



Frodsham Town Council

Internal Audit 2019/20

Year End Report

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

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

ACTION PLAN

	ISSUE	RECOMMENDATION	FOLLOW UP
1	The accounts include a creditor of £50347 for works to the war memorial. It would appear from the invoices showing work completed that as at 31/3/20 the amount due to the contractor was £2989.	<p><i>The accounts should be amended to correct the creditor.</i></p> <p><i>The annual return should be amended as follows (this includes adjustment in issue 2 below):</i></p> <p><i>Total other payments £227,610</i></p> <p><i>Balance carried forward £358,525</i></p>	AGAR amended during audit
2	'Staff costs' in the AGAR accounts include staff training costs of £530. Training costs are not a payroll costs and should therefore be reallocated to 'total other payments' in the AGAR accounts.	<p><i>The AGAR annual return should be amended to show the following:</i></p> <p><i>Staff costs £91,753</i></p>	AGAR amended during audit
4	The Council have noted that it has not met its obligations as a sole managing trustee of a trust by having two trustee meetings a year.	<p><i>The Council should ensure that they meet their sole managing trustee obligations by having regular meetings and carrying out their obligations as recorded in the charity trust deed.</i></p>	
2019/20 interim audit recommendations			
1	The financial regulations require the following for the making of payments: '6.16 Changes to account details for suppliers,	<p><i>In order to comply with financial regulations and good practice for online</i></p>	To be followed up at 2020/21 interim internal audit

	ISSUE	RECOMMENDATION	FOLLOW UP
	<p><i>which are used for internet banking may only be changed on written hard copy notification by the supplier and supported by hard copy authority for change signed by the Clerk. A programme of regular checks of standing data with suppliers will be followed.'</i></p> <p>We did not see evidence that these checks were carried out as the bank details for each online bank payment (account number and sort code) are not retained on file. A file of supplier details (where bank details are not stated on invoices) is not maintained which would evidence changes to banking details.</p>	<p><i>bank payments, the Council should introduce the following controls:</i></p> <ul style="list-style-type: none"> - <i>A file should be maintained of changes to supplier's bank details (when these are not stated on invoices).</i> - <i>Banking remittance advice should be retained to evidence which account numbers and sort codes have been paid.</i> - <i>A sample check of supplier details to actual account numbers and sort codes paid should be carried out monthly by either a staff member not involved in payments or a Councillor. Evidence should be kept of checks made (this could be a separate record or recorded on the invoice/ bank remittance advice)</i> 	
2	<p>The Council made a £10,000 grant via online banking to Frodsham Community Association. Whilst we have seen approval for this grant within the council minutes, the Council have not received a letter of receipt/ other confirmation from the association to confirm receipt of the grant.</p>	<p><i>The Council should obtain letters of receipt for grants/donations. This is particularly important for payments made via online banking.</i></p>	<p>To be followed up at 2020/21 interim internal audit</p>

	ISSUE	RECOMMENDATION	FOLLOW UP
3	The Council made a duplicate payment to Cheshire Association of Local Councils for the amount of £1470.04 in April 2019. As at the time of audit (November 2019), the amount had not been repaid.	<i>Controls should be in place to ensure that duplicate payments are not made. This overpayment should be followed up and a refund obtained.</i>	A refund has now been obtained – internal controls over duplicate payments will be further tested in 2020/21
4	The Council minutes do not record approval of payments. A summary schedule of income and expenditure has been approved each month but not a schedule of individual payments.	<i>The Council should approve each month a schedule of payments. When these are not listed within the Council minutes, the total approved should be stated and the supporting schedule should be signed by the Chair. A schedule of payments made since 1st April 2019 should be retrospectively approved by Council.</i>	Implemented
Follow up of 2018/19 audit recommendations			
1	The risk assessment was not updated, reviewed and approved by full council in 2018/19.	<i>The risk assessment should be updated, reviewed and approved by full council each financial year. The approval of the risk assessment should be recorded in the minutes.</i>	Implemented
2	The current level of fidelity insurance is £500,000. However, maximum projected cash and bank balances are £524,000 which is estimated as	<i>The level of fidelity insurance should be increased to cover maximum projected cash and bank balances.</i>	Implemented

	ISSUE	RECOMMENDATION	FOLLOW UP
	year end cash and bank balances plus the next precept instalment.	<i>The adequacy of fidelity insurance should be reviewed annually as part of the risk assessment.</i>	
3	There is no listing of outstanding room/hall hire debtors maintained on an ongoing basis. This means year end debtors have to be calculated manually for the year end accounts.	<i>A record of outstanding room/hall hire debtors should be maintained for credit control and accounting purposes.</i>	Implemented

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.

	ISSUE	RECOMMENDATION	FOLLOW UP
2018/19 interim audit			
1	<p>Bank Accounts</p> <p>A transfer of £40000 from the Business select instant saver account to the Hob Hay Wood charity was made in error. The incorrect transfer was identified and corrected.</p> <p>The mayors charity account is no longer used.</p>	<p><i>The account details for material transfers should be checked by another member of staff prior to execution of the transfer to ensure the account details are correct.</i></p> <p><i>The council should consider rationalising the number of bank accounts to reduce administration.</i></p>	<p>No evidence seen in 19/20 interim of incorrect bank transfers.</p> <p>See issue 3 in 19/20 – duplicate payment made.</p>
2	<p>Procurement</p> <p>The FRs have three procurement bands:</p> <ul style="list-style-type: none"> - £250 - £2999 requires three estimates/quotations - £3000 - £25000 requires three quotations - >£25000 requires three tenders <p>There does not seem to be any difference between the procurement requirements for £250- £2999 and £3000 - £25000.</p>	<p><i>The council should adopt NALC model Financial Regulations which contain clear procurement requirements</i></p>	<p>Implemented</p>

	ISSUE	RECOMMENDATION	FOLLOW UP
	We could only identify two quotations for Play Area Equipment Fountains Lane contract awarded to The Great Outdoor Gym Company for £10220. However, the contract was funded by grant monies.	<i>The quotations secured for material contracts should be retained as evidence Financial Regulations have been complied with. All contracts should be awarded in compliance with the Financial Regulations</i>	No issues arising for contracts tested at 19/20 interim audit.
3	<p>The asset register has not been updated for 2018/19 capital expenditure for instance the following transactions should be reviewed to determine whether they constitute additions to fixed assets:</p> <p>The Wicksteed Playground Installation - Townfield Lane £35795</p> <p>The Great Outdoor Gym Company (Play Area Equipment Fountains Lane) £10220</p> <p>Speed Gun purchase £1675</p>	<i>The asset register should be updated at the year end for all capital additions.</i>	Implemented
4	Minutes currently state that the bank reconciliations and payments are noted rather than approved.	<i>The minutes should state that payments and the bank reconciliations are approved to evidence council have reviewed and formally approve them</i>	Implemented
2017/18 year end audit			

	ISSUE	RECOMMENDATION	FOLLOW UP
1	A review of the asset register found that £827 of the increase in fixed assets is due to the addition of assets purchased prior to 17/18 which weren't previously recorded in the asset register.	<i>The correct treatment for the addition of these items is to restate the 2016/17 asset value on the annual return. The 2016/17 value should be restated as £598,186 and an explanation should be provided to the external auditor as to why it has been restated.</i>	2018/19 fixed asset testing satisfactory
2017/18 interim audit recommendations			
1	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. The contract has been managed by a community group who have assured the Council that they received quotes from three suppliers.	<i>The Council should obtain formal confirmation of the quotes received. All contracts should be awarded as per the financial regulations of the Council.</i>	Implemented - Quotations seen
2	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.	<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>	The Council have decided to put this contract out to tender in 2018/19
3	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	<i>Letters of receipt should be requested for all donations.</i>	Implemented – grant applicants provide grant completion forms. Castle Park Arts Centre and Youth Association provide reports to Council.

	ISSUE	RECOMMENDATION	FOLLOW UP
	Frodsham youth Association £8000		
4	Testing of payments found that the April 2017 payments schedule had not been signed by the Chair when approved.	<i>Please ensure that this schedule is signed retrospectively to confirm it has been approved by Council.</i>	Implemented
5	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>	Outstanding
Follow up of 2016/17 audit recommendations			
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.	<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>	Implemented
2	The risk assessment was not formally approved by Council in the minutes during 2016/17 (the	<i>The risk assessment should be formally approved annually.</i>	Implemented

	ISSUE	RECOMMENDATION	FOLLOW UP
	minutes show approval in April 2017). We note however that the risk assessment was actually reviewed and carried out in March 2017.		
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