

Management In Confidence

**Malmesbury Town Council**

Draft Internal Audit Report

**March 2013**

**FY 2012/2013**

## **EXECUTIVE SUMMARY**

### **Introduction**

1. The internal audit meets the statutory requirements set out in the Practitioners Guide 2003 (Governance and Accountability in Local Councils in England and Wales.)
2. The audit of the 20012/13 accounts was undertaken by Paul Hallam, a professionally qualified Internal Auditor (FCIIA – Fellow of the Chartered Institute of Internal Auditors UK).
3. The auditor would like to thank the Town Clerk and staff at MTC for their help and assistance during the audit. The audit took place on February 25 and 26 2013.

### **Scope**

4. The full scope of the audit is set out in Appendix 8 of the Practitioners Guide, 'A suggested approach to internal audit testing'. The areas reviewed key controls to ensure that
  - Appropriate and robust systems are in place to manage MTC finances.
  - There are proper financial instructions and delegations of authority in place.
  - Proper bank reconciliations are in place.
  - Transactions are correct with proper approvals.
  - There are effective budgetary and financial information systems in place.
  - There is an effective and efficient structure in place to ensure financial control.
  - Assets are properly controlled.
  - Documentation is in good order.
5. We will follow up the recommendations made in the 20011/12 report.
6. The formal Internal Audit responsibilities are to complete Section 4 of the Annual Return. The report gives further details of work carried out and makes suggestions and recommendations where appropriate to improve systems and internal controls.

### **AUDIT OPINION**

7. We can give assurance over the systems of internal control. There are efficient and effective processes in place for all the major systems run by the Council. We found that all transactions tested were appropriately authorised with supporting documentation. The budgetary process in place gives the Town Council managers up to date and comprehensive information with which to monitor progress and to identify variances against plan and therefore take remedial action. There are a number of actions and recommendations which were raised last year and which still apply. In addition there is the additional recommendation regarding putting Council cash reserves into an appropriate money earning account..

### **KEY FINDINGS**

8. The following sections are in the format suggested in Section 4 of the Annual Return. (Sections A-J)

### **Accounting**

9. We checked 20% of all the transactions for the 2011/12 year to date (100+ transactions) and included in the sample was a check of every transaction during two separate months. The accounting processes are carried out efficiently and there are full records for all transactions with evidence of proper authorisation.

10. The VAT issue identified in 2010 and last year remains unresolved. It was identified that the amount owed to the HMRC was between £2/3K. We recommended that the Council should disclose this to the HMRC. Our understanding is that this has not happened.

**Recommendation 1** The Council should declare the under collection to HMRC. This will be the end of the issue as the control weakness that led to the under collection has been addressed which led to and clear this matter up as the

### Risk Management

11. We have reported in every audit that there is no formal system of risk management in place. Good practice guidance for local government recommends good risk management and so our recommendation from previous years remain, that that a Risk Register should be set up.

**Recommendation 2** The recommendation is therefore the same as in previous years. As stated last year we would expect to be able to review a Risk Register during the next review.

### Budgeting

12. The budgeting system produces regular, monthly reports for the Town Clerk and the bi monthly Finance Committee. At the time of the audit the Month 11 budgetary reports showed that the Council was heading for a significant underspend.

	Year to Date (Period 11)	Budget
Income	365497	364578
Expenditure	175010	233600
Balance	190486	130958

13. As stated last year there are a number of budget allocations under spent including, Training, Travel, Health and Safety, Utilities, CCTV. This is the approach that the Council uses to control the overall level of expenditure. It can lead to a situation where there is a rush to spend at the end of the financial year. The current underspend £59K (which will reduce when period 12 figures are added) is exacerbated by the setting of the budgets which leaves £130K unallocated at the beginning of the year.

14. We again state that the current management information does not efficiently record the commitments and this additional information would enable Council managers flexibility and improved control, for example by identifying surpluses and overspends on specific budget items. This would enable budgets to be set accurately which would lead to more effective financial management. There is a need for more accurate financial planning. Currently the planning involved is to leave large budget surpluses so unforeseen financial commitments can be met. Official explained that there a number of major items of expenditure (for example a new spiral staircase) were being considered.

**Recommendation** The Financial Management Information reports should include commitments and planned expenditure. The allocation of budgets should be part of an on-going financial planning process which reflects real circumstances and not merely the historical allocations which leads to end of year underspend and a rush to spend at the end of the financial year.

### Income Control

15. Income is recorded accurately and promptly. As stated above we would like to see the budget identifying sources of income to give managers a comprehensive view of MTC finances.

### Bank Reconciliations

16. Cash is regularly banked and the records are well kept and fully up to date. The bank accounts are regularly reconciled. The reconciliations are prepared by the Deputy Town Clerk. There is evidence that reconciliations are carried out regularly and are authorised appropriately.

### Cash Management

17. The deposit account at Allied Irish Bank was closed and the money transferred to the main MTC Bank Account in 2012. One explanation is that the deposits at Allied Irish were earning negligible amounts, 0.5%. There was additionally the concern that some significant capital expenditure could have occurred in 2012/13 and if the funds were in a long term account they would not be available for use. However the time to plan significant capital expenditure is such that there should be no issue if funds are held on a three or even a six month basis. The Council has missed the opportunity to earn interest. At the time of the audit Council officials were beginning the process of identifying options for using the large cash surpluses more effectively.

**Recommendation.** MTC should set up deposit account(s) to control its current significant cash surplus which has been taken off deposit and put into the current account.

### **Payroll**

18. Timesheets used to back up salary payments in all cases where time worked is flexible and testing confirmed there were timesheets for all overtime worked and salaries based on hourly rates.

### **Asset Management**

19. There is a list of assets prepared as part of the accounting papers for the annual accounts. The current asset valuation (excluding the Town Hall) is £1,052,468.

20. During the audit we verified the existence of the paintings valued at £31296. It could be useful for the Council to have a formal valuation of these items.

**Recommendation** A proper valuation of these items should be carried out.

Paul Hallam FCIIIA. 1 March 2013