

INTERIM INTERNAL AUDIT REPORT – 2017/2018
FRODSHAM TOWN COUNCIL

The internal audit of Frodsham Town Council is carried out by undertaking the following tests as specified on the 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 larger councils.

Conclusion

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

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

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1	ISSUE	RECOMMENDATION	FTC Update	FOLLOW UP
1	<p>The Council had a contract in 2017/18 for playground equipment that was in excess of the £25,000 limit for a formal tender process.</p> <p>The contract has been managed by a community group who have assured the Council that they received quotes from three suppliers.</p>	<p><i>The Council should obtain formal confirmation of the quotes received.</i></p> <p><i>All contracts should be awarded as per the financial regulations of the Council.</i></p>	<p>All quotations now on file</p>	
2	<p>The contract for the Christmas lights is with a local contractor who has provided the service at a reduced cost. As a result, the contract has been rolled over for a number of years without the Council obtaining three quotations as stated in the financial regulations.</p>	<p><i>The Council should review this contract periodically. If a decision is made to roll over a contract, this should be recorded within the minutes.</i></p>	<p>Christmas lights contract will go out to tender for 2018 – agreed at P&P 12 Feb.</p>	
3	<p>Two of the payments selected for testing during the audit were donations. They were not supported by letters of receipt. The details are: Castle Park Arts Centre £2850 Frodsham youth Association £8000</p>	<p><i>Letters of receipt should be requested for all donations.</i></p>	<p>Information about WW1 grant paid to CPAC provided – File note. FYA Grant – report provided.</p>	
4	<p>Testing of payments found that the April 2017 payments</p>	<p><i>Please ensure that this schedule is signed</i></p>	<p>April 2017 schedule now signed.</p>	

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<p>schedule had not been signed by the Chair when approved.</p>	<p><i>retrospectively to confirm it has been approved by Council.</i></p>		
<p>5 Data Protection Law will change significantly on May 25th 2018 due to the 2016 EU Directive General Data Protection Regulation (GDPR) taking effect.</p> <p>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.</p>	<p><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></p>	<p>On-going. NALC have provided a Toolkit including an Action Plan. Chair & TC attending CHALC Training event on 18 April.</p>	
<p>Follow up of 2016/17 audit recommendations</p>			
<p>1 The VAT debtor at the year end does not agree to the cash book for 16/17. The difference is £3 and is due to an error in the 15/16 cash book where Insurance Premium Tax was incorrectly classified as VAT. The correct amount of VAT was reclaimed from HMRC.</p>	<p><i>The amount is insignificant so the accounts do not require amending to correct the VAT debtor. The amount should be written out of the 17/18 accounts.</i></p>		<p>Follow up at year end</p>

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2	The risk assessment was not formally approved by Council in the minutes during 2016/17 (the minutes show approval in April 2017). We note however that the risk assessment was actually reviewed and carried out in March 2017.	<i>The risk assessment should be formally approved annually.</i>	Risk Assessment review, revised and approved by Council on 26/03/18.	Approved in April 2017, the approval will be checked in 18/19 audit.
2016/17 audit recommendations				
1	The Council have been experiencing a problem in receiving payments from ‘Scambusters’ (Cheshire West and Chester) as they are not always being provided with a Purchase Order on booking. They are however continuing to use the room.	<i>The Council should ensure that Cheshire West and Chester always provide a Purchase Order when booking a room to prevent experiencing payment problems with the Unitary Council finance system</i>		Implemented
2	The September minutes approve the total payments for August. The minutes incorrectly state that they are the July Payments.	<i>The September minutes should be corrected to refer to the correct authorised payments</i>		Minutes have not been amended but issue reported to Council
2015/16 audit recommendations				
1	The asset register currently	<i>The asset register should be</i>		Implemented

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<p>doesn't total the assets showing that it reconciles with the balance entered on the annual return.</p>	<p><i>updated to ensure that it reconciles with the annual return.</i></p>		
<p>2015/16 interim audit recommendations</p>			
<p>1 There is no formal reserves policy in place that establishes the level of general reserves the council should aim to carry forward year on year.</p> <p>There is no statutory requirement for the minimum level of council reserves. However, there is sector guidance that states between 3 months and 1 year of net revenue expenditure (ie excluding precept income) is a satisfactory level – see NALC guidance below:</p> <p>".....any prudent council will carry forward some Un-earmarked General Revenue Reserves to meet the unexpected and to use for working capital until the Income due from the Billing Authority is received. These final</p>	<p><i>The council should as a priority establish a policy for the minimum level of reserves.</i></p>		<p>Implemented</p>

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<p>balances are held to some extent by all councils and should fall within a range of 3 to 12 months net revenue expenditure. Thus the total value of Balances and Reserves is set by the individual circumstances, and by a formal decision, of the Council."</p>			
<p>2 The Risk Assessment has not yet been carried out for 2015/16</p>	<p><i>The risk assessment needs to be reviewed and updated and approved by Council before the 2015/16 financial year end</i></p>		<p>Implemented</p>
<p>3 Although there is a standard list of fees for room hire fees, these have not been approved by Council.</p>	<p><i>Room hire fees need to be reviewed and adopted annually by Council</i></p>		<p>Implemented.</p>
<p>Follow up of 2014/15 audit recommendations</p>			
<p>1 2014/15 is the second year where income is in excess of £200,000. From 2015/16 the Council will be required to prepare income and expenditure accounts. They will also have to restate the accounts for 2014/15 as income and expenditure to</p>	<p><i>The Council should prepare income and expenditure accounts for 2014/15 with supporting schedules of debtors and creditors. These balances will then be audited as part of the 2015/16 audit.</i></p>		<p>I&E accounts prepared from 14/15.</p>

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ensure that the accounts are consistent.			
2 The Council have introduced a formal grant application process. There was a £5000 grant in 2014/15 to the St Laurence Repair Fund, however no formal application was completed. There was also no letter of receipt on file.	<i>The grant application process should be applied to all grants.</i>		Grant payments tested supported by grant applications in 15/16
3 Although minutes refer to payments being approved, the total of the payments schedule is not stated in the minutes. The payments schedule is signed by the Chair when approved.	<i>Minutes need to refer to the total of the payments schedule that has been approved so it is clear which payments schedule is being referred to as approved in the minutes, and that there is a clear audit trail to evidence that all payments in the year have been presented to and approved by council.</i>		Implemented

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Follow up of 2013/14 audit recommendations				
1	Two petty cash transactions totaling £36 have been entered in the ledger and have also been included as unpresented cheques.	<i>These transactions should be removed from the accounts and also from unpresented cheques.</i>		Implemented
2	Guidance note for 2014/15 Following the repeal of section 150(5) of the Local Government Act 1972 in March 2014, Councils now are not required by law to have cheques or other orders for payment signed by two elected members.	<i>If the Council decide they would like to make any changes to how payments are made it is important that they review the recent guidance issued by SLCC and ensure that any new internal controls meet these requirements. Any changes to internal controls over payments in light of the repeal will be reviewed in future audits.</i>		Noted
Follow up of 2013/14 Interim Audit				
1	A donation of £8000 was made to Frodsham Youth Association, the decision was made as part of the budget setting process. We could see no evidence that a formal application was made to the Council accompanied by supporting accounts.	<i>All grants should be awarded following a standard procedure including a formal application process.</i>		See issue 2 2014/15

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2	During the year, cheque 5653 for £5000 was cancelled. We could not find the decision to cancel this payment recorded within the minutes.	<i>The decision to cancel a payment should be recorded within the Council minutes.</i>		Not occurred in 14/15
3	A review of the cash book found that there were a number of receipts included within payments therefore having the effect of ‘netting off’ of payments.	<i>These receipts should be reposted in the cash book as receipts.</i>		Implemented