



# Middlewich Town Council

2019/20 Year End Internal Audit

JDH BUSINESS SERVICES LTD

*Registered to carry on audit work by the Institute of Chartered Accountants in England and Wales*

## Background

The year end internal audit was carried out by undertaking the following tests in the AGAR Annual Return for Local Councils in England:

- Reviewing the adequacy of the council's reserves
- Review of the fixed asset register and AGAR fixed asset disclosure
- Review of the year-end bank account reconciliations
- Year-end review of the financial statements and supporting information including
  - Reviewing the summary analysis of the final historic VAT liabilities calculated by the VAT consultant and appointed public sector accountants
  - As we have previously reported that a number of bank accounts and the associated income and expenditure had not been included in the council accounts, we have also reviewed the prior year adjustments and the restated prior years accounts.
  - Review of information received to date regarding the status of the Middlewich Cemetery Board
  - Review of trial balance including identifying issues regarding netting off of income and expenditure
  - Review of debtors, prepayments, creditors, accruals and receipts in advance
  - Agreement of staff costs in the AGAR accounts to the nominal ledger analysis
- Assessing whether the authority has demonstrated that during Summer 2019 it correctly provided for the exercise of public rights as required by the Accounts and Audit Regulations
- Risk assessment - Review of the March 2020 risk assessment

In addition, we have reviewed the issues raised in our previous reports to assess the impact on the year-end financial statements.

## 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 NOT in place**, adequate for the purpose intended and effective. **The council needs to take further urgent and comprehensive action to rectify the financial control and accounting issues identified. In particular the legal status of the Middlewich cemetery board and its associated assets need to be resolved as soon as possible.** As part of the internal audit work for 2020/21 we will follow up all recommendations included in this action plan and our previous reports.

## JDH Business Services Limited

	ISSUE	RECOMMENDATION
1	<p><b>Middlewich Cemetery Board</b></p> <p><b>During our review of the council in the 2019/20 financial year we asked officers to provide any evidence held that confirms the legal status of the Cemetery Board such as a constitution document. To date, the current clerk has carried out substantial amount of work to try and establish the legal status of the cemetery board including discussion with current members of the board. However, no current constitution document has been located. The Council has now resolved that the clerk should investigate the legal status of the cemetery.</b></p> <p><b>Therefore, in the absence of the constitution document, it is currently not possible to conclude whether the legal status of the cemetery board, and its associated assets and liabilities, should be under the management of the town council, or whether it should be an independent body (as it currently operates).</b></p> <p><b>Therefore, if no constitution document is identified when the investigative process by officers is complete, the matter may need to be settled through an opinion from Counsel or the Court.</b></p> <p><b>The constitution document that is being sought is the constitution that would confirm the legal status of the Cemetery Board when the Joint Burial Board that was established in 1897 ceased to exist under the Local Government Act 1972 from 1st April 1974.</b></p>	<p><i>The council should agree with the cemetery management board a joint deadline for the completion of the investigation into the legal status of the cemetery board by officers, after which all stakeholders agree to secure a final decision from Counsel or the Court.</i></p> <p><i>Should the final outcome be that the cemetery board should be transferred to and managed by the town council, then this process, including appointing appropriate members of the committee, would need to be implemented as soon as possible after the decision. Prior year financial statements and the fixed asset register of the town council may need to be restated depending on the outcome of the investigation and any subsequent decision.</i></p>

	ISSUE	RECOMMENDATION
2	<p>There is a new internal control objective (Objective L) in the AGAR internal audit certificate that requires internal audit to conclude on whether the Public Rights Notice during the previous Summer (2018/19 financial year) was compliant with the Regulations.</p> <p>The public notice was displayed on the first day of the public notice period, June 24<sup>th</sup>, 2019 which is after the start of the period for the exercise of public rights. However, the notice must be displayed 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 in the Summer 2019 for the 2018/19 accounts.</p>	<p><i>The council must ensure compliance with the legal requirements for the Annual Notice of Public Rights.</i></p>
3	<p>The adjustments made regarding the 2018/19 financial year to restate the accounts to reflect the Victoria Hall and Bar accounts are incorrect as just a single journal has been posted to incorporate the bank account balances as at March 31<sup>st</sup> 2019. Therefore, none of the income transactions and expenditure transactions have been separately recorded in the restated accounts. In total £24822 income and £21098 payments were transacted through the bank accounts, but this does not take account of staff costs and bar costs paid directly out of cash incomes, and internal recharges. In addition, the 2017/18 brought forward balances have not been restated for the closing balances of the Hall and Bar accounts.</p> <p>Spreadsheet analyses of gross transactions for the Victoria Bar account for 2019/20 and 2018/19 indicate the extent to which bar staff working at the Victoria Hall were</p>	<p><i>Our previous reports have described these areas we have identified where the previous years accounts are incorrect and recommended that the accounts are restated. The 2018/19 accounts should be restated as previously recommended.</i></p> <p><i>As we have previously reported, the council should review whether HMRC payroll requirements have been complied with for Victoria Hall bar staff.</i></p> <p><i>Recurring Recommendation: All income and expenditure should be reported gross in the council accounts, therefore, currently the 2018/19 and 2019/20 accounts are incorrect.</i></p>

	ISSUE	RECOMMENDATION																																				
	<p>being paid out of bar cash incomes, but not included on the council payroll. This total is estimated as £1568 in 2018/19 and £207 in 2019/20.</p> <p>The spreadsheet analyses of the bar account also estimate that total non-staff expenditure paid out of cash takings was £1290 in 2018/19 and £289 in 2019/20.</p>																																					
4	<p><b>VAT</b></p> <p>We have previously recommended that the council secure the services of a public sector VAT consultant to complete detailed VAT analysis, including partial exemption calculations, of historic VAT liabilities due to reasons noted in our previous reports. This consultancy work has now been completed and with the support of the appointed council public sector accountants the VAT adjustments that have been made to the council accounts are as follows:</p> <p><u>Reconciliation of VAT Payable</u></p> <table border="0"> <thead> <tr> <th></th> <th colspan="3" style="text-align: center;"><b>FAB</b></th> </tr> <tr> <th></th> <th style="text-align: center;"><u>Festival £</u></th> <th style="text-align: center;"><u>Other £</u></th> <th style="text-align: center;"><u>Total £</u></th> </tr> </thead> <tbody> <tr> <td>Value of historic VAT liability per VAT consultant</td> <td style="text-align: right;">41052.91</td> <td style="text-align: right;">8082.06</td> <td style="text-align: right;">49134.9</td> </tr> <tr> <td>Deduct: estimated 2019-20 VAT liability per VAT consultant</td> <td style="text-align: right;">-5079.17</td> <td style="text-align: right;">-1076.67</td> <td style="text-align: right;">-6155.8</td> </tr> <tr> <td colspan="4" style="border-top: 1px solid black;"></td> </tr> <tr> <td>Undeclared Output VAT to 31/3/19</td> <td style="text-align: right;">35973.75</td> <td style="text-align: right;">7005.39</td> <td style="text-align: right;">42979.1</td> </tr> <tr> <td>2019/20 Output VAT recalculated by council appointed accountants using actual full year data:</td> <td style="text-align: right;">7959.72</td> <td style="text-align: right;">2071.09</td> <td style="text-align: right;">10030.8</td> </tr> <tr> <td colspan="4" style="border-top: 1px solid black;"></td> </tr> <tr> <td>Total historic output VAT payable per 2019/20 Accounts</td> <td style="text-align: right;"><u>43933.47</u></td> <td style="text-align: right;"><u>9076.48</u></td> <td style="text-align: right;"><u>53009.9</u></td> </tr> </tbody> </table> <p><b>Recommendation</b>  <i>The council should ensure that all the detailed VAT issues and recommendations of the VAT consultant report are implemented. Partial exemption calculations should be completed annually.</i></p>		<b>FAB</b>				<u>Festival £</u>	<u>Other £</u>	<u>Total £</u>	Value of historic VAT liability per VAT consultant	41052.91	8082.06	49134.9	Deduct: estimated 2019-20 VAT liability per VAT consultant	-5079.17	-1076.67	-6155.8					Undeclared Output VAT to 31/3/19	35973.75	7005.39	42979.1	2019/20 Output VAT recalculated by council appointed accountants using actual full year data:	7959.72	2071.09	10030.8					Total historic output VAT payable per 2019/20 Accounts	<u>43933.47</u>	<u>9076.48</u>	<u>53009.9</u>	
	<b>FAB</b>																																					
	<u>Festival £</u>	<u>Other £</u>	<u>Total £</u>																																			
Value of historic VAT liability per VAT consultant	41052.91	8082.06	49134.9																																			
Deduct: estimated 2019-20 VAT liability per VAT consultant	-5079.17	-1076.67	-6155.8																																			
Undeclared Output VAT to 31/3/19	35973.75	7005.39	42979.1																																			
2019/20 Output VAT recalculated by council appointed accountants using actual full year data:	7959.72	2071.09	10030.8																																			
Total historic output VAT payable per 2019/20 Accounts	<u>43933.47</u>	<u>9076.48</u>	<u>53009.9</u>																																			
5	No risk assessment document was in place at the council in 2018/19 or for the whole of 2019/20 until late March 2020. The establishment of a corporate	<i>The council risk assessment needs further development to ensure all key financial and non-financial risks are captured</i>																																				

	<b>ISSUE</b>	<b>RECOMMENDATION</b>
	risk assessment document with mitigating actions is a positive step for the council. However, this document needs further development as it does not take into account all the key risks faced by the council such as the FAB event, data protection risks, risks that could be identified through review of our previous reports, risks of not operating within legal powers of expenditure, detailed risks relating to fraud/corruption etc.	<i>including establishing appropriate mitigation actions.</i>
6	There is a Barclays business premium account with a current total balance of £5,333.57 to which the council has sole access control which is subject to challenge by the Cemetery Board who consider that the monies belong to the Board. However, the account is called 'Middlewich Town Council Cemetery Account' on the bank statement and the Cemetery Board have no access to the account as only the town council are signatories. We have reviewed the most recent accounts and this bank balance is included in the cemetery board accounts.	<i>The town council need to urgently resolve the status of this bank account with the cemetery board.</i>
7	We have previously reported that petty cash provided to the annual FAB event of £2000 in 2018/19 and £1500 in 2019/20 was not supported by any analysis detailing the usage of the float but that staff involved in the event confirmed that the float was usually paid back into the bank account with the FAB bar cash income. We have still not received any documentary information to evidence that the float was paid back into the main bank account as part of FAB incomes for 2018/19 and 2019/20.	<i>We have qualified the section of the AGAR that relates to petty cash as no evidence has been provided that the £2000 in 2018/19 and £1500 in 2019/20 provided as petty cash to the FAB annual event was ever paid back into the council bank accounts at the conclusion of the event, and no analysis of the usage of the petty cash by transaction has been provided.</i>  <i>In future, the council must maintain a complete audit trail of petty cash transactions.</i>
8	<b>RECURRING ISSUE</b>  As was the case in 2018/19 recharges from the council to the Victoria Hall in	<i>As we have previously reported, the Victoria Hall is an asset and service of the council, recharges from the hall bank account to a council bank account cannot</i>

	<b>ISSUE</b>	<b>RECOMMENDATION</b>
	2019/20, covering the bar and hall accounts, have been charged to the council primary bank account for a portion of the financial year.	<i>be recorded as payments and receipts to and from third parties. The entries should be recorded as transfers between bank accounts. The accounts for previous years will need to be adjusted for this issue too.</i>
9	<p>Review of expenditure codes with negative balances at the 2019/20 year end identified that two of the 2018/19 year end accruals were incorrect:</p> <ul style="list-style-type: none"> <li>- £550 is recorded in 2019/20 in ledger account 4322/320 as negative expenditure as 2018/19 CCTV accrual was overstated by this amount</li> <li>- £1750 is recorded in 2019/20 in ledger account 4316/304 as negative expenditure as the 2018/19 accrual for town signs was overstated by this amount</li> </ul> <p>Therefore, these incorrect accruals in 2018/19 overstated expenditure by £2300.</p>	<i>The council must ensure that year end procedures accurately calculate all year end liabilities such as accruals.</i>
10	Despite the issue being included in our previous report that the Markets PayPal account income and expenditure are not recorded in the ledger in 2018/19, no adjustments have been processed to restate the 2018/19 accounts incorporating the actual income and expenditure that passed through the Markets PayPal account. The Paypal analysis provided to us (that records actual market dates) indicates that £1755 should have been recorded as markets income and £156 as commission expenditure.	<i>The 2018/19 accounts still do not correctly reflect the actual transactions on the Markets PayPal account and therefore the amendments required should be processed.</i>
11	The accounts were not provided for internal audit until August 5 <sup>th</sup> with a further amended version of accounts and supporting papers provided on Sunday August 9 <sup>th</sup> , which left a very limited timeframe to complete the internal audit and secure responses	<i>The accounting statements and supporting information must be made available for internal audit on a timely basis.</i>

	<b>ISSUE</b>	<b>RECOMMENDATION</b>
	from officers for numerous queries, before finalising our report for inclusion in the council agenda.	
12	<p>Miscellaneous income of £504.50 had been netted off expenditure in the draft 2019/20 accounts provided for internal audit.</p> <p>Netting off income and expenditure is not an appropriate method of accounting as it understates both income and expenditure and this is a recurring issue at the council.</p>	<p><i>The 2019/20 draft accounts have already been amended to record the Miscellaneous income within council income.</i></p> <p><i>The council should ensure income is not recorded within expenditure codes and carried through into the year end accounts. All income and expenditure transactions should be recorded gross.</i></p>
13	<p>The fixed asset total disclosed in the accounts and AGAR is £150,791. The fixed asset total per the updated asset register is £150,418. The prior year has been restated after an exercise by the clerk to identify and take account of assets that had never previously been recorded in the asset register, as recommended in our previous report.</p>	<p><i>The council need to review fixed assets and ensure the correct value is disclosed in the accounts, the AGAR and the fixed asset register.</i></p> <p><i>The council need to review capital expenditure annually and update the asset register for capital items purchased which are owned by the council. The month and year of purchase should be recorded against items in the asset register.</i></p>
14	<p>The forty seven issues and associated recommendations included in our previous reports during 2019/20 will be followed up in the 2020/21 interim internal audit to ensure improvements in internal controls are embedded.</p>	