



AUDITING SOLUTIONS LTD

Mundon Parish Council

Internal Audit Report 2019-20

John Watson

*For and on behalf of
Auditing Solutions Ltd*

Background

Statute requires all town and parish councils to arrange 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 (AGAR). Auditing Solutions Ltd have been asked to provide this service to Mundon Parish Council.

Due to the impact of the Covid-19 pandemic, we have undertaken our review for the year remotely: we wish to thank the Clerk for assisting in the process, providing all necessary documentation in electronic format to facilitate completion of our review for the year and sign off of the Internal Audit Certificate in the year's AGAR. We may have, in the circumstances, reduced the volume of transactions examined, whilst still ensuring governance and financial controls remain effective.

This report sets out the work undertaken in relation to the 2019-2020 financial year, during our work in our office on 2nd July 2020.

Internal Audit Approach

In undertaking our review for the year, we have had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts/Annual Return (AGAR). 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 (AGAR), which requires independent assurance over a number of internal control objectives. The review for both years has been particularly difficult in view of the lack of information available for our review.

Overall Conclusion

We have concluded that, on the basis of the programme of work undertaken during our review this year, the Council has improved their controls during the year and now maintain adequate and effective internal control arrangements. We thank the Clerk for her assistance, which has helped the review process.

We have completed and signed the 'Annual Internal Audit Report' in the AGAR for the year having concluded that the control objectives set out in that report were being achieved throughout the financial year to a standard that is adequate to meet the needs of the Council. We would stress that, should information come to light subsequent to the issue of this report which clarifies some of the areas where we have been critical, we would be only too pleased to issue an amended report.

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. The accounts are maintained using an Excel spreadsheet which we consider more than adequate for a Council of this size. We note that the Council operates three bank accounts with Barclays Bank plc and an account with National Savings and Investments. We have,

- Checked the opening trial balance detail for 2019-20 to the closing trial balance and certified AGAR for 2018-19;
- Verified that an appropriate cost analysis structure is in place on the excel spreadsheets;
- Noted that bank reconciliations appear to be prepared routinely on a regular basis;
- Checked and agreed all transactions for the year on all three Barclays Bank accounts;
- Ensured that the accounts remain "in balance" at the financial year-end; and
- Agreed the bank reconciliations as at 31st March 2020 on all three Barclays Bank accounts and on the National Savings and Investments account.

We are concerned to note that several cheques raised in favour of HMRC during the year were not presented to the bank for payment. We understand that these were retained by the Clerk and will deal with this later in the report.

Conclusions

We are pleased to report that there are no issues arising in this area of our review process warranting formal comment or recommendation. We have ensured that the correct balances of cash have been reflected in the year end AGAR

Review of Corporate Governance

Our objective is to ensure that the Council has a robust regulatory framework in place; that Council meetings are conducted in accordance with the adopted Standing Orders and that, as far as we are able to ascertain (as we do not attend Council or Committee meetings), no actions of a potentially unlawful nature have been or are being considered for implementation. We have in this regard:-

- Noted that Standing Orders and Financial Regulations were presented to and approved by Council at their meeting on 17th March 2020 (minutes 6b and 6c refer);
- Further noted that the 2020-2021 precept was agreed at £4,750 at the Council meeting held on 19th November 2019 (minute 22d refers);
- Examined the minutes of meetings (where available) of the Full Council for the year to identify whether any issues arise that may have an adverse effect on the Council's future financial stability with no apparent issues arising; and,
- Noted that the Council has correctly provided the proper opportunity for the exercise of public rights in accordance with the requirements of the Accounts and Audit Regulations at the appropriate time in 2019.

We have noted that the major item of expenditure for the Council in both years is grass cutting. We have previously suggested it might be appropriate to obtain quotes for this service at least bi-annually.

Finally we noted last year that, in spite of the Council having received a grant from the Essex Association of Local Councils (EALC) to enable it to comply with the new Transparency Code requirements, the Council website does not appear to fully comply with these requirements. We comment again on the disposal of the laptop purchased as part of this grant later in the report.

Conclusions and recommendations

R1. Council should fully comply with the requirements of the Transparency Code.

Review of Payments

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;
- Members have met their fiduciary duties approving release of each payment in accord with existing legislation;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct expense headings have been applied to invoices when processed; and
- VAT has been appropriately identified and coded to the control account for periodic recovery and that submissions have been made to HMR&C in a timely manner.

Due to the issues as mentioned at the start of this report we have examined a random example of approximately seventy five percent of non-salary transactions in the cash book for the year to ensure compliance with the above criteria with no issues arising other than the failure to submit VAT reclaims to HMRC.

In our report last year we noted that a manual VAT reclaim to HMR&C did not appear to have been submitted for at least two years and reminded Members that there is a three year time limit on submitting claims. We note that no reclaims have been submitted to HMRC in the year and point out that a claim in respect of 2016-2017 is now partly out of time. We recommend that the Clerk submit claims for the three years to 31st March 2020 without further delay.

Conclusions and recommendations

We recommend that VAT reclaims should be submitted on an annual basis.

R2. The outstanding VAT reclaims should be made without delay and annual reclaims should be made in future.

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: -

- Examined the Council's current insurance policy which has been arranged through BHIB Insurance Brokers with Aviva Insurance and which provides cover in the year under review to 31st May 2020. Employers and Public Liability cover is in place at £10 million each and Fidelity Guarantee cover is in place at £250,000; We consider this cover to be at an appropriate level for the Council's requirements;
- Noted that the Council reviewed and adopted their Risk Assessment for the year at their meeting on 21st January 2020 (minute 22a refers); and
- Noted that the Council does not own any facilities requiring them to undertake regular Health and Safety inspections.

Conclusions

We are pleased to report that there are no issues arising in this area of our review process warranting formal comment or recommendation.

Budgetary Control and Reserves

We aim in this area of our review process 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 District 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 from our review of the minutes that members continue to be provided with regular management accounting information;
- Noted that a 2020/21 budget exercise was undertaken and approved by Council as part of their Precept deliberations at their meeting on 19th November 2019 (minutes 22d refers);
- Further noted as detailed previously in this report that the 2020/21 precept has been agreed at the Council meeting held on 19th November 2019 at £4,750 (minute 22d refers);
- Considered the appropriateness of the level of general reserves to meet the Council's ongoing revenue spending requirements noting that reserves at the year-end total £20,586 of which £12,761 are earmarked reserves; the balance of £7,825 equates to just over fifteen months average revenue expenditure which is above the generally accepted guidelines of between three and six months' expenditure; and
- Reviewed the year-end budget outturn for any significant unexplained variances with none in evidence.

Conclusions

We are pleased to report that there are no issues arising in this area of our review process warranting formal comment or recommendation.

Review of Income

The Council has only limited sources of income, primarily the annual precept, together with bank interest, VAT refunds and grants. We note that, during the year under review, Council received an amount of £900 being the fee paid by a film crew using Furze Hall

We have checked and agreed detail of all income between the cashbook and bank statements for the financial year.

Conclusions

We are pleased to report that there are no issues arising in this area of our review process warranting formal comment or recommendation.

Petty Cash Account

The Council does not operate a petty cash account. All out-of-pocket expenses incurred by the clerk being reimbursed by cheque, any VAT incurred also being identified for recovery.

Conclusions

We are pleased to report that there are no issues arising in this area of our review process warranting formal comment or recommendation.

Salaries and Wages

In examining the Council's payroll function, we aim to confirm that existing legislation is being appropriately observed as regards adherence to the requirements of HM Revenue and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions; To meet this objective, we have: -

- Noted that the Clerk prepares the payroll using the HMR&C Payroll Tools software;
- Checked and agreed the amount paid to the Clerk in February and March 2020 by reference to the agreed pay scale.
- Checked to ensure that, where additional hours are paid, they are appropriately supported; and,
- Ensure that PAYE and NIC deductions have been made accurately.

Previously in this report we have referred to the fact that the cheques drawn in favour of HMRC have not been presented to the bank and we understand that this is because the Clerk has not actually sent them to HMRC. Normally, when cheques are more than six months old we would recommend that they be reversed in the accounts but, in this instance and so as not to distort the amount paid during the year in salary, we have recommended that they remain outstanding at the

year end. We understand that the Clerk is making arrangements to pay all outstanding PAYE and recommend that this be done without delay. We point out that, going forward, tax due can be paid on a quarterly basis.

Last year we suggested that the new Clerk clarify with HMR&C that all tax due had been paid as at 31st March 2019 and we strongly recommend that this be done as at 31st March 2020. We also point out that the Council may incur penalties for the late payment of tax due.

Conclusions and recommendations

We recommend that tax outstanding at the year end should be paid without delay and that tax due in future is paid on a regular monthly or quarterly basis.

R3. All tax outstanding as at 31st March 2020 should be paid without delay.

R4. Tax due in the forthcoming year should be paid on a monthly or quarterly basis.

Asset Registers

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. We are pleased to note that an appropriate asset register is in place. We are also pleased to note compliance with the AGAR reporting requirements with the purchase cost (net of VAT) of any new assets acquired in the year added to the register and disclosed appropriately in the year's AGAR.

We previously remarked that the total of the Asset Register did not agree with the amount entered in the AGAR in 2016-2017. We are pleased to note that the Clerk has resolved this issue.

We also previously commented that the new laptop purchased by the Council during 2018-2019 was gifted to the outgoing Clerk. We commented that, bearing in mind that this purchase was grant aided by the EALC to enable the Council to comply with the new Transparency Code, we suggested the Council should consider whether this was an appropriate use of Council Assets and that Council seek a ruling on this matter from the EALC. We see no evidence that this has been done.

Finally, we have previously noted that the Council held a 2 ½% Consolidated Stock Holding. This would normally be reported as part of the Assets and, in our experience, it is unlikely that the Council will have sold this Stock Holding. We recommend that the Clerk investigate this further.

Conclusions and recommendations

Council should seek advice from the EALC as to whether the gift of the laptop to the previous Clerk was an appropriate use of Council funds. Council should also clarify the position re the 2 1/2 % Consolidated Stock Holding. We have ensured that the value of assets reported in the AGAR has been correctly disclosed

R5. Council should seek advice from EALC as to whether the gift of the laptop to the previous Clerk was an appropriate use of Council Assets.

R6 Council should clarify the position re the 2 ½% Consolidate Stock Holding.

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 accounts; 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 and that any loan repayments due to or payable by the Council are transacted in accordance with appropriate loan agreements.

We have noted that the Council holds an account with National Savings and Investments and that interest is credited to this account annually.

We have confirmed that the Council holds no long-term investments requiring disclosure in the Statement of Accounts, nor are there any loans with external bodies in existence repayable by or to it.

We point out that, although it is not mandatory, it is best practice that when funds are held in excess of £10,000 an investment policy should be in place.

Conclusions

We are pleased to report that there are no issues arising in this area of our review process warranting formal comment or recommendation.

Statement of Accounts and Annual Return

The 1996 Accounts and Audit Regulations required that all Councils prepare a detailed Statement of Accounts, together with supporting statements identifying other aspects of the Council's financial affairs. The Council relies on the Accounts statements generated by the Excel spreadsheets to provide the relevant detail, together with that for disclosure in the year's Annual Return at Section 1.

We have reviewed the Statement of Accounts and Annual Return detail prepared by Clerk, as generated from the amended accounting spreadsheets with no obvious errors or anomalies in the detailed content

Conclusions

No issues have been identified in relation to the verification of detail in the Statement of Accounts and Annual Return in the year.

On the basis of our detailed work during the course of the year on the Council's systems of financial control and content of the detailed Statement of Accounts and that summarised detail set out in the AGAR, we have signed off the Internal Audit Report of the AGAR for the year assigning positive assurances in each relevant area.

ACTION PLAN

Rec. No.	Recommendation	Response
Review of Corporate Governance		
R1	Council should fully comply with the requirements of the Transparency Code.	
Review of Payments		
R2	The outstanding VAT reclaims should be made without delay and annual reclaims should be made in future.	
Budgetary Controls and Reserves		
R3	All tax outstanding as at 31st March 2020 should be paid without delay	
R4	Tax due in the forthcoming year should be paid on a monthly or quarterly basis.	
Asset Register		
R5	Council should seek advice from EALC as to whether the gift of the laptop to the previous Clerk was an appropriate use of Council Assets.	
R6	Council should clarify the position re the 2 ½% Consolidate Stock Holding.	