

Internal Audit

2022/23

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Mulberry & Co



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Introduction

We are writing to confirm your 2022/23 internal audit arrangements. 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.

The interim audit(s) will generally focus on the governance and accountability functions of the council rather than the financial elements. The conclusion of this review is a report providing the council with recommendations where applicable for the improvement of internal processes and assurance that the councils systems are fit for purpose and the possibility of the systems being prone to error or misstatement are low.

At Mulberry & Co we recommend that councils have at least two internal audits per annum with one in the autumn (interim) and one after the council year end. In some cases, your council may well have additional interim audits where there are significant areas to focus upon.

Location of audit

Following the pandemic restrictions of the last few years, this year's interim audit is planned to be conducted onsite to ensure a robust review is carried out. However, we can offer a remote audit if your circumstances mean that an onsite visit represents a too significant health risk.

Please note that bookings are available on a first come first served basis, and we will try to accommodate all reasonable requests for specific dates and times.

LAWS AND REGULATIONS

Regulation 5 (1) of the Accounts and Audit Regulations 2015 imposes a duty on local councils to 'undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal audit standards or guidance.' For parish and town councils, this guidance is set out in the NALC publication "Governance and Accountability for Smaller Authorities in England."

The purpose of internal audit is to review and report to the council whether its systems of financial and other internal controls over its activities and operating procedures are effective.

Onsite audits

Your auditor will attend on site at the agreed date and time. Please ensure you have access to the information listed (appendix 2, page 9) for the visit. If information is available electronically, there is no need to print this specifically for the audit. Assuming all information is available at that time of the audit, we will aim to complete our report within 48 hours of the visit.

Remote audits

If you request a remote audit, this will be conducted over a period of time, starting with an initial review of information sent to us (appendix 2, page 9). We respectfully request this information to be provided to us **at least one week in advance of your booked date and time**. This can be emailed or uploaded via your Openspace account.

We may then contact the council to request further sample evidence based on the information sent to us, to support our findings.

The booked date and time for your remote audit will allow your auditor to contact you to discuss the findings either over the phone or via video conference. **Please ensure you provide the correct contact telephone number or video conference link when you book your date and time.**

The remote audit report will then be finalised, pending receipt of any additional information requested, issued to the council via your Openspace account.

Who is to carry out the work?

Audit work will primarily be carried out by either Mark Mulberry or Andy Beams, although we may use suitable experienced associates during times of high demand.

How long will an audit take?

This is dependent on the scale and complexity of your council's accounts. We aim to conduct the majority of the work at the interim audit, so that at the year-end our work is focused on the Annual Governance and Accountability Return (AGAR) and the information being presented to the external auditor. As a guide, we generally allow four to six hours for a full year's auditing. Appendix 1 details the core testing we will carry out, although we may conduct further tests as required.

Engagement letter

Our engagement letters are issued electronically via our Openspace secure server. This letter sets out the basis of our professional engagement and is required under the ethical guidelines of The Association of Chartered Certified Accountants. The contents of the letter describe our respective responsibilities and key deadlines. Please contact us if the contents of this letter are not in accordance with your understanding of our terms of appointment or you do not have an engagement letter.

We will shortly be issuing engagements letters for the 2022/23 council year. You will receive an automatic notification of this from our Openspace server with a link attached. Please can I remind you to logon to your Openspace account to electronically sign your engagement letter by going to **www.irisopenspace.co.uk**. By electronically signing the engagement letter, you are agreeing that we can start work immediately and that you agree with our terms. **Please note we cannot start work until the engagement letter has been approved.**

Fees and services

We base our charges on hourly rates which remains the same as the 2021/22 rate for the 2022/23 council year and £0.45p per mile for travel expenditure. All our fees and charges are subject to VAT at the prevailing rate.

Your right to complain

If you feel unhappy at any time about the service that we provide to you or the amount that we charge, I hope that you will first raise your concerns with me. Whether or not you wish to do this, we operate a formal complaints procedure, which you have the right to use at any time.

If you require any further information, or have any queries, please do not hesitate to contact us.

Kind regards

Mark Mulberry

Audit Plan

Audit assertions	Recommended minimum testing
Appropriate books of account have been kept properly throughout the year.	• Ensure the correct roll forward of the prior year cashbook balances to the new financial year • Check a sample of financial transactions in cashbooks to bank statements, etc. The sample size dependent on the size of the authority and nature of accounting records maintained
The council's financial regulations have been met, payments were supported by invoices, all expenditure was approved, and VAT was appropriately accounted for.	• Review the procedures in place for acquisition of formal tenders and quotes, ensuring they are in line with the Standing Orders and Financial Regulations which should be based on the latest version. • Ensure that consistent values are in place for the acquisition of formal tenders between Standing Orders and Financial Regulations (frequently different limits are recorded in the two documents) • Review the procedures for receipt of invoices, agreement of invoice detail and confirmation of goods /services delivery and approval for payment. Ideally, a suitably designed certification stamp should be in place providing for evidencing of these checks and payment authorisation • Check that there is effective segregation between the writing of cheques or the setting up of online payments, and physical release of payments • Check that VAT reclaims are prepared and submitted in a timely manner in line with the underlying records and in accordance with current HMRC requirements • Where debit / credit cards are in use, establish the total monthly and individual transaction limits and ensure appropriate controls over physical security and usage of the cards are in place
The council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.	• Ensure that authorities have prepared, and formally adopted, at least once annually, an appropriate and comprehensive register of assessed risks, both regular and ad hoc • Ensure that appropriate levels of insurance cover are in place for land, buildings, public, employers' and hirers' (where applicable) liability, fidelity / employees (including councillors) liability, business interruption and cyber security • Ensure that appropriate arrangements are in place for monitoring play areas, open spaces and sports pitches: such reviews should be undertaken by appropriately qualified external inspectors or, if by officers or members, that they have received the appropriate training and accreditation

The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.	• Ensure that the full authority, not a committee, has considered, approved and adopted the annual precept in accordance with the required parent authority timetable • Ensure that budget reports are prepared and submitted to council / committees periodically during the year with appropriate commentary on any significant variances • Review the budget performance either during the year or at the financial year-end seeking explanations for any significant or unanticipated variances • Ensure that the authority has considered the establishment of specific earmarked reserves and, ideally, reviews them annually as part of the budget assessment process • Ensure that the precept in the accounts matches the submission form to the relevant authority and the public record of precepted amounts
Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.	• Review “aged debtor” listings to ensure appropriate follow up action is in place • Allotments: ensure that appropriate signed tenancy agreements exist, that an appropriate register of tenants is maintained identifying, that debtors are monitored. • Burials: ensure that a formal burial register is maintained that it is up-to-date and that a sample of interments and memorials are appropriately evidenced, that fees have been charged at the correct approved rate and been recovered within a reasonable time: (Authorities should also acquire and retain copies of Burial / Cremation certificates) • Hall hire: ensure that an effective diary system for bookings is in place identifying the hirer, hire times and ideally cross-referenced to invoices raised • Leases: ensure that leases are reviewed in a timely manner in accordance with the terms of the lease and rents similarly reviewed appropriately at the due time • Other variable income streams: ensure that appropriate control procedures and documentation are in existence to provide a clear audit trail through to invoicing and recovery of all such income • Where amounts are receivable on set dates during the year, ensure that an appropriate control record is maintained duly identifying the date(s) on which income is due and actually received / banked
Petty cash payments were properly supported by receipts, all petty cash expenditure was approved, and VAT appropriately accounted for.	• A number of authorities are now running down and closing their petty cash accounts and using debit / credit cards for ad hoc purchases. Consequently, a “not applicable” response is frequently required in this area. • Review the systems in place for controlling any petty cash and cash floats (used for bar, catering, etc.)

	• Check a sample of transactions during the financial year to ensure appropriate supporting documentation is held • Review the existence of evidenced periodic independent verification of the petty cash and any other cash floats held • Ensure that VAT is identified wherever incurred and appropriate • Physically check the petty cash and other cash floats held • Where bar or catering facilities are in place, ensure that appropriate cashing-up procedures are in place reconciling the physical cash takings to the till “Z” total readings
Salaries to employees and allowances to members were paid in accordance with council approvals, and PAYE and NI requirements were properly applied.	• Ensure that, for all staff, a formal employment contract is in place together with a confirmatory letter setting out any changes to the contract • Ensure that appropriate procedures are in place for the payment of members allowances and deduction of any tax liability • Ensure that, for a sample of staff salaries, gross pay due is calculated in accordance with the approved spinal point on the NJC scale or hourly rate, if off-scale, and with the contracted hours • Ensure that appropriate tax codes are being applied to each employee • Where free or paid for software is used, ensure that it is up to date. • For the test sample of employees, ensure that tax is calculated appropriately • Check the correct treatment of pension contributions to either the Local Government pension scheme (non - taxable, deducted from the gross salary or DC schemes like NEST which already allow for tax deductions) • For NI, ensure that the correct deduction and employer’s contributions are applied: NB. The employers’ allowance is not available to councils but may be used by other authorities • Ensure that the correct employers’ pension percentage contribution is being applied • Ensure that for the test sample, the correct net pay is paid to the employee with tax, NI and pension contributions correctly paid to the respective agencies
Asset and investments registers were complete and accurate and properly maintained.	<u>Tangible fixed assets</u> • Ensure that the authority is maintaining a formal asset register and updating it routinely to record new assets at historic cost price, net of VAT and removing any disposed of / no longer serviceable assets • Physically verifying the existence and condition of high value, high risk assets may be appropriate • Ideally, the register should identify for each asset the purchase cost and, if practicable, the replacement / insured cost, the latter being updated annually and used to assist in forward planning for asset replacement • Additions and disposals records should allow tracking from the prior year to the current

	• Ensure that the asset value to be reported in the AGAR at Section 2, Box 9 equates to the prior year reported value, adjusted for the nominal value of any new acquisitions and /or disposals • Compare the asset register with the insurance schedule to ensure that all assets as recorded are appropriately insured or “self-insured” by the authority <u>Fixed asset investments</u> • Ensure that all long-term investments (i.e., those for more than 12-month terms) are covered by the “Investment Strategy” and reported as Assets in the AGAR at Section 2, Box 9. <u>Borrowing and lending</u> • Ensure that the authority has sought and obtained appropriate DMO approval for all loans acquired • Ensured that the authority has accounted for the loan appropriately (i.e., recorded the full value of the loan. Any arrangement fee should be regarded as an admin expense) in the year of receipt • Ensure that the combined principal loan repayment and interest for the year is correctly recorded in the AGAR at Section 2 Box 5 • Ensure that the outstanding loan liability as of 31st March each year is correctly recorded in the AGAR at Section 2, Box 10 (value should be verified via the DMO website) • Where the authority has issued loans to local bodies, they should ideally seek signed indemnities from the recipient body, or their members, agreeing to underwrite the loan debt
Periodic and year-end bank account reconciliations were properly carried out.	• Ensure that bank reconciliations are prepared routinely, are subject to independent scrutiny and sign-off by members • Verify the accuracy of the year-end bank reconciliation detail and ensure accurate disclosure of the combined cash and bank balances in the AGAR, Section 2, Box 8 • Where the authority has bank balances in excess of £100,000 it has an appropriate investment strategy
Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, were supported by an adequate audit trail from underlying records, and where appropriate debtors	• Ensure that, where annual turnover exceeds £200,000, appropriate records are maintained throughout the year on an Income and Expenditure basis to facilitate budget reporting in that vein • Ensure that appropriate accounting arrangements are in place to account for debtors and creditors during the year and at the financial year-end • Check the AGAR for completion and accuracy • Trace the source of the amounts entered to the AGAR

and creditors were properly recorded.	
If the authority certified itself as exempt from a limited assurance review in 2021/22, it met the exemption criteria and correctly declared itself exempt.	• The correct exemption certificate was prepared and minuted in accordance with the statutory submission deadline • That it has been published, together with all required information on the council's website and noticeboard
The authority publishes information on a free to access website/webpage up to date at the time of the internal audit in accordance with any relevant transparency code requirements	• This test applies only to those councils covered by the £25,000 External Audit exemption • Internal auditors should review the authority's website ensuring that all required documentation is published in accordance with the Transparency Code for Smaller Authorities
The authority, during the previous year (2021-22) correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations	• Examine a copy of the required "Public Notice" ensuring that it clearly identifies the statutory 30 working day period when the authority's records are available for public inspection. • Check whether councils have minuted the relevant dates at the same time as approving the AGAR
The authority has complied with the publication requirements for 2021/22 AGAR	• Confirm the Notice for the Exercise of Public Rights and Sections 1 and 2 of the AGAR are published on the council website. • Check the External Auditor Report and Certificate and Notice of Conclusion of Audit are published on the council website.
Trust funds (including charitable) The council met its responsibilities as a trustee.	• Confirm that all charities of which the council is a Trustee are up to date with Charity Commission filing requirements • Confirm that the council is the sole trustee on the Charity Commission register • Confirm that the council is acting in accordance with the Trust deed • Confirm that the charity meetings and accounts are recorded separately from those of the council • Review the level and activity of the charity and where a risk-based approach suggests such, review the Independent Examiner's report

Information to prepare for audit

Interim audit (Autumn 2022)

1	Ensure your website is updated with the information contained in Appendix A.	
2	Is your council having an interim audit during Autumn 2022?	Yes – refer to the information in Appendix B. No – consider the benefit of an interim audit and contact the office to book a date and time. If you decide not to have an interim audit, go to step 4.
3	Is your interim audit on site?	Yes – prepare the information in Appendix B electronically and/or paper based and have available for the booked date and time. No – prepare the information in Appendix B electronically and email to councils@mulberryandco.co.uk or upload to your Openspace account <u>at least one week</u> in advance of your scheduled date.

Final audit (April to June 2023)

4	Ensure your website is updated with the information contained in Appendix A.	
5	Did your council having an interim audit during Autumn 2022?	Yes – refer to the information in Appendix C. No – refer to the information in Appendix D.
6	Is your final audit on site?	Yes – prepare the infomation in Appendix C or D (as appropriate) electronically and/or paper based and have available for the booked date and time. No – prepare the infromation in Appendix C or D (as appropriate) electronically and email to councils@mulberryandco.co.uk or upload to your Openspace account <u>at least one week</u> in advance of your scheduled date.

APPENDIX A – Information to be available on the council website

APPLICABLE TO ALL COUNCILS AT INTERIM AND FINAL AUDITS

	Information to be up to date and published on the council website	Tick to confirm
1	Financial Regulations and Standing Orders	
2	Register of Members' Interests	
3	Minutes, agendas and non-confidential supporting papers for all council and committee meetings	
4	Data to comply with either the relevant Transparency Act Regulations	
5	2021/22 signed Annual Governance and Accountability Return (AGAR)	
6	2021/22 Notice of Elector's Rights	
7	2021/22 External Auditor's Certificate and Notice of Conclusion of Audit	

APPENDIX B – Information to be reviewed at the interim audit

APPLICABLE TO ONLY COUNCILS RECEIVING AN INTERIM AUDIT

	List of information for review	Tick to confirm
1	Minute references of review of Financial Regulations and Standing Orders	
2	Minute references of review of risk assessments and risk management policies	
3	Minute references of review of 2021/22 internal audit report	
4	Minute reference of review and acceptance of 2021/22 External Auditor's Certificate and Notice of Conclusion of Audit	
5	Minute reference of review of fees and charges levied by the council	
6	Copy of cashbooks year to date for 2022/23 (either excel spreadsheet or from your accounting package)	
7	If using electronic accounting package - nominal ledger print (all cost centres / account codes year to date) in nominal account order	
8	Income versus budget year to date	
9	List of earmarked reserves	
10	Copy of last submitted VAT return and evidence of receipt of refund amount	
11	Copy of insurance certificate and policy schedule	
12	Copy of financial risk assessments	
13	Copy of draft 2023/24 budget (if available) Detail of timescale for budget setting if not yet started	
14	Petty cash cashbook (if applicable) and copy of vouchers	
15	Payroll summaries and pay slips for two consecutive calendar months	
16	Copy of fixed asset register showing additions and deletions since 31 March 2022	
17	Copy of bank reconciliations for three consecutive months, together with bank statement page showing reconciled balance	
18	Confirmation of charity numbers where council acts as sole managing trustee (if applicable)	
19	Copy of signed Acceptance of Office form for last appointed councillor	
20	Council comments on any issues raised at final audit 2022	

APPENDIX C – Information to be reviewed at the final audit

APPLICABLE ONLY TO COUNCILS AT FINAL AUDIT WHO HAD
AN INTERIM AUDIT DURING 2022/23 FINANCIAL YEAR

	List of information for review	Tick to confirm
1	Completed Annual Governance and Accountability Return (AGAR)	
2	Full audit trail to support the amounts in boxes 1 to 7 on the AGAR	
3	Report detailing income and expenditure versus budget to 31 March 2023	
4	Detail of earmarked reserves and general reserve balances on 31 March 2023	
5	Bank reconciliations for all bank accounts for 31 March 2023, together with bank statement page showing reconciled balance	
6	Completed variance analysis to explain differences as required by the External Auditor	
7	Explanation of the difference between boxes 7 & 8 on the AGAR (where applicable)	
8	PWLB statement dated 31 March 2023 and details of direct debit payments made in year	
9	Copy of fixed asset register to 31 March 2023 matching total in box 9 on the AGAR	
10	Completed notice for the Exercise of Public Rights	
11	Council comments on issues raised at interim audit (where applicable)	

APPENDIX D – Information to be reviewed at the final audit

APPLICABLE ONLY TO COUNCILS AT FINAL AUDIT WHO DID NOT HAVE

AN INTERIM AUDIT DURING 2022/23 FINANCIAL YEAR

	List of information for review	Tick to confirm
1	Minute references of review of Financial Regulations and Standing Orders	
2	Minute references of review of risk assessments and risk management policies	
3	Minute references of review of 2021/22 internal audit report	
4	Minute reference of review and acceptance of 2021/22 External Auditor's Certificate and Notice of Conclusion of Audit	
5	Minute reference of review of fees and charges levied by the council	
6	Copy of cashbooks year to date for 2022/23 (either excel spreadsheet or from your accounting package)	
7	If using electronic accounting package - nominal ledger print (all cost centres / account codes year to date) in nominal account order	
8	Report detailing income and expenditure versus budget for the year	
9	List of earmarked reserves	
10	Copy of last submitted VAT return and evidence of receipt of refund amount	
11	Copy of insurance certificate and policy schedule	
12	Copy of financial risk assessments	
13	Copy of draft 2023/24 budget (if available) Detail of timescale for budget setting if not yet started	
14	Petty cash cashbook (if applicable) and copy of vouchers	
15	Payroll summaries and pay slips for two consecutive calendar months	
16	Copy of fixed asset register showing additions and deletions since 31 March 2022	
17	Copy of bank reconciliations for three consecutive months, together with bank statement page showing reconciled balance	
18	Confirmation of charity numbers where council acts as sole managing trustee (if applicable)	
19	Copy of signed Acceptance of Office form for last appointed councillor	

20	Completed Annual Governance and Accountability Return (AGAR)	
21	Full audit trail to support the amounts in boxes 1 to 7 on the AGAR	
22	Report detailing income and expenditure versus budget to 31 March 2023	
23	Detail of earmarked reserves and general reserve balances on 31 March 2023	
24	Bank reconciliations for all bank accounts for 31 March 2023, together with bank statement page showing reconciled balance	
25	Completed variance analysis to explain differences as required by the External Auditor	
26	Explanation of the difference between boxes 7 & 8 on the AGAR (where applicable)	
27	PWLB statement dated 31 March 2023 and details of direct debit payments made in year	
28	Copy of fixed asset register to 31 March 2023 matching total in box 9 on the AGAR	
29	Completed notice for the Exercise of Public Rights	
30	Council comments on any issues raised at final audit 2022	

Contact Us

- Email councils@mulberryandco.co.uk
- Phone 01483 423 054
- Upload – <https://www.irisopenspace.co.uk/Account/LogOn>