



Frodsham Town Council

Internal Audit 2022/23

Interim Report

JDH BUSINESS SERVICES LTD

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 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 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	<p>The Council have been the victim of a supplier fraud in 2022/23. The incident has been reported to the Police and Action Fraud and is currently under investigation.</p> <p>The fraud appears to have occurred following a hacking of the Clerk's email account and the setup of rules diverting emails from a supplier to the RSS feeds folder. This resulted in the original emails from the supplier not being viewed by the Clerk. Emails were then sent to the Clerk from a fraudulent email address with doctored invoices showing the details of the fraudster's bank account, notifying the Council that the bank account details had changed.</p> <p>A handwritten note on the invoice paid states the clerk queried the account number but does not state whether this was queried by telephone or email and the source of the contact information used.</p> <p>The IT provider has changed the passwords on the account following notification of the fraud. We have not been informed whether examination of the Clerk's laptop has taken place in order to identify how the email account was hacked and whether the laptop is free of malware or viruses</p>	<p><i>Changes to supplier bank details must be followed up with a phone call using current contact information rather than those on an email or invoice purported to be from the supplier with new bank account details.</i></p> <p><i>The Council must ensure the IT provider is asked to review the clerk's laptop and ensure it is rendered free of malware or viruses, to try and identify how the council email account was hacked, and to ensure cybersecurity controls are sufficient to prevent this form of hack recurring.</i></p> <p><i>The Council must follow up with the bank to ascertain whether the amount can be recovered and how the payment was made, considering supplier verification procedures in place.</i></p> <p><i>The risk assessment must cover the risk of supplier fraud as previously recommended.</i></p>	

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	<p>that may have been the source of the security breach.</p> <p>The Council have notified their banking provider of the fraud and have also requested information from them on how the payment was verified by confirmation of payee banking procedures, and whether the amount can be recovered. At the time of the interim audit, the Council had not received a response from the bank.</p> <p>The Council has not yet reviewed their annual risk assessment for 2022/23. It is important that the Council review the controls in place over supplier fraud to help prevent an incident such as this recurring, as we previously recommended.</p>		
2	<p>The fraudulent payment referred to in issue 1 has been posted in the ledger as expenditure made to the original supplier and VAT has been accounted for relating to this payment. The amount due to the bona fide supplier has not yet been paid.</p>	<p><i>The Council can only reclaim VAT on the payment of the bona fide supplier invoice. Therefore, the council must now ensure that when the payment is made to the actual supplier that VAT is not reclaimed twice.</i></p>	
3	<p>The Council incurred significant expenditure in 2022/23 in the development of the Ship Street Play Area and the ‘Memorial Path’. We note the following:</p>	<p><i>The council must comply with the procurement requirements of the Financial Regulations and The Public Contract Regulations 2015.</i></p>	

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	<ul style="list-style-type: none"> • We have not seen evidence that either contract was listed on the Contracts Finder website as required by The Public Contract Regulations 2015. • The Amenities Committee (13/6/22) accepted the recommendation of the project manager and awarded a contract worth £140,237.98 to Horticon Ltd. The total budget for the Ship Street Play Area is £150,000. The total cost of the project manager (£21,905) and the Horticon contract is £162,143. £4240 of this total expenditure was incurred in 2021/22 which leaves expenditure of £157,903 which is £7,903 in excess of the budget allocated. Therefore, the amount approved is beyond the delegated powers in the terms of reference for the Amenities Committee which can only approve up to the level of the allocated budget. The Full Council minutes from July 2022 record the signing of the contract but there is no mention of the increased cost of the works and how this will be financed. • A contract was awarded for the ‘Memorial Path’ to Horticon Ltd at a total cost of £114,341.60 by the Amenities Committee. The delegated budget includes an amount of £90,000. Therefore, the amount approved is beyond the delegated powers 	<p><i>The Amenities Committee must comply with their delegated powers of expenditure.</i></p>	

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	in the terms of reference for the Amenities Committee which can only approve up to the level of the allocated budget. The July 2022 Full Council minutes record the signing of the contract but there is no mention of the increased cost of the works and how this will be financed.		
4	<p>A review of the most recent budget report identified that the following ledger codes appear with the description ‘not in use’:</p> <ul style="list-style-type: none"> • Centre 100 account code:1890 • Centre 100 account code:4430 • Centre 100 account code:4515 • Centre 135 account code:4515 	<i>The Rialtas ledger must be updated to ensure that the ledger codes have descriptions that relate to real budgets the council has approved.</i>	
2021/2022 Year end audit – review of final accounts			
	We are pleased to note no issues arising during the year end audit.		
2021/22 Interim audit recommendations			
1	The grounds maintenance contract has recently been subject to a tender process however, the contract has not been awarded as per the Financial Regulations as these require that tenders are	<i>The Council must ensure that all contracts are procured as per their Financial Regulations and The Public Contract Regulations 2015.</i>	The Financial Regulations have been updated to allow tenders to be received by email.

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	<p>provided in a sealed envelope and all opened at the same time on the prescribed date by the Clerk in the presence of at least one member of council. This did not occur as the tenders were requested and opened by email by the clerk.</p> <p>The Contract was advertised on the contract finder website, however, we note that the advert did not include details of the weighting of criteria as required by section 67 (9) of The Public Contract Regulations 2015.</p> <p>We do note, however, that although the Council has not strictly complied with both their own Financial Regulations and The Public Contract Regulations 2015, it has demonstrated some evidence of market testing by advertising for and receiving quotations for the contract.</p>		
2	<p>The Financial Regulations require that for contracts over £3000 that they will seek at least two estimates. This is not in line with the NALC model Financial Regulations which require three quotations for contracts in excess of £3000 and below the tender threshold.</p>	<p><i>The Council should consider adopting model Financial Regulations with regard to procurement.</i></p>	Implemented
3	<p>The scheme of delegation in place in April and May 2021 states the following:</p>	<p><i>In future if a scheme of delegation is in place the council must ensure that there is an adequate audit trail in place to evidence the authorisation of payments.</i></p>	The scheme of delegation has now been rescinded.

	ISSUE	RECOMMENDATION	FOLLOW UP
	<p>5.3. <i>The Clerk/RFO shall prepare the monthly schedule of accounts for payment which shall be circulated electronically to all Councillors for inspection and questions. After 3 working days, the schedule shall be approved as per clause 4.2 and approved by the Chairman by email.</i></p> <p>There was no evidence of email authorisation by the Chair although we are satisfied that the payments were approved retrospectively at a later meeting.</p>		
2020/21 year-end internal audit recommendations			
1	<p>The council, during 2019-20 did not correctly provide for the period for the exercise of public rights as required by the Accounts and Audit Regulations since the date the public notice announcement was published on the website was the first day of the inspection period. The notice of audit should be published on the website at least one day before the commencement of the inspection period</p> <p>In addition, the public notice announcement date was the same date that the inspection period commenced. The public notice announcement date must be at least one day before the commencement of the inspection period.</p>	<p><i>The council must comply with the requirements of the Accounts and Audit Regulations 2015 with respect to the notice for the exercise of public rights.</i></p> <p><i>The Council must comply with the publication requirements for the AGAR.</i></p>	Implemented for 2020/21

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2	Income and expenditure are overstated by £500 as an overpayment received in relation to burial fees (that has been repaid) is included as both income and expenditure.	<i>The annual return should be amended as follows: Total other receipts £45,796 All other payments £150,483</i>	Implemented
3	The risk assessment does not address the risks of supplier (procurement) fraud.	<i>The risk assessment should be updated to include supplier (procurement) fraud including the adequacy of supplier onboarding controls.</i>	The Council have added a section to the risk assessment called Procurement but this does not address the risks of supplier fraud.
2020/21 interim internal audit recommendations			
1	During 2020/21 the Council purchased a Christmas tree at a cost of £2145 (excl VAT) and whilst we have seen evidence that the payment was approved retrospectively by Council, we have not seen evidence that the awarding of the contract in the first place was approved by the Events Committee as required by the Financial Regulations (FRs). We were informed that the contract was awarded by the Christmas Festival Working Group (CFWG), the order was placed by a member of the working group, and there is no terms of reference in place for the CFWG.	<i>The Council must ensure it complies with the requirements of the council Financial Regulations and the LGA 1972 when incurring expenditure. All council working groups that are not sub-committees should be provided with a formal terms of reference that makes it clear they cannot make any decisions or commit the council to a liability. The terms of reference should include a remit to provide a report with recommendations for approval to a council committee or sub-committee.</i>	No formal terms of reference in place for the CFWG.

	ISSUE	RECOMMENDATION	FOLLOW UP
	<p>Section 101(1)(a) Local Government Act (LGA) 1972 states a local authority may arrange for the discharge of their functions by a committee, a sub-committee or an officer of the authority, or by another local authority. Therefore, a working group that is not a sub-committee cannot make any decisions, functions, or commit the council to any liability, and can therefore only make recommendations to their parent committee.</p> <p>The council FRs require the following:</p> <ul style="list-style-type: none"> - Section 4 requires for expenditure on revenue items over £500 the authority to spend is determined by a duly delegated committee of the council and should be evidenced by a Minute. - Section 10 of the council FRs requires that an official order or letter shall be issued for all work, goods and services unless a formal contract is to be prepared or an official order would be appropriate. 		
2	<p>Due to the move to virtual meetings and the closure of the office (due to COVID-19) two signature authorisations has not been obtained for online payments. We are satisfied that all payments have been approved by Council after they have been made.</p>	<p><i>The Council should introduce alternative controls when signatures can not be obtained such as emailed approvals prior to payment.</i></p>	<p>The scheme of delegation has now been rescinded.</p>

