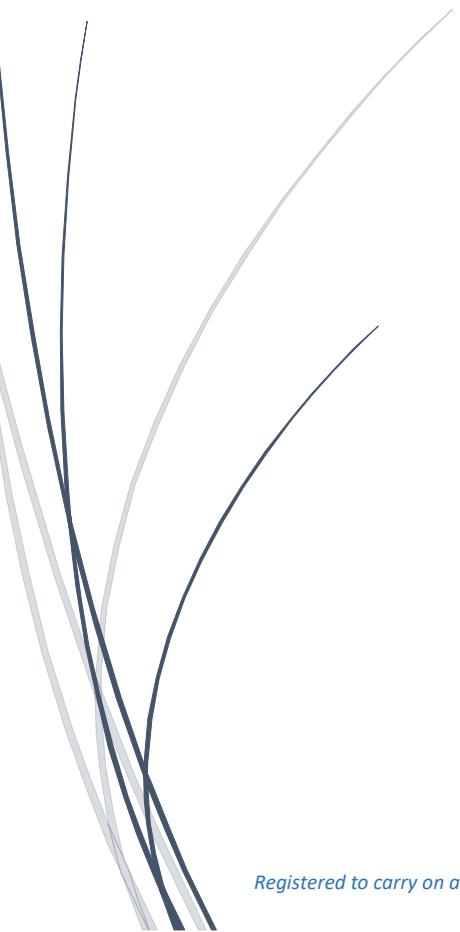


Kidsgrove Town Council

Internal Audit 2020/21



JDH BUSINESS SERVICES LTD

The internal audit of Kidsgrove 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 on the Annual Return for local 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. The recommendations reported in the action plan overleaf should be implemented. As part of the internal audit work for the next financial year we will follow up all recommendations included in the action plan.

JDH Business Services Limited

| | ISSUE | RECOMMENDATION | FOLLOW UP |
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| 1 | After the 2020/21 accounts had been closed down by the accounts software provider and clerk, an invoice for £4154 relating to water charges was received from the borough council relating to previous years. Therefore, this has not been included in the accounts for 2020/21. | <p><i>The council should secure written agreement from the borough council that all liabilities relating to the financial year will be notified to the town council by the end April following the financial year.</i></p> <p><i>The council need to ensure that the invoice is not a duplication of previous charges for water services through the previous SLA and other invoices received for services from the borough council.</i></p> | |
| 2 | At the year-end there was a VAT debtor outstanding covering 2019/20 and 2020/21 totalling £42,536. This is partly due to HMRC not processing a VAT reclaim relating to 2019/20. | <i>VAT should be reclaimed on a timely basis. The council should consider reclaiming VAT at least twice per annum.</i> | |
| 3 | The council is party to a number of contracts with varying lengths and conditions. | <i>The council should establish a contracts register which should be regularly reviewed to identify those contracts 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> | |
| 4 | The risk assessment does not address the risks of supplier fraud. Most standard local council policies do not cover supplier fraud. The supplier fraud risks can be managed via | <i>The risk assessment should be updated to include supplier fraud including the adequacy of supplier onboarding controls.</i> | |

| | ISSUE | RECOMMENDATION | FOLLOW UP |
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| | <p>appropriately robust policies and procedures. Examples of prevention actions include:</p> <ul style="list-style-type: none"> - training for staff to alert them to the potential risks of providing sensitive company information, by phone or other means, especially contract and account information. - establish a rigorous change of supplier details procedure - where a supplier has purported to have changed their bank details always call the supplier to check the veracity of a request, using details in your system, rather than those on any associated letter or email. A person should be authorised to approve a supplier bank account change after having reviewed the process undertaken to verify the supplier details change - periodic review of supplier accounts should also be undertaken to remove any dormant accounts. This reduces the likelihood of any old supplier information being used to secure fraudulent payments. - checking address and financial health details with Companies House - checking samples of online payments to supplier invoices to ensure the payment has been made to the supplier bank account | | |

| | ISSUE | RECOMMENDATION | FOLLOW UP |
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| 2019/20 year end internal audit | | | |
| 1 | The final outturn for total general reserves is £113k, however, the budget for 2019/20 forecast £65k year end general reserves. This underspend of £48k was partly due to the pandemic lockdown but also due to budgeted projects that have not proceeded as planned. | <i>The council should aim to set a precept underpinned by budgets that reflect realistic and deliverable expenditure plans in the financial year including identified projects and schemes.</i> | Noted |
| 2 | There an earmarked reserve called revenue fund for £30k. Earmarked reserves should be for specific projects or schemes otherwise reserves are considered to be general reserves. The clerk has informed us that this reserve is actually for staffing and office accommodation issues. | <i>The revenue fund should be disaggregated into clearly defined earmarked reserves.</i> | Implemented |
| 2019/20 interim internal audit | | | |
| 1 | Budgetary Control The current Financial Regulations (FRs) require a written explanation for all variances of £100 or 15%. Although monthly RBS budgetary control reports containing variances are reported, written explanations of variances above the thresholds in the FRs are not provided. | <i>The budgetary control requirements of the Financial Regulations should be complied with.</i> | Noted – Financial Regulations have been updated. For budgetary control reporting. |

| | ISSUE | RECOMMENDATION | FOLLOW UP |
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| 2 | Currently only the clerk has sufficient training to process transactions on the RBS ledger system. | <i>To ensure there is adequate contingency planning in place to cover the absence of the clerk another officer should be trained in processing transactions on the RBS ledger system.</i> | Implemented |

2018/19 year end internal audit report

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| 1 | <p>RECURRING ISSUE</p> <p>We have previously recommended the council should complete partial exemptions to evidence whether there is any VAT liability (due to the £7500 partial exemption threshold being breached). These calculations have still not been completed for 2017/18 and 2018/19 although a VAT consultant is currently supporting the council with this. Initial evidence provided by the clerk indicates there may be a material VAT liability and this is not reflected in the year end accounts.</p> <p>The VAT consultant has produced a report relating to 2016/17 and prior year's and we understand further work is now being carried out in relation to these years.</p> | <p><i>Partial exemption calculations should be completed on a timely basis and if the VAT consultancy work evidences that there is a VAT liability, this should be reflected in the year end accounts.</i></p> | <p>Partial Exemption calculations have now been completed by the VAT consultant. The council should now ensure these are completed for each financial year.</p> |
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IMPORTANT GUIDANCE NOTE

INTERNAL AUDIT CERTIFICATE in the AGAR

There is a new internal control objective (Objective L) in the 2018/19 internal audit certificate that requires internal audit to conclude on whether the Public Rights Notice during the **previous Summer** was compliant with the Regulations. This is pre-filled for 2018/19 but in order to test this and conclude YES or NO for the 2019/20 internal audit we would need to receive with the 2019/20 books and records:

- A copy of the completed 2018/19 Notice of Public Rights and Publication of the Unaudited Annual Governance and Accountability Review
- A dated photograph showing the first day of the Notice of Public Rights on the noticeboard and/or a dated computer screenshot showing the first date of the Notice of Public Rights on the website for 2018/19

Our approach to this new requirement will be to conclude NO if we have not received the above evidence and explain on the AGAR that we received insufficient evidence to be able to conclude YES; we would also conclude NO if the dates advertised were not compliant with the Regulations.

This will be a new ongoing requirement for internal audit, as well as verifying whether certain smaller councils meet the exemption criteria from an external audit. Therefore, for the 2019/20 internal audits there will be additional time charged at a fixed fee of £9 + VAT per local council to complete the new requirements.

2018/19 interim audit

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| 1 | Expenditure Testing We selected a sample of 9 higher value payments to test compliance with the authorisation requirements in the Financial Regulations. The internal control for | <i>The council should authorise payments in compliance with the Financial Regulations ie two members should authorise a payment before it is made.</i> | Implemented |
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| | ISSUE | RECOMMENDATION | FOLLOW UP |
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| | <p>payment authorisation is emailed authorisation by two members. The results were as follows:</p> <ul style="list-style-type: none"> - For three of the payments although authorisations from 2 members relate to the same date the payments were made there was no email provided that showed the payment list that members were authorising - Authorisation from 2 members could be identified for two of the payments - Authorisation from one member could be identified for one of the payments - No authorising emails from members could be identified for three of the payments <p>For a significant period the council appeared to be making payments using emergency powers so as not to incur penalties, however, it is not clear from the documentation provided how long this system of making payments was in place. The lack of a clerk for a significant portion of the financial year has led to inadequate administration of key information to support to authorisation of payments.</p> | <p><i>The email authorisations for payments should be saved into an 'Authorisation' folder to ensure there is sufficient audit trail to evidence the authorisation of all payments made in the financial year.</i></p> | |

| | ISSUE | RECOMMENDATION | FOLLOW UP |
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| 2 | There are three Barclays community bank accounts aside from the primary bank account used for council transactions. The account numbers are 9061578, 40762717, 60971081. There was no documentation indicating what these accounts are for and whether the transactions relate to the mayors charity account or the town council. | <i>The council should analyse the activity on these bank statements for the financial year and ensure that all council transactions and funds are completely and accurately disclosed in the year end accounts</i> | Implemented |
| 3 | The council did not establish a Finance and General Purposes (F&GP) Committee at the annual general meeting, instead the August 2018 full council meeting it was resolved that a F+GP committee would be established, but the new committee had no formal terms of reference. The F&GP committee held meetings in December 2018 and January 2019, although only in an advisory capacity with no decisions made. The council plans to establish further standing committees in due course. | <i>All standing committees, sub committees and working groups should be established with a formal terms of reference.</i> <i>At the May 2019 annual general meeting the council should confirm the standing committees, sub-committees and working groups to function for 2019/20 and this information together with the terms of reference of each should be appended to the Standing Orders.</i> <i>NB the clerk has recently produced a draft terms of reference for the F&GP committee for approval by full council</i> | Implemented |
| 4 | We reviewed the procurement for the hall security provision to ensure compliance with Financial Regulations (FRs) as this was a | <i>The council should carry out an options appraisal of the security, management and</i> | Implemented |

| | ISSUE | RECOMMENDATION | FOLLOW UP |
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| | <p>material contract. Three quotations were sought in accordance with FRs, and the contract was awarded to the provider with the lowest quotation on an hourly basis of £12 per hour. However, invoice testing for this supplier identified that the supplier was charging £15 per hour and no documentation was provided to evidence why the rate had increased by 25% so soon after the commencement of the contract. The £15 per hour rate was higher than one of the other initial quotations we viewed.</p> <p>We were informed by the recently appointed clerk that the previous clerk under delegated powers had agreed the new increased rate as additional hall management and maintenance responsibilities were being taken on. This increased rate was challenged by the recently appointed clerk and has now been reduced back to £12 per hour.</p> | <p><i>maintenance provision for the hall to identify the option that delivers the optimal value for money.</i></p> | |
| 5 | The bar commission of £1230 received on 20/07/2018 was not supported by evidence to substantiate the commission payment | <p><i>Commission payments should be supported by calculations that reconcile the payment to the daily till receipts.</i></p> <p><i>The council should carry out sample checks on till receipts/z rolls to ensure the correct commission is being paid.</i></p> | Implemented |

| | ISSUE | RECOMMENDATION | FOLLOW UP |
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| 6 | Hall hire testing identified the following issues: <ul style="list-style-type: none"> - Sales invoices are not currently filed in sequential order - Varying rates are charged for concessions but there is no written policy for hall hire rates relating to concessions | <p><i>Sales invoices should be filed in sequential order with the booking form attached</i></p> <p><i>The levels of concessions available should be formally approved by council</i></p> | <p>Implemented – sales invoices are now filed sequentially</p> <p>Recommendation outstanding</p> |

2017/18 year end audit

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| 1 | Insurance <p>Risk assessment had not previously identified that the Victoria Hall building was not actually insured by the borough council as part of the Service level Agreement.</p> <p>The level of fidelity insurance cover is £250k. This insurance should cover the maximum projected cash and bank balances in the financial year. For 2018/19 this level is calculated as year-end cash and bank balances of plus the next precept instalment and is estimated as £330k. Therefore, the fidelity insurance cover should be at least £330,000.</p> | <p><i>Risk assessment should include a review of the insurances annually including adequacy of cover of all owned assets.</i></p> <p><i>The fidelity insurance cover should be increased to adequate levels.</i></p> <p><i>The adequacy of fidelity insurance cover should be reviewed annually as part of ongoing risk assessment.</i></p> | Implemented |
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| | ISSUE | RECOMMENDATION | FOLLOW UP |
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| 2 | The NS&I bank reconciliation includes the statement balance as at 23/1/18. | <i>The council should secure bank statements that cover the year end balances for the year end reconciliations</i> | Noted |
| 3 | There were no budgets set for rates for the 2017/18 financial year even though this is a known and predictable cost | <i>Council should review the detailed budget headings and ensure they reflect all predictable costs</i> | Implemented |
| 4 | The regular checks of payments by the Chair do not cover the monthly payroll. | <i>The regular checks of payments by the Chair should cover a sample of monthly payroll payments to verify that the correct pay rates have been applied</i> | Implemented in final quarter of 2018/19 |

2017/18 interim audit report

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| 1 | <p>The consultant VAT report concluded that the 2007/8 moratorium letter from HMRC re VAT on exempt supplies only related to that financial year and could not be relied upon for any of the years after 2007/8. In addition, the consultant concluded that the Council calculation that only 15.8% of the Victoria Hall's costs relate to VAT exempt hall hire and the rest related to the running of the council was not correct and that '<i>The council's current approach is unlikely to stand up to challenge if reviewed by a VAT inspector</i>'. The consultant reviewed floor</p> | <p><i>The council has VAT exempt business activities and therefore must complete a partial exemption calculation for each financial year to demonstrate whether or not it has exceeded the £7500 exempt supply threshold.</i></p> <p><i>The council should review at least the previous six years VAT information and apply the 60.2% percentage to all relevant VAT incurred in relation to the hall to determine if there is a VAT liability due to exceeding the partial exemption £7500 threshold. If the calculation is close to the £7500 then the council will need to also</i></p> | <p>2019/20 follow up - implemented</p> <p>2018/19 follow up – the VAT consultant is now reviewing their VAT calculations further with support from the clerk and these may lead to a VAT liability for the council which will need to be recognised in the accounts.</p> <p>Recommendation:</p> |
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| | ISSUE | RECOMMENDATION | FOLLOW UP |
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| | areas and usage and calculated that a fair percentage of the hall use that related to exempt supplies (ie hall hire) is 60.2%. | <i>apportion the VAT on its administration costs between business and non-business activities as this will give a more accurate calculation to demonstrate whether the £7500 threshold has been breached.</i> | The council should complete an annual partial exemption calculation to verify that there is no liability for VAT on exempt supplies. |
| 2 | The council has still not received the original signed SLA for hall management charges from the borough council, but an analysis of the annual charge has now been secured. | <i>The council should review the annual management charge analysis to ensure it is delivering value for money. To assist with this process, it would be beneficial to compare management charges incurred by a sample of other town councils with respect to their community hall and similar facilities</i> | Implemented as the council is no longer participating in the original SLA and new arrangements are being put in place |
| 3 | There is no evidence of member checks of online payment controls | <i>The council should apply member checks of online banking internal controls during the year to satisfy themselves that internal controls are operating effectively, and all transactions are completely and accurately recorded in the accounting ledger including:</i> <ul style="list-style-type: none"> - <i>To provide assurance that the correct suppliers have actually been paid the amounts the council has approved, each month the Chair of Finance should select a small sample of payments from the actioned online payments and agree the online payment bank details to the bank account details of the supplier on the invoice</i> | Implemented |

| | ISSUE | RECOMMENDATION | FOLLOW UP |
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| | | <ul style="list-style-type: none"> - <i>Supplier fraud prevention controls - The Chair of Finance should check bank details for the first payment to a supplier to a signed confirmation letter from the supplier. The same procedure should apply where a supplier has purported to have changed bank accounts (particularly if the request is via email).</i> <p><i>All the above member checks should be evidenced by a signature.</i></p> | |
| 4 | The reference included in the nominal ledger for each payment does not provide an audit trail to the actual invoice. | <i>Purchase invoices should be sequentially and uniquely referenced and that reference should be recorded against the payment in the nominal ledger</i> | Implemented |
| 5 | The card readers to be used for online banking are not currently in the name of the officers making payments. This should be resolved urgently. | <i>Card readers should always be updated to reflect the current staff with responsibility for making online banking payments</i> | Implemented |
| 6 | The Financial regulations state ‘the RFO shall maintain a Register of Assets and continued existence of fixed assets will be verified at least annually’ | <i>The Council need to ensure the role of maintenance of the asset register is allocated and that the 2016/17 fixed asset register is updated for additions, disposals, write offs, review of adequacy of insurance, and physical inspection to ensure existence</i> | Implemented |

| | ISSUE | RECOMMENDATION | FOLLOW UP |
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| 7 | The RBS nominal ledger does not include a sales or purchase ledger. Without this available upgrade there is a risk that outstanding debtors and creditors at the year end may not be captured as it will rely on a manual exercise by staff to review documentation to try and identify all liabilities and debtors. | <i>The council should consider upgrading the current nominal ledger system to include a sales and purchase ledger</i> | Implemented and purchase ledger being used. Sales ledger to be utilised shortly. |
| 8 | Data Protection Law will change significantly on May 25 th 2018 due to the 2016 EU Directive General Data Protection Regulation (GDPR) taking effect. GDPR replaces the 1998 Data Protection Act and it will impose new obligations on Data Controllers and Data Processors and provides enhanced rights for individuals. Compliance with GDPR could have resource implications for local councils. | <i>The impact of GDPR on the council should be identified through review of ICO and NALC guidance and the Data Protection policy, risk assessment and internal controls should be updated accordingly</i> | DPO appointed and GDPR audit completed |