

# Internal Audit Report

(to be read in conjunction with the Annual Internal Audit Report in the Annual Governance and Accountability Return)

Name of council:	Medbourne PC		
Name of Internal Auditor:	Stuart McDonald	Date of report:	12.6.18
Year ending:	31 March 2018	Date audit carried out:	11.6.18

*Internal audit is the periodic independent review of a council’s internal controls resulting in an assurance report designed to improve the effectiveness and efficiency of the activities and operating procedures under the council’s control. Managing the council’s internal controls should be a day-to-day function of the staff and management and not left for internal audit.*

***The council is required to take appropriate action on all matters raised in reports from internal and external audit and to respond to matters brought to its attention by internal and external audit. Failure to take appropriate action may lead to a qualified audit opinion.***

## To the Chair of the Council:

I met with Martin Field on 11<sup>th</sup> June to carry out the Internal Audit for 2017/18. I’d like to thank him for his time and assistance.

### **1. Matters raised last year**

Last year, a number of issues were raised by the External Auditors relating to the 2016/17 Annual Return. These were:

- a) Approval and Public Rights
- b) RFO (Responsible Financial Officer) Certification
- c) Information Required for Audit
- d) Internal Audit Coverage

The Council is required to take action to rectify these matters. In terms of items a) and b), the new Clerk is aware of the necessary procedures to ensure compliance with the exercise of public rights and certification of the Annual Return for 2017/18. Item d), which noted that there was no Internal Audit report in the 2016/17 annual return, has been dealt with by the appointment of a LRALC internal auditor, and I have completed the Internal Audit section of the Annual return for 2017/18.

Item c) requires further explanation. The External Auditors drew the Council’s attention to the fact that there was a discrepancy between the “Total Value of Cash and Short-term Investments” figure (Box 8 on the Accounting Statements 2016/17) and the total of the various bank accounts on the Bank Reconciliation.

The Clerk has, since his appointment in August 2017, investigated this discrepancy, and has concluded that there was an understatement of the Council’s “Cash and Short-term Investments” (Box 8) of £10,568. As a result, the Accounting Statements 2017/18 show a difference between the 2016/17 “Balances carried forward” (Box 7) of £19,131, and the 2017/18 “Balances brought forward” (Box 1) of £29,699, a difference of £10,568. The Clerk

will provide a detailed explanation of the difference, but essentially, it relates to two main items - a receipt of £4,925 (Neighbourhood Plan grant) was omitted in error, and the £6,148.54 balance in the Mower Fund was excluded from total assets.

The Clerk has produced a year-end Bank reconciliation which now reconciles 2016/17's activities, with a small amount of £17.02 remaining unaccounted for. This has provided a clean base from which to compile the Bank reconciliation for 2017/18, which has been completed.

Whilst the investigations have been taking place, the Council have not had the benefit of regular Bank reconciliations being presented at meetings during the year. It is clear that the Council have been aware of the discrepancy and the need to investigate, and, in my opinion, there is no evidence that the lack of a regular update has impacted adversely on either receipts or, perhaps more importantly, payments. Nevertheless, this is an important control, and reconciliations should be provided on a regular basis, which I am assured will be the case. There should be a reconciliation for each bank account.

## **2. VAT reclaim**

No VAT has been reclaimed for 2016/17 or 2017/18. The Clerk is aware that this is an outstanding task.

## **3. Employment / Pension**

Being an employer, the Council should be registered with the Pensions Regulator. The Clerk is aware of this requirement.

## **4. Transparency Code**

The Council, as neither its income nor expenditure exceeds £25,000, must comply with the Transparency Code. This means that the Council must publish certain information on its website. The Clerk is aware of the information that must be published, in particular the financial statements, following the year-end.

I mention this for two reasons.

Firstly, not all the required information was published last year. The items that were omitted are the External and Internal Auditors' report, a statement of the significant variances between 2015/16 and 2016/17, a formal Bank reconciliation, and a list of individual items of expenditure over £100.

Secondly, assuming the £25,000 limit is not exceeded, an external audit is not required. I understand that the Council has opted for an External Audit this year, but it may wish to reconsider in the future.

## **5. Equal Opportunities**

It is a legal requirement that the Council comply with the Equality Act 2010. Whilst there is no suggestion there is any problem in this area, the adoption and publication of an appropriate policy would effectively demonstrate compliance.

Notwithstanding the items above, by reviewing the hard evidence, and discussing with the Clerk, I am satisfied that the Council is operating sound internal control policies and procedures which enable it to deliver its services and fulfil its responsibilities. It is only fair to note that the current Clerk inherited a situation in which the accounts for the year 2016/17 were incomplete and therefore inaccurate, and the Annual Return attracted a number of adverse comments from the External Auditors as noted above. It has taken some time to resolve these issues, possibly to the detriment of other matters e.g. reclaiming the VAT. This should now be a priority.

I have tested all the Internal Control Objectives I am required to consider, and in all significant respects, the objectives have been met. I have therefore completed the Internal Audit Report section of the Annual Governance and Accountability Return, with no qualification.

This report is based on the evidence made available to me. It would be incorrect to view internal audit as the detailed inspection of all records and transactions of a council in order to detect error or fraud. Consequently the report is limited to those matters set out.

Yours sincerely

Stuart McDonald  
Internal Auditor to the Council  
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The figures submitted in the Annual Governance and Accountability Return are:

	<b>Year ending 31 March 2017</b>	<b>Year ending 31 March 2018</b>
1. Balances brought forward	16,056	29,699.09
2. Annual precept	8,719	9,699
3. Total other receipts	10,148	4,626.22
4. Staff costs	2,009	2,037.98
5. Loan interest/capital repayments	nil	nil
6. Total other payments	13,783	22,011.14
7. Balances carried forward	19,131	19,975.19
8. Total cash and investments	19,131	19,975.19
9. Total fixed assets and long term assets	47,522	48,497
10. Total borrowings	nil	nil

The proper practices referred to in Accounts and Audit Regulations are set out in *Governance and Accountability for Smaller Authorities in England (2017)*. It is a guide to the accounting practices to be followed by local councils, and sets out the appropriate standard of financial reporting to be followed. A copy of the guide is available for free download from:

<http://www.leicestershireandrutlandalc.gov.uk/uploads/governance-and-accountability-for-smaller-authorities-in-england-2018-sections-1-5-1.pdf>