



Macclesfield Town Council

Internal Audit 2022/23

Interim Report

JDH BUSINESS SERVICES LTD

The internal audit of Macclesfield Town Council is carried out by undertaking the following tests as specified in the AGAR Annual Return for Local Councils in England:

- Checking that books of account have been properly kept throughout the year
- Checking a sample of payments to ensure that the Council's financial regulations have been met, payments are supported by invoices, expenditure is approved, and VAT is correctly accounted for
- Reviewing the Council's risk assessment and ensuring that adequate arrangements are in place to manage all identified risks
- Verifying that the annual precept request is the result of a proper budgetary process; that budget progress has been regularly monitored and that the council's reserves are appropriate
- Checking income records to ensure that the correct price has been charged, income has been received, recorded and promptly banked and VAT is correctly accounted for
- Reviewing petty cash records to ensure payments are supported by receipts, expenditure is approved and VAT is correctly accounted for
- Checking that salaries to employees have been paid in accordance with Council approvals and that PAYE and NI requirements have been properly applied
- Checking the accuracy of the asset and investments registers
- Testing the accuracy and timeliness of periodic and year-end bank account reconciliation(s)
- Year end testing on the accuracy and completeness of the financial statements

The interim internal audit provides evidence to support the annual internal audit conclusion in the AGAR Annual Return for larger councils.

Conclusion

On the basis of the internal audit work carried out, which was limited to the tests indicated above, in our view the council's system of internal controls is in place, adequate for the purpose intended and effective, subject to the recommendations reported in the action plan overleaf.

J D H Business Services Ltd

ACTION PLAN

	ISSUE	RECOMMENDATION	FOLLOW UP
<i>2022/23 interim internal audit</i>			
1	<p><u>Pavilion Project</u></p> <p>a.) VAT issues</p> <p>Although the council has received preliminary information that the Pavilion scheme is zero rated for VAT it has not received direct confirmation of the VAT status of the entire construction project. This is important as if VAT is incurred on the scheme the council will need to review the impact of the VAT partial exemption rules and to clarify whether any of the VAT incurred on the project is recoverable.</p> <p>We understand the council has had initial communication with a VAT consultant regarding the project. The partial exemption VAT rules</p>	<p><i>The council need to ensure they have received definitive clarification as to the VAT status of the Pavilion construction project, the recoverability of any VAT incurred on the scheme, and that any partial exemption VAT implications both for the construction project and the ongoing operations are confirmed through a review by the council's VAT consultant.</i></p>	

	ISSUE	RECOMMENDATION	FOLLOW UP
	<p>may also be a factor for the ongoing operations of the Pavilion as it is likely significant VAT exempt activity will be provided in the form of room hires.</p> <p>b.) Risk Assessment</p> <p>The risk assessment does not currently incorporate a full operational, business and corporate risk assessment of the Pavilion project taking into account latest information available. This is important to ensure that project and ongoing risks can be managed effectively.</p> <p>c.) Financial Planning</p> <p>Council needs to ensure a medium term business plan is established for the Pavilion detailing projections for income receivable from services to be delivered and all operational and other expenditure to ensure accurate projections can be included in the council annual budgets.</p>	<p><i>A comprehensive risk assessment should be completed of the corporate, business and operational risks of the Pavilion project.</i></p> <p><i>A comprehensive medium term financial plan should be established for the Pavilion.</i></p>	

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	<p>d.) Financial Regulations and Standing Orders</p> <p>We understand some aspects of the procurement will be carried out by appointed architects. It is important that any third parties managing procurement on behalf of the council follow the council requirements for tendering or quotations specified in the council Financial Regulations and Standing Orders.</p>	<p><i>A copy of the procurement requirements in the most recently adopted council Financial Regulations and Standing Orders should be provided to all third parties undertaking any procurement exercises on behalf of the council.</i></p>	
<i>2021/22 year end internal audit</i>			
1	<p>An 'Investment' earmarked reserve for £39,559 has been set aside. There is no medium term plan for projects or schemes to expend the earmarked reserve and we were informed the reserve is purely and investment as described by the council investment policy.</p>	<p><i>Investments are not earmarked reserves and the council should review the recommendations in the Practitioner's Guide as to how to correctly treat long term investments. If the £39559 is to be an earmarked reserve the council should determine the medium term projects/schemes to which it is set aside for.</i></p>	<p><i>To be followed up at 2022/23 year end internal audit.</i></p>
2	<p>The council is only reclaiming VAT once per annum, however, the amount of VAT due to be</p>	<p><i>The council should reclaim VAT quarterly to improve cashflow.</i></p>	<p><i>To be followed up at 2022/23 year end internal audit.</i></p>

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	reclaimed has risen significantly in recent years.		
<i>2021/22 interim internal audit</i>			
1	The current risk assessment does not include the risks and mitigation actions relating to the potential asset/service transfers to the council from the unitary authority.	<i>The risk assessment for 2021/22 should identify the risks and mitigation actions relating to the transfer of assets/services from the unitary authority.</i>	<i>Implemented</i>
2	A duplicate payment was made during the year for laptops totalling £998 as the amount was paid based on the purchase order rather than on receipt of the invoice.	<i>Supplier payments should only be made upon receipt of a valid invoice.</i>	<i>Implemented</i>
3	The council is party to a number of contracts and SLAs with varying lengths and conditions.	<i>The council should establish a contracts register which should be regularly reviewed to identify those contracts/SLAs where the upcoming end date signifies that a tender or quotation process is required, or whether a decision is needed regarding an extension which is provided for in the contract terms.</i>	<i>Implemented</i>

	ISSUE	RECOMMENDATION	FOLLOW UP
<i>2020/21 year end internal audit</i>			
1	<p>Internal control objective (Objective M) in the AGAR internal audit certificate requires internal audit to conclude whether the Public Rights Notice during the previous Summer (2019/20 financial year) was compliant with the Regulations.</p> <p>The public notice was announced on June 29th, 2020. However, the notice must be announced to the public at least one day earlier than the commencement date of the notice period. Therefore, we have concluded the council did not comply with the requirements for the Public Rights Notice for 2019/20.</p>	<p><i>The council should ensure compliance with the legal requirements for the Annual Notice of Public Rights.</i></p>	<p><i>Implemented</i></p>
2	<p>The risk assessment does not address the risks of supplier (procurement) fraud.</p>	<p><i>The risk assessment should be updated to include supplier (procurement) fraud including the adequacy of supplier onboarding controls.</i></p>	<p><i>Implemented</i></p>

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3	Budget underspends for the Mayor's Charity contributions and Royal British Legion donations had been incorrectly included in year-end accruals in the council balance sheet. The draft accounts were subsequently amended to remove these items from supplier accruals.	<i>Year end procedures should be improved to ensure budget underspends are not included in year-end supplier accruals</i>	<i>Implemented</i>
2020/21 interim internal audit			
1	The CAB SLA expired on March 31st 2020, and no new signed SLA was established for 2020/21, although council approved the funding to continue in 2020/21.	<i>The council should ensure a signed SLA covering all periods of funding is in place with CAB that defines the inputs, outputs and outcomes the council required from the agreement.</i>	<i>Implemented</i>
2	Review of the allotments charging spreadsheet identified the following: 1.) There is no formula in the column for total area of the plot. Thus means there is no accuracy check for the calculations built into the spreadsheet.	<i>The allotments charging spreadsheet should not contain any manual calculations as formulae should be used wherever there is a calculation (eg plot area).</i>	<i>Implemented</i>

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	2.) Plot 15 dimensions are recorded as 21m x14.2m which does not equal the area used in the spreadsheet of 178m ² (actual total area is 298.2m ²).	<i>The council should review the calculations and dimensions for Plot 15 to ensure the price charged is accurate</i>	
3	There are a significant number of out of date cheques recorded as reconciling items in the November 2020 cumulative bank reconciliation: Cheque numbers 1413, 1429, 1438, 1450, 1460, 1467.	<i>Where cheques are out of date they should be cancelled, written out of the bank reconciliation, and where appropriate, reissued to the third party.</i>	<i>Implemented</i>
<i>2019/20 year end internal audit</i>			
1	There is no budget for interest receivable even though this is now a significant source of income.	<i>A budget should be set for all known sources of income for the financial year</i>	<i>Implemented</i>
<i>2019/20 interim internal audit</i>			
1	The updated Financial Regulations (FRs) refer to a Purchase Order (PO) system (which would also	<i>The council should establish a sequential Purchase Order system as required by the updated Financial Regulations (FRs) and</i>	<i>Implemented</i>

	ISSUE	RECOMMENDATION	FOLLOW UP
	clearly evidence the authority to spend). However, no PO system is currently in place.	<i>ensure Purchase Orders are signed according to the Authority to Spend requirements of the FRs.</i>	
2	The supplier costs for the payroll bureau have been incorrectly recorded in the payroll budget.	<i>Supplier costs should be allocated to a non-staff salaries expense code.</i>	<i>Implemented</i>
3	The email sent to the payroll bureau that notifies the processor of payroll changes does not contain evidence the payroll changes were authorised by council.	<i>A copy of the council minute that authorised pay changes for staff should be attached to the email sent to the payroll processor to notify payroll changes.</i>	<i>To be implemented for next payroll change notification</i>
4	Emails to the payroll bureau containing staff information are not encrypted.	<i>Emails to the payroll bureau containing sensitive personal data should be encrypted.</i>	<i>Implemented</i>
5	The VAT number of suppliers for material contracts are not verified before entering into the contract.	<i>A VAT fraud prevention check should involve verification of the VAT number and address details of a new major supplier before entering into a material contract.</i>	<i>Implemented</i>