



Nantwich Town Council

Internal Audit 2021/22

First Interim Internal Audit

JDH BUSINESS SERVICES LTD

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

INTERNAL AUDIT REPORT NANTWICH TOWN COUNCIL

The internal audit of Nantwich Town Council is carried out by undertaking the following tests as specified on 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 audits provide evidence to support the annual internal audit conclusion on 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, subject to the recommendations 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	Financial regulations for payment cards require that card limits will be set by the Finance Committee and that employees will be designated for the use of cards.	<i>The Finance Committee should set card limits for payment cards and clearly designate which employee(s) can use payment cards.</i>	Clerks response: To be addressed by Finance Committee when reviewing the Financial Regulations.
2	Financial regulations section 4 covers the authority to spend and determines that the Clerk, in conjunction with Chairman of Council or Chairman of the appropriate committee, has the authority to spend for any items below £2,500. However, section 4. requires that the authority is to be evidenced by an authorisation slip duly signed by the Clerk, and by the appropriate Chairman. This control is not currently in place.	<i>The council should ensure compliance with the authority to spend requirements of the Financial Regulations for items up to £2500.</i>	Clerks response: Financial regulations to be reviewed and revised to meet town council day operational activities (as above)
3	Expenditure testing The current review control for OneCard is that a councillor signs total OneCard monthly spend. There is no evidence of a review by council of the individual OneCard payments.	<i>All OneCard payments should be reviewed by council and the review should be evidence by a councillor signature.</i>	Clerks response: Process has already been amended. Two signatories now review monthly one card statement signing off individual payments.
2020/21 year end internal audit			

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1	The risk assessment was not reviewed, updated and approved by council during 2020/21. The current risk assessment does not address the risks of supplier (procurement) fraud.	<p><i>The risk assessment should be reviewed, updated and approved by full council each financial year.</i></p> <p><i>The risk assessment should be updated to include supplier (procurement) fraud including the adequacy of supplier onboarding controls.</i></p>	<i>Implemented in April 2021</i>
<i>2020/21 third interim internal audit</i>			
1	A review of employee contracts carried out by the clerk identified that two staff had no contracts, contracts that were in place were not standardised across the council, and there was no employee handbook in place. A HR company were procured to address the contract issues identified by the clerk and to produce an employee handbook.	<i>The council should ensure that in future all new starters receive the standardised council employment contract and a copy of the staff handbook.</i>	<i>Implemented</i>
2	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>	<i>Implemented</i>

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3	The VAT number of suppliers for material contracts are not verified before entering into the contract.	<i>A VAT fraud prevention check should involve verification of the VAT number and address details of a new major supplier before entering into a material contract.</i>	<i>Noted</i>
<i>2020/21 second interim internal audit</i>			
1	There is no system in place to ensure that market cash receipts are agreed to underlying activity as part of standard reconciliation procedures. In the absence of this control, there is no assurance that all market cash receipts due have actually been collected, banked and recorded in the council accounting system.	<i>Controls need to be introduced into the markets cash income system that reconcile predicted cash receipts to market receipts issued, cash collected and bankings.</i>	<i>Implemented</i>
2	To date there has been no fair pricing method applied to charging for markets and allotments such as pitch/plot area, with the result that over time charges to individuals per m2 have varied significantly. In addition, council were not approving actual individual market rent increases annually. The clerk has acted on this historic issue and carried out a detailed incomes and pricing review and developed a new policy that standardises charges per m2 for allotments and markets.	<i>After adoption of the new pricing policy the council should annually review and approve the new price lists for markets, allotments and all other chargeable services.</i>	<i>Implemented</i>

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3	The invoice receipts provided to market traders do not separately identify the VAT they can reclaim on utilities and actual pitch rent and there are different levels of VAT applicable to each of these supplies.	<i>The council should issue receipt invoices to market traders that fully analyse net supply types (ie utilities and pitch rent) and associated VAT charges.</i>	<i>Implemented</i>
2020/21 first interim internal audit			
1	The council will soon be reviewing the budget and precept for 2021/22 and the decision making will be challenging due to the ongoing pandemic and the associated restrictions to the services that the council is able to keep open for the public.	<i>It is important that council are able to review a series of budget options to ensure comprehensive management information is available for the precept decision. The budget options should incorporate sensitivity analysis, for instance, for a variable number of months the services are projected to be open for hire/events. These budget options should also build in the required reserve levels of the council as noted below in issue 2.)</i>	<i>Implemented through budget workshops</i>
2	The council has adopted a reserves policy that requires general reserves of between 3 and 6 months of the precept level. This policy would require a minimum general reserve of £168k at the year end. However, current projections for 2020/21 indicate the year end general reserve will be materially below this level due to the impact of the pandemic.	<i>The council should establish a medium term financial plan to replenish general reserves to adequate levels.</i>	<i>Implemented</i>

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3	<p>The planned completion date of the extension to the civic hall is by 31st March 2021. The current 2020/21 budget assumes no VAT will be recoverable on the scheme as the partial exemption threshold of £7500 will be breached by a substantial amount. However, the 2020/21 budget does not include an entry for irrecoverable input VAT relating to all other VAT exempt council services. This is important as no input VAT relating to exempt council services will be able to be reclaimed in 2020/21 if the £7500 partial exemption threshold is breached.</p>	<p><i>The 2020/21 budget should include a line for irrecoverable input VAT relating to exempt supplies in addition to the irrecoverable VAT on the civic hall extension.</i></p>	<p><i>Civic hall extension has not been progressed as at date of follow up.</i></p>
4	<p>Input VAT had been incorrectly applied to the annual insurance schedule in the RBS ledger system and, as a result, the VAT was incorrectly reclaimed. There is no VAT on annual insurance policies. The previous year's ledger was checked onsite by officers to confirm the error was one off.</p>	<p><i>The overclaim of VAT should be corrected in the next VAT return.</i></p> <p><i>Care should be taken when posting invoices into the RBS ledger system to ensure only those supplies where VAT has validly been charged are processed with input VAT in the ledger.</i></p>	<p><i>Implemented – this was an isolated error</i></p>
5	<p>A review of cybersecurity measures currently in place at the council identified the following:</p> <ul style="list-style-type: none"> - No cybersecurity policy has been adopted 	<p><i>A cybersecurity policy should be adopted and implemented by the council</i></p>	<p><i>Implemented - Training and new policies developed by PRISM cyber essentials and accreditation passed.</i></p>

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	- Two factor authentication has only been confirmed for the council mobile phone used by the clerk	<i>The council should ensure two factor authentication is applied to all council mobile devices</i>	
2019/20 year end internal audit			
1	<p>Reserves</p> <p>The balance sheet and accounts initially submitted for internal audit showed the following reserves position:</p> <p>General Funds -£116,220 Earmarked Reserves +£81,000 Capital Receipts Reserve +£868,888</p> <p>Therefore, the council was reporting negative general reserves, implying there was a serious issue with regard to the current and ongoing financial position of the council. Further investigation identified that the situation has arisen because over a number of years the council had been financing capital expenditure from current revenue or revenue reserves, whilst maintaining the capital receipts reserve at consistent levels. The capital receipts reserves can be applied for capital expenditure.</p>	<p><i>The budget setting process must be improved with full account taken of all available reserves for resourcing capital expenditure and reported against regularly.</i></p> <p><i>The scrutiny by council of year end accounts should be more rigorous to enable identification of issues with reserve levels at a much earlier stage.</i></p>	<i>Implemented</i>

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<p>Therefore, the absence of appropriate budgeting and resourcing for capital expenditure over a long term period had brought to council to a position of negative general reserves.</p> <p>In order to resolve this situation, the clerk has secured specialist advice and has carried out the following:</p> <ul style="list-style-type: none">- Identification of all the significant capital expenditure from the years 2013/14 to 2019/20 which totalled £283,000- Review of earmarked reserves to identify actual requirements for 2020/21 onwards which identified £41,000 of earmarked reserves no longer required- A report to council securing authorisation from council to retrospectively use the capital receipts reserve to apply against all the identified capital expenditure, and to confirm required earmarked reserves- Updating the RBS financial ledger and accounts to evidence the amended reserves position		
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	<p>The impact of the above exercise was to increase General Funds by £324,000 to +£207,781 and to reduce the Capital Receipts Reserve to +£585,888.</p> <p>As General Funds are now positive and equate to 33% of the precept level the council general fund is within sector guidance of 25% to 100% of the precept.</p>		
2	<p>VAT</p> <p>As recommended in our interim audit the council has secured the input of a VAT specialist to review VAT incomes/output categories at the council and then carry out partial exemption calculations for all outstanding years:</p> <ul style="list-style-type: none"> - Partial Exemption - The VAT calculations identified that in 2019/20 the £7500 partial exemption threshold has been breached and £9159 of irrecoverable VAT is due to HMRC. However, when the RBS remote support adjusted the ledger to reflect this, the entire quarter four VAT analysis was adjusted by journal to a £9159 net VAT creditor. We notified the clerk that 	<p><i>All recommendation within the VAT specialist report need to be implemented as soon as is practicable.</i></p> <p><i>A partial exemption calculation must be carried out annually to evidence whether the £7500 partial exemption threshold has been breached.</i></p> <p><i>We need to see evidence that the VAT adjustment reflecting the liability to HMRC of £9159 has been correctly journalled in the ledger and therefore the Balance Sheet debtor/creditor position is accurate.</i></p>	<p><i>Implemented</i></p> <p><i>Implemented</i></p>

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	<p>this was incorrect and that all the net VAT position of quarter four inputs and outputs had actually been excluded from the Balance Sheet, which meant a net reclaim had been omitted. We have yet to see an amended final RBS ledger that correctly reflects the VAT position at the year end.</p> <ul style="list-style-type: none"> - Other VAT issues – the VAT report identifies a number of areas where VAT may well have been accounted for incorrectly including not charging VAT on admissions to performances, potential VAT to be charged on market gazebos and pitches and commissions for sales. Therefore, it is likely the council will be liable for further VAT calculated over the statutory four year period. 	<p><i>Each category of potential VAT liability identified by the VAT report needs to be reviewed with reference to HMRC VAT guidance and analysed over the four year statutory period to calculate any further VAT liabilities. If necessary written clarification should be sought from HMRC. When completed, the following quarter VAT return will need a journal entry for the total of any further VAT liability identified.</i></p>	
3	<p>Fixed assets</p> <ul style="list-style-type: none"> - The asset register total of £482,034 did not agree to the AGAR fixed asset disclosure of £442,034 - Public Sector deposit funds with instant access have been moved to 	<p><i>The council need to review the 2019/20 fixed asset register and ensure that all capital items that are additions have been included in the asset register at cost. A retrospective review of previous years should be carried out to identify all fixed assets purchased but not previously included in the asset register.</i></p>	<p><i>Implemented</i></p>

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	<p>cash and bank within the balance sheet from fixed assets after the council sought guidance on this issue after our interim report recommendation. The External auditor may require 2018/19 to be restated (and 2017/18 brought forward balances to ensure a consistent comparison between financial years</p> <ul style="list-style-type: none"> - A review of the exercise to identify previous capital expenditure detailed in 1.) above and comparison with the asset register identified that a significant number of material plant, equipment, enhancement expenditure and other asset additions have never been recorded in the asset register - We identified a Tallescope asset from our in expenditure testing that had been added with no value to the asset register 	<p><i>The council need to review capital expenditure annually and update the asset register for capital items purchased which are owned by the council.</i></p>	
4	<p>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.</p>	<p><i>The council should ensure evidence is retained to demonstrate compliance with the legal requirements for the Annual Notice of Public Rights.</i></p>	<p><i>Implemented</i></p>

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	<p>The date the public notice was displayed was not recorded on the public notice and no other evidence was available to show which date the public notice was displayed eg a dated photograph of when the notice was included on the noticeboard(s) and website. Therefore, we are unable to conclude whether the council complied with the requirements for the Public Rights Notice for 2018/19.</p>		
5	<p>Review of feedback regarding the issues raised previously indicate that progress had been made in improving internal financial controls. However, in order to ensure these improvements are embedded we will follow up all previous issues in the first interim internal audit of 2020/21.</p>		
<p><i>Interim internal audit three</i></p>			
1	<p>The finance committee minutes state approval for the monthly payments schedule and do not itemise each payment within the minutes. The separate schedule is authorised by the Chair. The total amount of payments approved is not stated within the minutes.</p>	<p><i>When payments are approved within the minutes via a separate schedule, the total value of the schedule should be stated within the minutes.</i></p>	<p><i>Implemented</i></p>
2	<p>Testing of box office income and discussion with staff found that the Council have not been charging VAT on tickets sold for events that they have organised. This is currently being reviewed</p>	<p><i>The Council must ensure that they are charging VAT correctly and implement any actions recommended by the VAT specialist.</i></p>	<p><i>Implemented – a disclosure for the additional VAT due to HMRC has been made by the council.</i></p>

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	by a VAT specialist in order to calculate any VAT liability.		
3	<p>As part of our income testing we attempted to reconcile the income recorded in the ledger for 'Santa's Dizzy Day' to the box office records.</p> <p>We found the following: Ledger income (combination of two codes) = £6597.50 Box office income = £9623.00</p>	<p><i>The Council should reconcile the box office system to the ledger for each event and should provide explanations for any differences.</i></p> <p><i>This recommendation applies to all income systems of the Council.</i></p>	See 2020/21 second interim report – income issues
Interim Audit Two			
1	<p>Income – Room hire</p> <p>Testing of Civic Hall room hire income found that for the following booking, a bookings form could not be located :</p> <p>11/7/19 5pm-11pm invoice 3439</p> <p>Testing of Brookfield room hire income found that booking forms were not used for any bookings.</p>	<p><i>Booking forms should be in place for all bookings.</i></p>	Implemented
2	<p>Income – Room hire</p> <p>Testing of Brookfield room hire income found that while invoices were marked</p>	<p><i>To improve the audit trail, the date an invoice is paid should be recorded on the invoice.</i></p>	Implemented

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	paid, the date paid was not recorded on the invoice.		
3	<p>Income – Room hire</p> <p>The schedule of fees and charges approved by Council differs from the information on the website which states that Christenings are free and states an hourly fee for hire of the Peggy Killick Suite.</p>	<p><i>The website should state the approved fees and charges. Council should formally approve that christenings are free of charge.</i></p>	Implemented
4	<p>Income – Bar income</p> <p>A review of stocktaking records for the year found that a stocktake was not carried out on 31/3/19 but on 23/3/19.</p>	<p><i>The Council should ensure that a stocktake is carried out on 31/3/20 (or as near as possible) in order to ensure that the balance stated in the accounts is correct.</i></p>	Implemented
First Interim Internal Audit			
1	<p>The council makes business, non-business and VAT exempt supplies. The council currently reclaims input VAT on all supplies that relate to business, non-business and VAT exempt activity. However, according to VAT notice 749, the council can only claim input VAT on VAT exempt activity if the amount of VAT relating to exempt supplies is below the £7500 annual de minimis level. VAT notice 749 indicates that if this £7500 threshold is exceeded, then none of the VAT related to VAT exempt activity can</p>	<p><i>The council need to urgently secure the services of a VAT consultant that has experience in local authority VAT issues to calculate whether there is any potential exposure to VAT liabilities, including any mitigation actions that can be taken, if VAT on exempt activities is calculated as exceeding the £7500 partial exemption threshold.</i></p> <p><i>The partial exemption calculations should also be carried out for previous periods in</i></p>	Implemented

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	<p>be reclaimed for the financial year. A council should annually complete a calculation called a partial exemption calculation where there is clear potential to exceed the £7500 limit for VAT inputs relating to exempt activity.</p> <p>The council currently has two material types of VAT exempt activity which are the hall/room hire for the Civic Hall, and the hall/room hire for the Brookfield building. In addition, the stall hire for the farmers market is VAT exempt. We reviewed total VAT covering all activities reclaimed in the financial year and it is clear the amount is significantly in excess of £7500 each year so a partial exemption calculation should have been carried out annually.</p> <p>No partial exemption calculation has been carried out to evidence whether the total VAT across all council activity and expenditure that is related to exempt activities for the year is in excess of £7500. Therefore, the council cannot currently evidence whether it is exposed to the risk of a significant VAT liability.</p>	<p><i>accordance with VAT time limit requirements.</i></p> <p><i>The council should secure an understanding of VAT notice 749 and the partial exemption rules</i></p>	
2	<p>Significant expenditure of up to £200,000 is planned for the civic hall. A major proportion of the activity at the hall would</p>	<p><i>Prior to a decision to undertake any significant works to council buildings the council should secure the services of a</i></p>	<p>Implemented</p>

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	<p>relate to hall/room hire which is an exempt VAT supply. As noted in issue 1.) partial exemption rules (as set out in VAT notice 749) only permit the council to reclaim up to £7500 input VAT relating to VAT exempt activity in any one financial year. If input VAT on exempt supplies exceeds the £7500 threshold no input VAT attributable to exempt activity can usually be reclaimed.</p>	<p><i>VAT adviser to provide guidance on the VAT impact of the various options available including the Option to Tax currently exempt activity.</i></p>	
3	<p>The Financial Regulations (section 11.2) require quotations to be secured for the following contract thresholds:</p> <ul style="list-style-type: none"> - At least 2 quotations for expenditure between £201 and £3000 - At least 3 quotations for expenditure between £3001 and £10000, and up to £20000 - Formal tendering for expenditure above £20001 <p>Sample testing of expenditure for the first six months of the financial year and discussion with staff identified quotations were not available for the majority of our sample items and that as a matter of course</p>	<p><i>The council must ensure it complies with the adopted Financial Regulations.</i></p>	Implemented

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	<p>the quotations and tendering requirements as specified in the Financial Regulations are not complied with. Therefore, the council has been operating in breach of its Financial Regulations and this will impact on how the council answers the governance statements in the Annual Governance Statements in the AGAR annual return.</p>		
4	<p>The Financial Regulations (FRs) are not fit for current purpose, for instance:</p> <ul style="list-style-type: none"> - there are no regulations governing member authorisation requirements for online payments, cheques and other payment types - risk assessment requirements are not included - there are limited regulations on payroll and no authorisation requirements for payroll - there are no regulations covering internet banking controls including security - there are no regulations governing the asset register including verification of existence of assets and health and safety inspections - The loans and investments section does not contain any regulations governing borrowing approvals 	<p><i>NALC model Financial Regulations which have been aligned to council scope and activity, and model Standing Orders, should be adopted at the next full council meeting.</i></p>	Implemented

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	<p>We understand a working group is currently reviewing and aligning NALC model FRs to the council scope and activity to be presented to full council for approval.</p> <p>The Standing Orders have not been reviewed and updated for a number of financial years.</p>		
5	<p>Currently, the CCLA deposits are included in Fixed Assets as long term investments rather than cash and short term investments. However, review of the statements identified that significant transfers to the current account had been made from one of the CCLA accounts to fund capital expenditure so it does not appear the funds are tied up for an extended period. The council CCLA accounts comprise:</p> <ul style="list-style-type: none"> - a current value of £39171 invested in the Local Authority property fund. The redemption terms indicate units can be redeemed each month on the fixed dealing date, although the fund can impose a notice period of six months, or if the CCLA considers there is 	<p><i>The council need to carry out a review to identify whether the treatment of the CCLA and other deposits in the year end accounts and AGAR annual return is correct by reference to the Practitioners Guide definition for Short Term Investments. This review should involve discussion with the external auditor before the 2019/20 audit process commences as the potential amendments are material.</i></p>	Implemented

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	<p>insufficient liquidity to meet redemption requests it can delay redemptions for any period it so determines.</p> <ul style="list-style-type: none"> - A current balance of £660000 invested in the Public Sector Deposit Fund. Access to this account is by redemption form and the required funds are released on the same day as the request, if this is received before 11.30am. <p>The Practitioners guide defines short term investments as follows:</p> <p>‘Short-term investments, which mainly include deposit and savings accounts typically provided by banks, are those that display the following characteristics: • are denominated in pounds Sterling; • have a maturity of 12 months or less; • the whole of the original sum invested can, from the time that the investment is made, be accessed for use by the authority without any reduction; and • the authority has assessed the counterparty and is satisfied that the original sum invested is not subject to unreasonable risk ‘</p>		
6	<p>The general expenditure is provided to members for approval as a spreadsheet rather than as a direct print of the RBS</p>	<p><i>The RBS ledger cash book payments should be reported to council for approval so members can be assured they are</i></p>	<p>Implemented</p>

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	ledger cash book. As a spreadsheet is being reported rather than the prime book of record (the cash book ledger) there is a risk transactions will be omitted or incorrectly recorded when compiling the spreadsheet.	<i>approving the transactions that have been paid, input into the ledger and reconciled in the bank reconciliation.</i>	
7	The fees and charges levied by the council, for instance for room/hall hire, are not agreed by the council annually, as required by the Financial Regulations.	<i>The council should agree all fees and charges in advance of the next financial year and each year thereafter.</i>	Implemented
8	There is no programme of regular checks of supplier standing data and supplier invoice payments by council. In particular, there are no checks by councillors of online bank account payment details with the supplier invoice bank details.	<i>A programme of regular checks of supplier payments and standing data should be carried out by councillors and this check should be evidenced by a dated signature.</i>	Implemented
9	There are large number of expenditure ledger codes including a significant number with no historical activity and others where there is only one minor transaction per annum, eg the data protection registration of £35 has its own budget code and there is one transaction per year.	<i>The council should consider rationalising the number of expenditure codes in the RBS ledger system.</i>	Implemented
10	Prior to September no payment schedules were being presented to council for approval. The new clerk has identified this issue and all payments to date in the	<i>In future, payment schedules including online, Direct Debit, Standing Order, cheque, petty cash and cards should be put to council monthly for approval.</i>	Implemented

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	2019/20 financial year were put to the last council meeting for approval.		
11	<p>Income Review:</p> <ul style="list-style-type: none"> - there are £995 of long dated outstanding balances on the aged sales ledger - The June month end sales ledger aged balance was £5653, however, the ledger debtor balance at the same date was £2575, a difference of £3078. This had been identified by staff and was due to transactions recorded in July in nominal ledger but June is sales ledger. - The input header sheet for room hires and other incomes such as bar /equipment hire has 'input' noted where VAT is to be accounted for but this is incorrectly recorded against non-VATable or VAT exempt items. We identified no errors because the staff member involved in input had a good understanding as to what income types should be subject to VAT, however, these input forms could result in errors if another member of staff had to undertake input into 	<p><i>The aged outstanding debtor balances should be followed up with customers to ensure resolved by the year end</i></p> <p><i>Care should be taken to ensure correct dates are used when inputting sales into the RBS ledger / sales ledger.</i></p> <p><i>The income input header sheets should be reviewed to ensure they are clear as to which income types should be subject to VAT</i></p>	<p><i>See 2020/21 second interim report – income issues</i></p>

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	RBS during holiday or sickness absences		
12	There was no confirmation of receipt for the £7000 donation to Nantwich museum trust	<i>A confirmation of receipt should be secured for all significant grants and donations</i>	Implemented – grant award confirmed by email