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Winsford Town Council

Internal Audit 2020/21

JDH BUSINESS SERVICES LTD

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

INTERNAL AUDIT REPORT
WINSFORD TOWN COUNCIL

The internal audit of Winsford 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 provided evidence to support the annual internal audit conclusion on the Annual Return for local councils.

Conclusion
On the basis of internal audit work carried out, which was limited to the tests above, in our view the council's system of internal controls is in place, adequate for the purpose intended and effective, subject to the recommendations reported in the action plan. 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
1	RECURRING ISSUE Creditors contained the following amounts that actually related to the 2021/22 financial year. Therefore, these items did not relate to goods and services received in 2020/21 and should not have been included in expenditure and creditors for 2020/21: CWAC Rates bill £3343 CHALC £1470.04	*Creditors at the year-end should include invoices received but yet to be paid in respect of goods and services received in relation to the financial year.*	
2	Included in liabilities is £300 due to Wharton Library for a grant application approved in 2018/19 by the council, but not claimed by the applicant.	*The council must determine whether or not this grant is still to be paid. If not, the amount needs to be removed from council liabilities in the Edge ledger.*	
3	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:	*The risk assessment should be updated to include supplier fraud including the adequacy of supplier onboarding controls.*	

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	ISSUE	RECOMMENDATION	FOLLOW UP
	- 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
4	The year-end creditor analysis contains an item dated 2013 (Viking First £93.92). The clerk has noted this could be an out of date unpresented cheque.	*The creditor ledger should be reviewed and out of date transactions and those items that are no longer creditors, cleared from the EDGE ledger.*	
2020/21 interim internal audit			
1	The council is party to a number of contracts with varying lengths and conditions.	*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.*	
2	We have previously recommended that *'Councillors should periodically check payroll output to source documentation to ensure employee pay agrees to the authorised pay scales'.* We confirmed that a council review and approval of payroll occurred in the last quarter of 2019/20. However, access to the Oracle payroll system has been challenging due to pandemic restrictions meaning officers having to work from home. Therefore, we were informed that detailed	*When pandemic restrictions are lifted and access to Oracle payroll information is possible, members should select a sample payroll period and review the payroll output to source documentation.*	

	ISSUE	RECOMMENDATION	FOLLOW UP
	analysis of monthly payroll from Oracle has not been available for review and approval by councillors on a timely basis.		
2019/20 year end internal audit			
1	There is a new internal control objective (Objective L) in the AGAR internal audit certificate that requires internal audit to conclude on whether the Public Rights Notice during the previous Summer (2018/19 financial year) was compliant with the Regulations. The public notice was displayed on the first day of the public notice period, June 28th 2019. However, the notice must be displayed to the public at least one day earlier than the commencement date of the notice period. Therefore, we have concluded the council did not comply with the requirements for the Public Rights Notice for 2018/19.	*The council should ensure compliance with the legal requirements for the Annual Notice of Public Rights.*	Implemented
2	The draft income and expenditure accounts, balance sheet, and AGAR accounts presented for internal audit were materially incorrect as creditors totaling £24375 to Cheshire West and Chester Council actually	*Creditors at the year end should include invoices received but yet to be paid in respect of goods and services received in relation to the financial year.*	See 2020/21 issues

	ISSUE	RECOMMENDATION	FOLLOW UP
	related to the 2020/21 financial year. Therefore, these items did not relate to goods and services received in 2019/20 and should not have been included in expenditure and creditors for 2019/20.	*The income and expenditure accounts and balance sheet were amended by the clerk and the AGAR accounts corrected.*	
2019/20 interim internal audit			
1	A follow up of 2018/19 issues raised following review of Oracle payroll output identified there were errors in payroll due to incorrect input of hours by staff, for example: - 135.5 hours was input instead of 9 hours resulting in £999.35 overpayment to an employee. - nil hours were processed for one month for an employee so no payment was initially made to the employee. The underpayment was rectified through an internet banking payment. The above errors had been identified and rectified.	*An internal control should be introduced to check the accuracy of payroll hours input for employees before submission to the payroll agent via Oracle.*	To be followed up at next onsite internal audit
2	Testing of a sample of gross salaries from payroll output documentation was carried	*The clerk is currently investigating this issue.*	Payroll was reviewed by a councillor in 2019/20 last quarter

	ISSUE	RECOMMENDATION	FOLLOW UP
	out. All of the sample agreed with the exception of one employee which we would not agree the approved gross salary to payroll output for February and March 2020.	*Councillors should periodically check payroll output to source documentation to ensure employee pay agrees to the authorised pay scales.*	and agreed to underlying documentation. See 2020/21 payroll issue
3	A sample of contracts of employment were tested to agree the scale point (or scale point range) per the contract to actual gross salary paid. The testing identified that contracts of employment have not all been updated to reflect the upgraded pay scales of employees. We also noted that the minutes do not always record enough information regarding the pay scales and/or pay increases that have been authorised by council. For instance, the minutes of January 8th 2020 just authorise an 'upgrade'.	*All pay scales should agree to the scales (or scale ranges) recorded in the signed contracts of employment.* *The minutes should clearly state the pay scale increases and/or pay awards that have been authorised in the meeting.*	To be followed up at next onsite internal audit
4	Petty Cash VAT that is reclaimable is not included in the VAT column to ensure the amount is included in the VAT reclaim. A donation to the Christmas festival was made through petty cash.	*The council should ensure where VAT is reclaimable that the VAT column is completed and included in the VAT reclaim* *All donations should be approved by Council and paid through the bank account*	

	ISSUE	RECOMMENDATION	FOLLOW UP
5	The VAT number of suppliers for material contracts are not verified begore entering into the contract.	*A VAT fraud prevention check should involve verification of the VAT number and address of a new major supplier before entering into a material contract.*	
2018/19 year end internal audit			
1	RECURRING ISSUE The council has been unable to secure timely analysis of payroll information from the payroll agent. For instance, there were no monthly payroll reports including analysis of payroll by employee and payroll taxes. Therefore, there is no information for members to periodically check during the financial year to ensure they are satisfied the correct pay as per contracts of employment and approved pay scales has been paid to employees.	*The payroll agent should be requested to provide monthly detailed analysis of payroll so the clerk and members can review the completeness and accuracy of payroll.*	Implemented in 2019/20
2	The payroll agency charges are included in staff costs in the ledger and the AGAR annual return.	*Payroll agency charges are not staff costs and should be excluded from the staff costs disclosure on the AGAR annual return.*	Implemented
3	The quarterly analysis of petty cash expenditure is not signed by the Chair as evidence the expenditure has been reviewed and approved.	*The Chair should review and approve the petty cash expenditure quarterly. The review should be evidence by a signature.*	To be followed up in 2020/21 year end internal audit

	ISSUE	RECOMMENDATION	FOLLOW UP
4	There was no year end statement or confirmation to support the £27000 funds deposited with CWAC.	*A year end confirmation of funds should be provided by CWAC for each financial year*	Implemented
5	Grants have been included in creditors in the ledger and year end accounts.	*Grants are not supplies of goods and services and should not be accrued in creditors. They should be accounted for in the financial year they are paid.*	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 or 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.

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	ISSUE	RECOMMENDATION	FOLLOW UP
2018/19 interim audit			
1	The £4000 payment to the Winsford Youth Forum on 22/06/2018 was not supported by a signed confirmation of receipt	*Significant donations/grants should be supported by a signed conformation of receipt*	Recommendation Outstanding
2017/18 year end audit			
1	Income and expenditure had been overstated by £19880.34 as an internal bank transfer from the capital account to current account had been classified as external income and expenditure	*Bank transfer are internal transactions and should not be included in the income and expenditure of the council*	Implemented
2	Year end bank statements were not available for all bank accounts to substantiate the year end bank reconciliation There are a significant number of bank accounts and there is scope for council to rationalise the number of bank accounts maintained with minor balances.	*Bank statements covering the year end should be secured in time for the internal (and external) audits* *The council should consider rationalizing the number of bank accounts maintained*	See 2018/19 issues
3	VRBC carry out payroll services as the payroll agent. However, there are no monthly payroll reports provided to the town council including analysis of payroll by employee and payroll taxes. Therefore, there is no information for members to periodically check during the financial year to ensure they are satisfied the correct pay as per contracts of employment and approved pay scales has been paid to employees	*The payroll agent should be requested to provide monthly analysis of payroll so periodic member checks can be carried out on staff costs*	Implemented in 2019/20

	ISSUE	RECOMMENDATION	FOLLOW UP
4	The year end creditors figure included £34.64 described as petty cash VAT. However, one would not normally expect a creditor for petty cash VAT.	*The council should review this balance and identify exactly what the amount of £34.64 represents*	Recommendation outstanding
2017/18 interim audit			
1	The Council's financial regulations state the following: *'5 h. Payment for items can be made by internet banking transfer providing evidence is retained showing which members approved the payment(s)'* In practice the majority of payments are approved at the Council meeting and then are made online by the RFO. Some payments however, that are made before the Council meeting and approved retrospectively have not been approved by any members prior to payment. Controls over online payments should not be lower than the controls in place over cheque payments (which require the signature of two town councillors). A review of the approval lists found that these have not been signed during 2017/18, therefore the Council have not complied	*In order to ensure that the controls over online bank payments are equitable with controls over cheque payments, urgent payments should be approved by two councilors prior to payment. This could be evidenced by a proforma attached to invoices or by signing and dating the actual invoices when approved.* *When Council approve the payment schedules these should be signed by two town councilors prior to online payments being actioned.* *The Council should review the payment schedules and sign them retrospectively to evidence that they are the schedules that were approved for payment in the Council minutes.*	Implemented

	ISSUE	**RECOMMENDATION**	**FOLLOW UP**
	with their financial regulations and retained evidence showing which members approved payments. We do note that the minutes record approval of the payments schedules.		
2	There are a number of council working groups. It was not clear whether all these groups are sub-committees of the council and if any are not they cannot make any decisions.	*All working groups and project groups that are not sub-committees should be provided with terms of reference that makes it clear they cannot make any decisions. The terms of reference can include a remit to provide a report with recommendations for approval to a council committee or sub-committee.* *The council should also make all current and future working groups that need to be able to make decisions, actual sub-committees of the council with decision making powers devolved as per a formal terms of reference.* *All sub-committees should be provided with a clear terms of reference.*	Implemented
3	Data Protection Law will change significantly on May 25th 2018 due to the 2016 EU Directive General Data Protection Regulation (GDPR) taking effect.	*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*	Implemented

	ISSUE	**RECOMMENDATION**	**FOLLOW UP**
	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.	*internal controls should be updated accordingly*	
4	A review of the minutes found the following had not been initialled on each page: - Meeting of Winsford Town Council 17/7/17 - Meeting of Winsford Town Council 18/9/17 - Meeting of Winsford Town Council 16/10/17 - Meeting of Winsford Town Council 20/11/17	*The minutes should be initialed retrospectively by the Chair.*	Implemented