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# **Purley on Thames Parish Council**

*Internal Audit Report 2011-12 (Final)*

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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 the requirements in terms of independence from the Council decision making process appointing a local service provider initially, who has now retired. We, at Auditing Solutions Ltd, were subsequently approached and appointed to provide the service to the Council for 2009-10 and beyond.

This report sets out those areas examined during the course of our visits to the Council during 2011-12, which took place on 2<sup>nd</sup> November 2011 and 10<sup>th</sup> May 2012.

## **Internal Audit Approach**

We have carried out our review of the Council's fundamental financial control functions in order to gain an appropriate degree of assurance to facilitate our certification of the Internal Audit Certificate in the Annual Return at the end of the financial year and also to provide assurance to members and electors that the Council's systems operate in accordance with best practice and approved Council procedures: we have also had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts.

We have assessed the risks associated with each of the financial systems examined to date and prepared an analysis of income and expenditure over recent years. This is updated annually and serves to add focus to our audit approach, highlighting any areas where significant or unanticipated variances are apparent.

Our reports and files of work completed can be made available, on request, to the Council's external auditors should they require any additional supporting documentation, although we would not anticipate this to be necessary under the current "limited assurance" routine.

## **Overall Conclusion**

We are pleased to conclude that, in all areas examined, the Council has effective systems in place to ensure that transactions are free from material misstatement and that they have been reported accurately in the Statement of Accounts for the year.

We are also pleased to note the improvements developed and the positive feedback and actions taken in relation to the relatively minor matters identified during the course of our previous visits with no significant issues arising at this time.

On the basis of the work undertaken during the course of our review work, we have "signed off" the Internal Audit Certificate at Section 4 of the Return assigning positive assurances in all relevant areas.

## Detailed Report

### Review of Accounting Arrangements & Bank Reconciliations

The Council uses the Omega / Financial Director software to maintain its accounting records and provide members with regular budgetary information on the Council's financial performance during the course of the year. Two accounts are operated with Lloyds TSB with further sums placed in fixed term deposits in order to obtain a better rate of interest return. The two bank accounts are operated on a sweep basis with a daily adjustment to leave a £1,000 balance in the current account at the close of each day. Consequently, detail of transactions is recorded in the Omega accounting system in a single cashbook in order to avoid the need for recording the daily balancing transfer between the two accounts.

We also note that a separate account has been opened with Unity Bank, with a £2,000 opening balance, in order to take advantage of the charge card provided with it to purchase occasional items electronically and at more economic prices, such as consumable stationery items.

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. To that end, we have: -

- Verified that the closing balances, as reported in the 2010-11 Statement of Accounts and Annual Return, have been correctly rolled forward as the opening balances in Omega for 2011-12;
- Checked and agreed transactions (both receipts and payments) in the Council's cashbooks to the relevant bank account statements for three sample months (May & August 2011 plus March 2012), together with all inter account "sweep" transfers for the same sample periods; and
- Checked detail on the month-end bank reconciliations for both the Lloyds TSB and Unity Bank accounts as at 31<sup>s</sup> May, August 2011 and March 2012 to ensure that no long-standing uncleared cheques or other anomalous entries exist.

#### *Conclusions*

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

### Review of Corporate Governance

Our objective in this area 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 implantation.

- We have previously noted the existence of appropriate Standing Orders and Financial Regulations: these documents have been reviewed and were agreed at the Council's meeting in July 2011;

- We have extended our examination of the Full Council and various Standing Committee minutes for the year, noting that no issues appear to exist affecting the Council's financial stability, either in the short or longer term: we also note that no legal issues are in existence whereby the Council may either be considering or have taken decisions that might result in ultra vires expenditure being incurred.

### *Conclusions*

***We are pleased to note that both Standing Orders and Financial Regulations have been re-adopted by the Council in 2011-12: no issues arise in this area at present: we shall continue to review minutes at future visits.***

## **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;
- An official ordering system is in place and is operating effectively;
- 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 analysis has been applied in the payments cashbook to invoices when processed;
- Payments have been submitted to Council or delegated Committee for approval;
- VAT has also been appropriately identified and analysed in the software's cashbook control account; and
- We have updated our year-on-year analysis of expenditure incurred across the range of Council services, identifying variances year on year and obtaining explanations for significant changes.

### *Conclusions*

***We have selected a sample of payments processed throughout the year to ensure compliance with the above criteria, examining all transactions over £750 plus every 20<sup>th</sup> other payment. In all, we have examined 69 payments totalling £72,420 and equating to 73% all non-pay transactions in the year. We have also ensured that VAT has been identified appropriately for recovery with no issues arising.***

***However, we noted that Direct Debits nos. 214 to 217 had not been reported for approval by the Council. This appeared to be an oversight and the Clerk has agreed to submit these retrospectively for Council approval.***

## 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 identified in order to minimise the opportunity for their coming to fruition.

- We are pleased to note that minutes continue to contain regular references to the ongoing review and update of financial and health & safety risk assessments, the register seemingly last presented for formal adoption in July 2010: we note the intention to review and represent this document in early 2012-13 for re-adoption and will review the outcome at our next interim visit;
- We also note the development of formal Council policies as regards the assessment and management of risks; and
- We have examined the Council's current insurance policy to 31<sup>st</sup> May 2012 with Aviva ensuring that appropriate cover is in place: We note that both Public and Employer's Liability are set at £10 million, Loss of Revenue at £25,000 and Fidelity Guarantee at £100,000, all of which are considered appropriate to the Council's current requirements.

### *Conclusions*

*No issues warranting formal comment have been identified.*

## Precept Determination and Budgetary Control

We aim in this area of our work to ensure that the Council has appropriate procedures in place to determine its future financial requirements leading to the adoption of an approved budget and formal determination of the amount to be precepted on the Borough Council, that effective arrangements are in place to monitor budgetary performance throughout the financial year and that the Council has identified and retains appropriate reserve funds to meet future spending plans. To meet this objective, we have:

- Noted that the determination of budgets and precept for 2012-13 has resulted in a precept of £83,000 being approved and adopted formally at the Full Council meeting in January 2012;
- Noted that the Clerk continues to provide members with regular management accounting / budget monitoring information reports based on the appropriate software facility; and
- Noted that, as at 31<sup>st</sup> March 2012, Total Reserves stood at £189,100, of which specific earmarked items totalled £123,600 leaving a General Fund balance of £65,500. At current spending levels, the latter represents approximately six to seven months' net revenue expenditure and is considered to be more than adequate to meet the needs of the Council at present.

### *Conclusions*

*We are pleased to report that no issues arise in this area.*

## Review of Income

In considering the Council's income streams, we aim to ensure that robust systems are in place to ensure the identification of all income due to the Council from its various sources, to ensure that the income is invoiced in a timely manner and that effective procedures are in place to pursue recovery of any outstanding monies due to the Council. For 2011-12, we can record the following:

- We note from our examination of minutes and other documentation provided that the Council continues to formally consider the level of its fees and charges annually;
- We note that a number of fees are effectively fixed as they relate to annual charges for use of Council facilities by the cricket club, social club (hall rental), and tennis and bowls club leases;
- Bank interest, albeit minimal in the current climate, has been tested as part of our review of cashbooks as reported above;
- A sample of the Barn Hall, burial and related income, together with room bookings have been examined with no issues arising;
- We have also updated our year-on-year analysis of income across the range of budget headings.

### *Conclusions*

*No matters have been identified in this area warranting formal comment or recommendation.*

## Petty Cash Account

The Council continues to operate an extremely limited petty cash scheme: however we, as part of the requirements of the Internal Audit Certificate in the Annual Return, need to ensure this is operated in an appropriate manner.

We have checked a sample of payments to ensure that they are supported by appropriate trade invoices or till receipts and that any relevant VAT had been properly separated in the Omega cash book postings for periodic recovery.

### *Conclusions*

*No issues arise in this area of our review process.*

## Salaries and Wages

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the requirements of HM Revenues and Customs (HMRC) and other 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 most recently amended from 1<sup>st</sup> April 2011 in respect of employee contribution bandings. To meet this objective, we have:

- Ensured that the Council has approved staff pay rates for the financial year and that these had been duly and accurately applied throughout the year;
- Checked and agreed the computation of the three staff members' gross and net pay and salary deductions for July 2011, noting that the Clerk uses the HMRC's Data Tools facility to maintain and calculate the monthly payments and deductions;
- Checked to ensure that appropriate Tax codes and NIC tables are being applied and that the correct tax and national insurance deductions had been accurately calculated and paid over in a timely manner to date, payments being made to HMRC quarterly;
- Noted that no employees contribute to the local government pension scheme at present; and
- Verified that the Council's P14 / P35 Annual PAYE Return has been submitted electronically, as now required by recent legislation, in a timely manner prior to their deadline of 19<sup>th</sup> May 2012.

### ***Conclusions***

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

## **Asset Register**

The 1996 Accounts and Audit Regulations required all councils to maintain a record of all assets owned. We are pleased to note that an appropriate register is in existence, reflecting an amalgam of the Council's insurance, perceived current replacement costs and recent Valuation Office values for each asset and that this has been updated where necessary for new acquisitions or any disposals.

We would draw officers and the Council's attention to a change in the Annual Return reporting arrangements in respect of asset values as included in the 2009-10 edition of the "Practitioner's Guide", although no formal announcement or information regarding the change appears to have been issued to councils. The guidance now requires that asset values in the Annual Return are reported at purchase cost or, where that value is unknown at the previous year's Return level uplifted or decreased to reflect the acquisition of any new assets or disposals. Where the external auditors have previously accepted the 2010-11 disclosure value, that value should be used in reporting the 2011-12 values, with amendment only to reflect changes in the asset stock during 2011-12.

### ***Conclusion***

***We consider the asset register to be complete and that it provides a sound basis for the value recorded at Box 9 of Section 1 of the Annual Return, which has remained unchanged from that reported in 2010-11.***

## **Investments & Loans**

Our objective here is to ensure that the Council is “investing” surplus funds 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 and that interest earned is accounted for appropriately.

The Council invested £55,000 in a three-year Treasury term deposit (maturing in July 2012) through Lloyds TSB, relating to funds held in perpetuity to provide funding towards the upkeep of the bowling green. The annual payment of interest is recorded in the appropriate nominal ledger code.

Two further fixed term bonds of £50,000 were taken out with Lloyds TSB: we have similarly agreed detail of these holdings to the bank’s third party advice notes. One matured on 4<sup>th</sup> January 2011 and was “re-invested” in the Newbury Building Society maturing on 18<sup>th</sup> April 2012. We note the intention to use these funds for restoration of the Barn in due course.

The Council has no loans either repayable by or to it from third parties.

### ***Conclusions***

*There are no matters arising in this area.*

## **Statement of Accounts & Annual Return**

We have checked and agreed the data recorded at Section 1 of the Annual Return from the underlying Omega Trial Balance and other relevant documentation. We are also pleased to note production of an explanation of variances to accompany the Annual Return when submitted to the external auditors following approval by the members.

### ***Conclusion***

*No matters arise in this respect and we have, on the basis of the work undertaken during the course of our review work, we have “signed off” the Internal Audit Certificate at Section 4 of the Return assigning positive assurances in all relevant areas.*