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Internal Audit Report for the Hennys Middleton and Twinsted Parish Council

28th September 2020

Summary.

At the last audit I noted that it was clear that although the council is managing its money and assets in a reasonable manner, it is required to meet its governance responsibilities and little has changed since that audit. The demands are the same for a small council as for a large one and the Councillors must remind themselves of the formal requirements of their role. Although it can be difficult for small councils to see the point of management systems for risk assessment, internal control, governance, and the establishment of policies, these are mandatory requirements which must be followed. It is, of course, up to the council how this is done, and the work should be proportional to the risk. The Clerk has been given draft versions of Standing Orders and Financial Regulation for adaptation and adoption.

Recommendations re-raised from previous audit

The Council should record its budget requirements and precept demand as separate minutes that state the sums explicitly.

While it is noted that the amount of VAT incurred in a year is small, there has been no claim for the last two years at least. The council is advised to make an annual claim for the amount using the VAT 126 claim form.

The Council must review its asset register annually.

The Council must carry-out an annual risk assessment and statement of internal control for financial matters.

Although the accounts are simple with few payments, it is essential that councillors receive regular reconciliations of payments and deposits against the bank account.

Recommendations from current audit.

The Clerk is not being employed on Local Government terms and conditions, and there is no provision for a workplace pension. The matter is under review and it is understood that the contract and pension will be agreed between both parties in the current audit year.

The Asset register refers to shares in HBOS liquid gold which is not recorded on the asset register.

Should you require further information, I can attend a Council meeting if required. Attendance at an evening meeting to deliver my report would be £50 based on one hour's presence at the meeting plus travelling time.

Internal Control	Testing		Comments
	<ul style="list-style-type: none"> • Is the cashbook maintained and up to date? 	Y	The Clerk has adopted a spreadsheet to manage to cashbook.
	<ul style="list-style-type: none"> • Is the cashbook arithmetic correct? 	Y	Sample calculations show that the spreadsheet is working as expected.
Proper bookkeeping	<ul style="list-style-type: none"> • Is the cashbook regularly balanced? 	Y	In advance of each meeting.

a) standing orders and financial regulations adopted and applied; and	Has the council formally adopted standing orders and financial regulations?	Y	Both documents remain out-of-date and in need of review.
b) payments controls	Has a Responsible financial officer been appointed with specific duties?	Y	It was noted that there was a misunderstanding about the nature of the RFO role which was corrected at minute 55/2020
	Have items or services above the de minimus amount been competitively purchased?	N/A	
	Are payments in the cashbook supported by invoices, authorised and minuted?	Y	
	Has VAT on payments been identified, recorded and reclaimed?	N	No VAT claim made in the last two audit year, but it is noted that the amount of VAT incurred is insignificant.
	Is s 137 expenditure separately recorded and within statutory limits?	N/A	Litter picking managed under a delegation agreement with the waste collection authority.

Risk management arrangements	Does a review of the minutes identify any unusual financial activity?	N	Transactions are simple and regular.
	Do minutes record the council carrying out an annual risk assessment?	N	
	Is insurance cover appropriate and adequate?	Y	
	Are internal financial controls documented and regularly reviewed?	N	Cover is appropriate for the size and scope of the council and individual assets are listed. The Council is in the second of a three-year agreement.

Budgetary Controls	Has the council prepared an annual budget in support of its precept?	Y	Budget process is straightforward, and few amendments are required to establish the forward year budget. Although the transactions are few and simple, a formal budget report would help the Council understand its spending.
	Is actual expenditure against the budget regularly reported to the council?	N	
	Are there any significant unexplained variances from budget?	N	

Income Controls	Is income properly recorded and promptly banked?	N/A	No cash received. All income is via bank payment.
	Does the precept recorded agree to the Council Tax authority's notification?	Y	
	Are security controls over cash and near-cash adequate and effective?	N/A	

Petty cash procedures	<p>Is all petty cash spent recorded and supported by VAT invoices/receipts?</p> <p>Is petty cash expenditure reported to each council meeting?</p> <p>Is petty cash reimbursement carried out regularly?</p>	N/A	No petty cash account.
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Payroll Controls	Do all employees have contracts of employment with clear terms and conditions?	Y	At the last audit, the auditor understood that the Clerk & RFO was appointed on NALC SLCC standard terms and conditions. The current clerk is not being employed on standard terms and this should be addressed.
	Do salaries paid agree with those approved by the council?	Y	Office sundries and small allowance for use of personal equipment.
	Are other payments to employees reasonable and approved by the council?	Y	Payroll outsourced to Ladywell.
Assets controls	Have PAYE/NIC been properly operated by the council as an employer?	Y	
	Does the council maintain a register of all material assets owned or in its care?	N	An asset register exists for year 2018. There are no details on the insurance document but has not been reviewed in the audit year.
	Are the assets and Investments registers up to date?	N	No evidence that asset register has been reviewed in the audit year.
	Do asset insurance valuations agree with those in the asset register?	Y	

Bank Reconciliation	Is there a bank reconciliation for each account?	Y	One account with Lloyds.
	Is a bank reconciliation carried out regularly and in a timely fashion?	Y	Reconciled to cashbook. No report given to Council.
	Are there any unexplained balancing entries in any reconciliation?	N	
	Is the value of investments held summarised on the reconciliation?	N	There is a share account that is not recorded in the asset register.

Year-end procedures	Are year-end accounts prepared on the correct accounting basis (Receipts and Payments or Income and Expenditure)?	Y	
	Do accounts agree with the cashbook?	Y	The accounts are the cashbook
	Is there an audit trail from underlying financial records to the accounts?	Y	Accounts are simple and can readily be followed from paper records to cheques and bank statements.
	Where appropriate, have debtors and creditors been properly recorded?	Y	Simple cash accounting with unpresented cheques correctly recorded.