are pleased to report that no issues have been identified in this area of our review process.*

## **Asset Register / Inventory**

The Accounts and Audit Regulations 1996 required all councils to maintain a comprehensive register of all assets owned and leased by the Council. We noted in last year's report that an appropriate and comprehensive register was in place, also noting that values appeared to be recorded at purchase cost (where known) or prior year insured value where the purchase cost was unknown: this form of valuation is in line with current reporting arrangements in the Accounts and Audit Regulations. We have also been advised that photographic records are in the process of being finalised and the data being stored on the Council's computer system

### *Conclusions*

*We are pleased to report that no issues have been identified in this area of our review process.*

## **Investments and Loans**

The Council has a range of investments managed by an external fund manager (Rathbones Investment Management). We note the re-adoption of the Annual Investment Strategy by the Policy and Resources Committee in September 2012 with members agreeing that no changes in content were necessary.

The Council has two outstanding PWLB loans currently: we have checked and agreed detail of the two half-yearly repayment instalments paid in 2012-13 to the cashbook and PWLB repayment schedules.

We also note that the Council has agreed the need to apply for a further loan to fund the costs of replacement windows at the Town Hall, although the application has yet to be prepared and submitted to DCLG for approval: we shall monitor progress in this respect at future visits.

### *Conclusions*

*No matters arise in this area of our review this year: we have verified the accurate disclosure of the year-end outstanding loan liability. We have also examined the performance of the investment portfolio, together with the accurate disclosure of the value in the detailed Accounts and Annual Return data produced on behalf of the Council by the externally contracted accountants.*



## **Statement of Account and Annual Return**

The 1996 Accounts and Audit Regulations required all Councils to prepare annually a detailed Statement of Accounts, together with supporting statements identifying other aspects of the Council's financial affairs.

At this final audit visit, we have checked and agreed entries in the Statement of Accounts to the underlying Trial Balance and Balance Sheet and other documentation provided. Similarly, we have checked and agreed the financial data to be reported at Section 1 of the Annual Return.

### ***Conclusions***

*No issues have arisen in this review area and, on the basis of work undertaken during the year, we have duly signed off the Internal Audit certificate at Section 4 of the Annual Return, assigning positive assurances in each relevant area.*