

## **Mundon Parish Council**

*Internal Audit Report 2017-18 & 2018-19*

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*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.

This report sets out the work undertaken in relation to the 2017-2018 and 2018-2019 financial years, during our work in our office on 8<sup>th</sup> and 9<sup>th</sup> June 2019.

## **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 visits this year, the Council maintains less than adequate and effective internal control arrangements. We thank the new Clerk for her assistance, which has helped a difficult review process.

We have completed and signed the 'Annual Internal Audit Report' in the AGAR for both years having concluded that the control objectives set out in that report were not 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. We note that the new Clerk has reconstructed the cash book for both years using an Excel spreadsheet which we consider more than adequate for a Council of this size. We also note that the Council operates three bank accounts with Barclays Bank plc. We have,

- Checked the opening trial balance detail for 2017-18 to the closing trial balance and certified Annual Return for 2016-17; we note that it was impossible with the information provided to verify the closing balance in the certified Annual Return for 2016-2017;
- Checked and agreed the opening trial balance detail for 2018-19 to the closing trial balance and certified Annual Return for 2017-18;
- Verified that an appropriate cost analysis structure is in place on the excel spreadsheets;
- Noted that bank reconciliations do not 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 2017-2018 and at the 2018-2019 financial year-ends; and
- Agreed the bank reconciliations as at 31<sup>st</sup> March 2018 and as at 31<sup>st</sup> March 2019 on all three accounts;

We are concerned to note that several cheques raised in the early part of 2017-2018 were not presented to the bank for payment, the same being the case in the early part of 2018-2019. We have discussed this with the Clerk who has reversed the spreadsheet entries in respect of those cheques

#### *Conclusions and recommendations*

***Reconciliations of the bank accounts should be carried out at least quarterly We have verified the accurate disclosure of the year-end balances in the relevant years’ AGARS.***

*R1. The Clerk should reconcile the bank accounts at least quarterly and these reconciliations should be presented to Council with a nominated Councillor checking and signing them off.*

### 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 draft Standing Orders were presented to Council at their meeting on 26<sup>th</sup> July 2018, a decision on their adoption being deferred to a later meeting (minute 2 refers). We cannot see that they have been subsequently formally adopted;
- Noted that the Council does not appear to have formally adopted Financial Regulations in recent years;

- Further noted that the 2017-2018 precept was agreed at £4,500 at the Council meeting held on 19<sup>th</sup> December 2017 (minute 11 refers) and that the 2018-2019 precept was agreed at £4,750 at the Council meeting on 18<sup>th</sup> December 2018 (minute 11 refers); and,
- Examined the minutes of meetings (where available) of the Full Council for the two years to identify whether any issues arise that may have an adverse effect on the Council's future financial stability with no apparent issues arising;

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

Finally we note 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 comply with these requirements. We have commented on the disposal of the laptop purchased as part of this grant later in the report.

### ***Conclusions and recommendations***

*R2. Standing Orders and Financial Regulations should be reviewed without delay and should then be reviewed on an annual basis.*

## **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.

We have examined the transactions in the cash book for both years to ensure compliance with the above criteria and are disappointed to note that it was not possible to supply supporting paperwork in respect of several cheques issued in both years. We are pleased to note that the new Clerk was able to supply supporting paperwork for her first month in office.

We are also disappointed to note that it appears that a manual VAT reclaim to HMR&C does not appear to have been submitted for at least two years and remind Members that there is a three year time limit on submitting claims. It would appear that a claim in respect of 2016-2017 has not been submitted to HMR&C and this period will time expire on 31<sup>st</sup> March 2020.

### ***Conclusions and recommendations***

***We recommend that supporting paperwork should be obtained and retained in respect of all payments made and that VAT reclaims should be submitted on an annual basis.***

*R3. Supporting paperwork should be obtained and retained in respect of all payments made by the Council.*

*R4. 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 to 31<sup>st</sup> 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 does not appear to have reviewed Risk Assessment in the years under review; we remind the Clerk and Members of the Governance and Accountability Manual - Practitioners Guide (2014 edition) mandatory requirement that risk assessments are reviewed and re-adopted formally by the Council each year; and
- Noted that the Council does not own any facilities requiring them to undertake regular Health and Safety inspections.

### ***Conclusions and recommendations***

***We draw the Clerk and Members attention to the now mandatory requirement that financial and other risk assessments are subjected to at least annual review, update and formal re-adoption by the full Council and urge them to ensure that they comply in 2019-20. We shall continue to monitor progress in this respect at next year's review and report our conclusions accordingly.***

*R5. The Council should ensure that financial and other risk assessments are subjected to at least one annual review with the resultant output adopted formally by the full Council, as is now mandatorily required.*

## **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.

We are pleased to note as mentioned previously in this report, that the 2017-2018 budget and precept was agreed at £4,500 at the Council meeting held on 19<sup>th</sup> December 2017 (minute 11 refers) and that the 2018-2019 budget and precept was agreed at £4,750 at the Council meeting on 18<sup>th</sup> December 2018 (minute 11 refers);

We also note that members receive minimal reports regarding the Council finances and suggest that this be rectified with at least copies of the quarterly bank reconciliations being presented to Council.

We have considered the appropriateness of the level of retained reserves to fund the Council's ongoing revenue spending plans and any future development aspirations. We note that total Reserves as at 31<sup>st</sup> March 2018 stand at £18,369 which equates to over forty three months average revenue spending and that total Reserves as at 31<sup>st</sup> March 2019 stand at £21,101 which equates to over sixty eight months average revenue expenditure, both of which balances are considerably in excess of the generally accepted CIPFA guideline of between three and six months' revenue spending.

### ***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 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

(HMR&C) legislation as regards the deduction and payment over of income tax and NI contributions; To meet this objective, we have: -

- Reviewed the Council's payroll preparation procedures noting that, in the majority of months of the two years under review, the payroll was calculated by outside payroll providers on information supplied by the then Clerk;
- Noted that the new Clerk will be preparing the payroll using the HMR&C Payroll Tools software which will afford a considerable saving on payroll preparation to the Council;
- Checked and agreed the amount paid to the new Clerk in February 2019 by reference to the agreed pay scale.

Because of the lack of supporting documentation we were unable to: -

- Check and agree the amounts paid to individuals by reference to the approved pay rates for the whole of 2017-2018 or for the period April 2018 to January 2019;
- Check to ensure that, where additional hours are paid, they are appropriately supported;
- Ensure that PAYE and NIC deductions have been made accurately; and
- Ensure that the appropriate month's deductions and contributions have been paid over to HMR&C in a timely manner.

We have noted that during 2018-2019 the Council incurred interest for late payment of tax due. We suggest that the new Clerk clarify with HMR&C that all tax due has been paid as at 31<sup>st</sup> March 2019.

### **Conclusions**

*We assume that, with the employment of the new Clerk, the payroll will be administered efficiently going forward. We will review this area in detail in 2019-2020.*

## **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 understand that the Council has maintained an Asset register but note that the total of this Register does not agree with the amount entered in the AGAR in 2016-2017. We have asked the new Clerk to investigate this discrepancy.

We understand that the new laptop purchased by the Council during 2018-2019 was gifted to the outgoing Clerk. Bearing in mind that this purchase, as previously mentioned in this report, was grant aided by the EALC to enable the Council to comply with the new Transparency Code, we suggest the Council should consider whether this was an appropriate use of Council Assets. We suggest Council seek a ruling on this matter from the EALC

We also note that the Council previously 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 have asked the Clerk to investigate this.

### *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 will ensure that the value of assets reported in the AGAR has been correctly disclosed*

## **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.

### *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 both years.*

*On the basis of our detailed work during the course of both years 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 both years assigning positive assurances, with one exception as detailed previously in this report, in each relevant area.*



# ACTION PLAN

Rec. No.	Recommendation	Response
<b>Maintenance of Accounting Records and Bank Reconciliations</b>		
R1	The Clerk should reconcile the bank accounts at least quarterly and these reconciliations should be presented to Council with a nominated Councillor checking and signing them off.	
<b>Review of Corporate Governance</b>		
R2	Standing Orders and Financial Regulations should be reviewed without delay and should then be reviewed on an annual basis.	
<b>Review of Payments</b>		
R3	Supporting paperwork should be obtained and retained in respect of all payments made by the Council	
R4	The outstanding VAT reclaims should be made without delay and annual reclaims should be made in future.	
<b>Assessment and Management of Risk</b>		
R5	The Council should ensure that financial and other risk assessments are subjected to at least one annual review with the resultant output adopted formally by the full Council, as is now mandatorily required.	