



# Kidsgrove Town Council

Internal Audit 2021/22

JDH BUSINESS SERVICES LTD

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

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 in the AGAR 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
<b>2021/22 year end internal audit</b>			
1	General reserves are close the minimum level of 25% of net revenue expenditure as recommended by sector guidance. The calculations provided by the clerk indicates they are either 25.8% and 30.9% of net revenue expenditure depending on the calculation method used.	<i>The council should monitor the level of general reserves with reference to sector guidance for minimum levels of 25% of net revenue expenditure.</i>	
<b>2021/22 interim internal audit</b>			
1	<p>Contract Issues :</p> <ol style="list-style-type: none"> <li>1. The SLA ranger contract includes a provision whereby the council has to pay for the ranger service even if the employee of the provider has significant periods of sickness absence. Therefore, the council is exposed to the risk of paying for a ranger service for extended periods with no service actually being provided.</li> <li>2. There is no signed contract for the Christmas lights provision. This contract is in excess of the threshold</li> </ol>	<p><i>The council should ensure that the financial risk of paying for a service to a third party where that third party can actually cease to provide the service during sickness absence is addressed during the contractual agreement process.</i></p> <p><i>There should be a signed contract for all contracts in excess of the threshold for securing quotations in the FRs.</i></p>	

	<b>ISSUE</b>	<b>RECOMMENDATION</b>	<b>FOLLOW UP</b>
	for securing quotations in the Financial Regulations (FRs).		
2	There was no signed confirmation of receipt for the material donations to the swimming pool.	<i>A signed confirmation of receipt should be secured for all significant donations.</i>	
3	The FRs require the following with respect to council credit cards: <i>Section 6.19) The credit card is 'subject to automatic payment in full at month end'</i> . Internal audit testing of credit card transactions identified that for July 2021 the balance of the credit card was not cleared to £nil as required by the Financial Regulations.	<i>The council must comply with the Financial Regulations with respect to credit cards.</i>	
<b>2020/21 year end internal audit</b>			
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>	No further issues identified in 2021/22.

	ISSUE	RECOMMENDATION	FOLLOW UP
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 nor 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>	Implemented
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>	Recommendation Outstanding
4	<p>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 appropriately robust policies and procedures. Examples of prevention actions include:</p> <ul style="list-style-type: none"> <li>- 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.</li> <li>- establish a rigorous change of supplier details procedure - where a supplier has purported to have changed their bank details</li> </ul>	<i>The risk assessment should be updated to include supplier fraud including the adequacy of supplier onboarding controls.</i>	Implemented

	ISSUE	RECOMMENDATION	FOLLOW UP
	<p>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</p> <ul style="list-style-type: none"> <li>- 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.</li> <li>- checking address and financial health details with Companies House</li> <li>- checking samples of online payments to supplier invoices to ensure the payment has been made to the supplier bank account</li> </ul>		
<b>2019/20 year end internal audit</b>			
1	<p>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.</p>	<p><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></p>	Noted

	<b>ISSUE</b>	<b>RECOMMENDATION</b>	<b>FOLLOW UP</b>
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
<b>2019/20 interim internal audit</b>			
1	<p>Budgetary Control</p> <p>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.</p>	<i>The budgetary control requirements of the Financial Regulations should be complied with.</i>	Noted – Financial Regulations have been updated for budgetary control reporting.
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