



# Morecambe Town Council

## Internal Audit Report

### 2019/20 [Year End]

**Date of Interim Visit:** 16 March 2020

**Date of Final [Year-End] Audit:** 08 June 2020

**Financial Year Ended:** 31 March 2020

**Prepared by:** Internal Audit Yorkshire

**Status:** Final

**Date Report Issued:** 22 June 2020

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**This internal audit report is based upon best practice guidelines set out in the Practitioners' Guide to Governance and Accountability for Local Authorities.**

Internal audit is an on-going function, undertaken regularly throughout the financial year, to test the continuing existence and adequacy of the authority's internal controls. It results in an annual assurance report to members designed to improve effectiveness and efficiency of the activities and operating procedures under the authority's control. Managing the authority's internal controls is a day-to-day function of the authority's staff and management, and not the responsibility of internal audit.

**Internal audit does not involve the detailed inspection of all records and transactions of an authority in order to detect error or fraud.**

[Source 'Governance and Accountability for Small Authorities in England Practitioners Guide 2019']

## **1. Background**

1.1 Authorities in England operate within a legal framework which provides them with the necessary statutory powers and authority to deliver local public services. Authorities and their clerks/chief executives/RFOs should always be aware of, and have regard to, the legal power they are exercising when deciding on any action including to spend public money.

1.2 The proper practices for smaller authorities (Town and Parish Council's) are included in the Governance and Accountability for Smaller Authorities [March 2019], a Practitioners Guide. Smaller authorities in England must complete an Annual Return and an Annual Governance Statement to the public. The Annual Return must be submitted to the external auditor within the statutory deadline of 30 June.

## **2. Purpose of Internal Audit**

2.1 Internal auditing is an independent, objective assurance activity designed to improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

2.2 The purpose of internal audit is to review and report to the authority on whether its systems of financial and other internal controls over its activities and operating procedures are effective. The internal audit function must be independent from the management of the financial controls and procedures of the authority which are the subject of review. The person or persons carrying out internal audit must be competent to carry out the role in a way that meets the business needs of the authority.

2.3 The objectives for Internal Audit Yorkshire are to undertake a programme of work to help discharge the statutory internal audit responsibilities and form a judgement of the effectiveness of internal control arrangements during the financial year. Our objective going forward will be to follow up on our internal audit work completed and provide feedback to the Council on the effectiveness of new controls. The key systems and processes will range from:

- Proper book-keeping including the cash book; bank reconciliations
- Standing orders and financial regulations;
- Payment controls/petty cash; Income controls;
- Budgetary controls; Petty cash procedure;
- Payroll controls; Asset control;
- Year-end procedures; and risk management arrangements.

The list is not exhaustive and can vary from each authority who can agree a specific programme of work with its internal auditor provider each year.

## **3. Our Objectives and Programme of Work**

3.4 Our programme of cover has been designed to afford reasonable assurance that the Councils financial systems are robust and are operating in an effective manner and in compliance with the statutory legal framework.

3.5 Our work during the interim visit and the year-end visit will enable us to reach judgements on the internal control objectives in the Annual Internal Audit Report which forms part of the Councils Annual Governance and Accountability Return [AGAR].

#### 4. Our Scope of Work During the Interim Visit

4.1 We covered the following areas during our interim visit in March 2020. A written report was issued to the Council with the detailed findings of the audit.

- Book Keeping and Bank Reconciliations
- Standing Orders and Financial Regulations
- Payment Controls and Expenditure Testing
- Scheme of Delegation
- Charge Card
- VAT
- Risk Management Arrangements
- General Data Protection Regulations [GDPR]
- Back-up of Electronic Files
- Budgetary Controls and Financial Health
- Income Controls including the precept
- Petty Cash
- Payroll Controls
- Asset Management
- [Other Matters] Local Government Data Transparency Code 2015
- [General] Additional Comments/Recommendations

#### 5. Our Scope of Work at the final Year-End visit

5.1 We covered the following areas during our final year-end audit that was carried out remotely due to the government restrictions surrounding Covid-19. The detailed findings are contained within this audit report.

- VAT
- Payroll Controls [HMRC Payments]
- Asset Register
- Trust Funds [For local Councils] \_ Not applicable
- Year-End Procedures, Bank Reconciliations and Accounting Statements
- Exercise of Public Rights
- Completion of the Annual Internal Audit [AGAR]

We would like to thank the Clerk/RFO Mr Bob Bailey for all his help and assistance during the audit.

## 5.2 Findings

### 5.3 VAT

<b>OBJECTIVE:</b>	To obtain assurance that Standing Orders, Financial Regulations and Appropriate payment controls (payments supported by invoices, expenditure is approved, VAT is correctly accounted for) are in place and are followed.
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5.4 Section 33 of the VAT Act 1994 allows local authorities such as a parish and town councils, to recover the VAT they incur in the course of performing their public duties. A year for section 33 bodies runs from 01 April to 31 March. VAT must be reclaimed on an annual basis or throughout the year depending on the arrangements agreed with HMRC.

- 5.5 The VAT record was reviewed which the Clerk had prepared to include all entries from the 01 April 2019 to 31 March 2020. The VAT reclaim was automatically produced using the Scribe accounting system. We verified the entries in the cashbook against the VAT return and can confirm that although the VAT reclaim figure of £5,079.52 had been correctly reclaimed in terms of calculations, the VAT reclaim period included entries from the last month of the previous financial year (2018/19) which is outside of HMRC VAT rules.
- 5.6 We noted a number of VAT reclaim entries that were not supported by a VAT registration number. By law the Council must ensure that they have the required documentary evidence which is normally a VAT invoice for the purposes of reclaiming VAT and that the VAT numbers are entered on the detailed VAT return submitted to HM Revenue and Customs. Failure to comply with VAT rules may result in a VAT inspection by HM Revenue and Customs. Further guidance on VAT is set out in the VAT Notice 749 for Local authorities and similar bodies on the HMRC website.

**Recommendation 01:** That all future VAT reclaims include entries from the 01 April to 31 March only in compliance with section 33 of the VAT Act 1994.

**Recommendation 02:** That all VAT reclaim entries are supported by a VAT registration number and supported by VAT invoices in compliance with HMRC VAT rules.

- 5.7 We discussed the VAT findings with the Clerk who confirmed that although the VAT had been prepared, it had not been submitted to HMRC. The Clerk agreed to make the subsequent changes to the VAT prior to submission.

## 5.8 Payroll Controls [HMRC Payments]

<b>OBJECTIVE:</b>	Obtain assurance that payroll costs are supported by employment contracts, expenditure is approved and PAYE/NIC is properly operated.
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- 5.9 At our interim visit we noted the outstanding liabilities owed to HMRC. We are informed that the outstanding liabilities have now been paid. Although a detailed inspection of the HMRC records was not undertaken, we can confirm that we are satisfied that the Council is paying their employer contributions as the payments are verified in the cashbook transactions. We have noted the recent staffing changes surrounding the Assistant Clerk post. The Council now has one post holder the Town Clerk/RFO. For the purposes of risk management, consideration should be given to business continuity. We will review this in further detail at our audit visit during the 2020/21 financial year.
- 5.10 Changes have been made to the in-house payroll system. The switch over has been completed from Payroo to HMRC Basic PAYE programme. The payroll is run in-house via the Clerk/RFO using the basic HMRC PAYE programme. This is a weakness in internal control as there is no segregation in duties.
- 5.11 Due to the absence of no time sheets completed by the Clerk/RFO, we could not carry out any testing to confirm that the overtime calculations were correct and had been authorised by the Council as referenced in our interim report. We noted that salaries are paid on different dates of the month. Salaries should be paid in accordance with the contract on a fixed day/date per month.

5.12 Due to the internal control weaknesses identified surrounding segregation of duties and the issues encountered with HMRC, it is recommended that the Council outsources their payroll to an independent payroll provider. The payroll provider would run the payroll as per contract of employment and process any overtime payments on receipt of a signed overtime claim form by the Officer which should be authorised member of the Council or Staffing committee. We would suggest that the Council obtains a quotation from Autela Payroll Services as this organisation operates the payroll for a large number of parish Councils.

**Recommendation 03:** That the Council considers outsourcing the payroll to an independent payroll provider.

**Recommendation 04:** That the Clerk/RFO completes timesheets on a weekly basis that are signed off by the Chair of the Council or nominated member of the Staffing Committee. Overtime should be sanctioned in advance and recorded on the timesheets accordingly and submitted to the payroll provider for processing.

### 5.13 Asset Register

<b>OBJECTIVE:</b>	Obtain assurance that all material assets are accounted for correctly.
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5.14 We reviewed the asset register as at 31 March 2020. This was updated to include the purchases made by the Council during the course of the financial year prior to our audit inspection. On comparison of the value of assets with last year's figures, there was a variance of £2,747. The updated figure in the asset register included one new entry as 'Feb 2020' detailed as surface pro laptops, telephones and infrastructure at a purchase value of £2,746.62. The total value of assets at 31 March 2020 was recorded at £66,122.57. On inspection of the cashbook transactions we found two transactions that should be included in the Asset Register. We could not verify the asset details or the figures provided due to the discrepancy in asset values in comparison with the updated register. The two transactions found in the cashbook totalled £3,054.94:

- (27/01/2020) – Lancaster City Council – laptop, £718.68, net value
- (27/02/2020) – Tech Hub, £2,336.26, net value

5.15 We would recommend that the asset register is updated to include the details of the two transactions above and that the figure is changed in box 9 of the AGAR to reflect the changes.

**Recommendation 05:** That the Asset Register is updated to include the two purchases from 27 January 2020 and 27 February 2020 at purchase value prior to submission to external audit and that the box 9 figure in the AGAR is amended accordingly.

5.16 We discussed the findings with the Clerk and it was explained that due to an oversight, the entry had been missed off. It was agreed to update the Asset Register accordingly.

## 5.17 Year End Procedures, Bank Reconciliations and Accounting Statements

<b>OBJECTIVE:</b>	Obtain assurance that the accounts are prepared on the correct statements (receipts and payments or income and expenditure) and that working papers can be followed through to the final document.
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- 5.18 The guidelines stipulate that authorities with an income or expenditure exceeding £200,000 would need to prepare their accounts on an income or expenditure basis. Authorities operating below the £200,000 threshold have the option to report either on an income and expenditure basis or on a receipts and payments basis. Where authorities change from a receipts and payments basis to income and expenditure, the accounts may be restated for the previous financial year after the external audit review and a note must be sent to the external auditors. We reviewed end of year accounts that were prepared by the RFO on an income and expenditure basis, the same basis the account were prepared on for the financial year 2018/19.
- 5.19 Section two of the AGAR summaries the accounting statements. Box 2 records the precept figure of £189,594 and box 3 records the sum of the total income less precept, which was recorded as £13,091. Box 2 and 3 combined should total the income received during 2019/20. We reviewed the working details of the income and expenditure account to verify the figures. The total income recorded on the income and expenditure account was £204,634.54 which includes the precept of £189,593.58 and all other income as £15,040.96. This shows a variance of £1,949.96 and therefore the figures provided in the AGAR should be corrected accordingly. We were informed by the Clerk that the Scribe accounts system produces the year end figures.
- 5.20 We noted that there was a difference between box 7 of the accounting statements as it did not equal to the value in box 8. This difference should only occur in cases where the authority's accounts are presented on an income and expenditure basis, and the most common explanation is the effect of debtors and creditors in the authority's statement of balances. It should be possible to provide the auditor with details of the year-end debtors and creditors showing how the net difference between them is equal to the difference between Lines 7 and 8.
- 5.21 We reviewed the paperwork for the difference in boxes 7 and 8 and this difference was explained as a VAT recoverable balance of £9,403.75. We reviewed the working details for the VAT recoverable balance and noted that the amount recoverable for the financial year 2019/20 was £5,079.52 as referenced in section 5.5 above. We also noted that a VAT payment of £4,966.03 was paid into the bank on 02 April 2019 for the previous financial year. The combined amount totalled to £10,045.55 and not the VAT recoverable balance of £9,403.75 as shown within the accounting statements. Accounts that are prepared on an income and expenditure basis, must account for creditors and debtors where applicable. Further guidance on the preparation of accounts is available in the Practitioners Guide.
- 5.22 On a final point we picked up a further discrepancy on the VAT refund figure that is recorded in the income/expenditure account as £5,020.07. As referenced in section 5.5 above, a VAT claim was made for £5,079.52 for the 2019/20 financial year.

**Recommendation 06:** That the accounting statements in the AGAR are fully reviewed and supported by working papers showing the detail of the accounts and that creditors and debtors are shown on the accounts where required. Detailed guidance on the preparation of the accounts is set out from page 61 in the practitioner's guide 'Reporting on an income and expenditure basis'.

**Recommendation 07:** That boxes 7 and 8 of the accounting statements are reviewed prior to submission to the external auditors to ensure that the correct explanation has been provided between the difference of figures and that these can be supported by the working papers. Where the previous years accounts have been prepared on a receipts and payments basis then the accounts for the current year must be converted to income and expenditure and last years figures may be restated with an explanation provided to the external auditors.

**Recommendation 08:** That the Council considers a review of the accounting software to assess if it effective to manage the Councils accounts and supports the preparation of year-end financial reporting including double entry book keeping and reversing journals. We would suggest enquires are made with RBS Software who are the sector led specialists that provide an Omega Accounts accountancy package for medium to large Town and Parish Councils.

- 5.23 We reviewed the bank reconciliation that showed the Councils financial position at the 31 March 2020. The pro-forma for an explanation of significant variances was completed by the Clerk for submission to the external auditors.
- 5.24 We discussed the year end accounting statements and findings with the Clerk who had agreed to make the subsequent changes to the accounts prior to submission to the external auditors. The draft figures for the year ending 31 March 2020 provided on the AGAR [page 9 of our report] had been provided by the Clerk for audit. These figures will need to be amended accordingly. We have obtained reasonable assurance from the Clerk that the corrections would be made to the accounts and on that basis, we are happy to tick 'yes' to the internal control objective assertion J.

## 5.25 Exercise of Public Rights

<b>OBJECTIVE:</b>	Obtain assurance that the Council has advertised the dates for the inspection of public rights correctly.
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- 5.26 Due to the Covid-19 national emergency, legislative changes were made to the statutory audit framework for the submission of the annual accounts and the inspection dates for the exercise of public rights. Normally the inspection window would include the first 10 working days in July however due to Covid-19 this has been changed and instead, smaller authorities must commence the public inspection period on or before 1 September 2020.
- 5.27 In accordance with Regulation 12(3) of the Accounts and Audit Regulations 2015, the authority's RFO is responsible for commencing the 30-working day period as soon as possible after the statement of accounts has been approved by the authority and signed and dated by the person presiding at the meeting at which that approval is given. We reviewed the public notice for the inspection of public rights that had been prepared by the RFO. The provisional dates are set to commence on Monday 06<sup>th</sup> July 2020 and end on Friday 14<sup>th</sup> August 2020.
- 5.28 We have obtained assurance that the Council will approve the AGAR and accounting statements at the next scheduled meeting on 02 July 2020 and the unaudited accounts and AGAR will be placed on the Town Council website [www.morecambe.gov.uk] with the public notice advertising the inspection dates. The public notice and inspection dates will need to be changed accordingly in the event that the accounts are not approved by the Council on the 02 July.

## **5.29 Completion of the Annual Internal Audit Report [AGAR]**

5.30 We have discharged our responsibilities as the internal auditor and completed the annual internal audit report which forms part of the Annual Governance and Accountability Return [AGAR] which has been signed off. Where we have been unable to provide a positive assertion in some areas in the report, the negative responses are supported by the findings contained within this document and the interim audit report previously issued.

**Recommendations Action Plan attached in Appendix document**

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**End of Report**

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## Annual Governance and Accountability Return

		Year ending 31 March 2019	Year Ending 31 March 2020
<b>1.</b>	<b>Balances brought forward</b> Total balances and reserves at the beginning of the year as recorded in the financial records. Value must agree to Box 7 of previous year.	£123,708	£133,520
<b>2.</b>	<b>Annual precept</b> Total amount of precept (or for IDBs rates and levies) received or receivable in the year. Exclude any grants received.	£188,141	£189,594
<b>3.</b>	<b>Total other receipts</b> Total income or receipts as recorded in the cashbook less the precept or rates/levies received (line 2). Include any grants received.	£6,787	£13,091
<b>4.</b>	<b>Staff costs</b> Total expenditure or payments made to and on behalf of all employees. Include salaries and wages, PAYE and NI (employees and employers), pension contributions and employment expenses.	£41,086	£57,815
<b>5.</b>	<b>Loan interest/capital repayments</b> Total expenditure or payments of capital and interest made during the year on the authority's borrowings (if any).	£0.00	£0.00
<b>6.</b>	<b>Total other payments</b> Total expenditure or payments as recorded in the cashbook less staff costs (line 4) and loan interest/capital repayments (line 5).	£144,030	£134,138
<b>7.</b>	<b>Balances carried forward</b> Total balances and reserves at the end of the year. Must equal (1+2+3) - (4+5+6).	£133,520	£144,251
<b>8.</b>	<b>Total cash and investments</b> The sum of all current and deposit bank accounts, cash holdings and short-term investments held as at 31 March – To agree with bank reconciliation.	£123,809	£134,847
<b>9.</b>	<b>Total fixed assets and long-term assets</b> The value of all the property the authority owns – it is made up of all its fixed assets and long-term investments as at 31 March.	£63,376	£66,123
<b>10.</b>	<b>Total borrowings</b> The outstanding capital balance as at 31 March of all loans from third parties (including PWLB).	£0.00	£0.00

## Year-End Internal Audit 2019/20

## Appendix [Action Plan]

No	Recommendation	Responsibility	Timescale
1	That all future VAT reclaims include entries from the 01 April to 31 March only in compliance with section 33 of the VAT Act 1994.		
2	That all VAT reclaim entries are supported by a VAT registration number and supported by VAT invoices in compliance with HMRC VAT rules.		
3	That the Council considers outsourcing the payroll to an independent payroll provider.		
4	That the Clerk/RFO completes timesheets on a weekly basis that are signed off by the Chair of the Council or nominated member of the Staffing Committee. Overtime should be sanctioned in advance and recorded on the timesheets accordingly and submitted to the payroll provider for processing.		
5	That the Asset Register is updated to include the two purchases from 27 January 2020 and 27 February 2020 at purchase value prior to submission to external audit and that the box 9 figure in the AGAR is amended accordingly.		
6	That the accounting statements in the AGAR are fully reviewed and supported by working papers showing the detail of the accounts and that creditors and debtors are shown on the accounts where required. Detailed guidance on the preparation of the accounts is set out from page 61 in the practitioner's guide 'Reporting on an income and expenditure basis'.		
7	That boxes 7 and 8 of the accounting statements are reviewed prior to submission to the external auditors to ensure that the correct explanation has been provided between the difference of figures and that these can be supported by the working papers. Where the previous years accounts have been prepared on a receipts and payments basis then the accounts for the current year must be converted to income and expenditure and last years figures may be restated with an explanation provided to the external auditors.		

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That the Council considers a review of the accounting software to assess if it effective to manage the Councils accounts and supports the preparation of year-end financial reporting including double entry book keeping and reversing journals. We would suggest enquires are made with RBS Software who are the sector led specialists that provide an Omega Accounts accountancy package for medium to large Town and Parish Councils.