



Nantwich Town Council

Internal Audit 2021/22

Third 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 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 audits provide evidence to support the annual internal audit conclusion in 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	The nominal ledger journal dated 15/10/2021 (H M Revenue & Customs) for £2651.40 relates to payroll taxes that were initially incorrectly posted to the Rialtas ledger from the payroll spreadsheet used to allocate costs to cost centres. The error arose because the taxes due per the payroll allocation spreadsheet was not agreed to the total taxes due to the notification from the payroll agent.	<i>Internal controls over processing of HMRC liabilities should be improved by including a check total in the payroll allocation spreadsheet for payroll taxes that must be agreed with the HMRC liabilities notified by the payroll agent before updating the Rialtas ledger and processing payments.</i>	Clerks response: This was a human error on one occasion. The spreadsheet will be checked in future that it corresponds with the notification from the payroll provider before being input on the finance software Rialtas.
2021/22 second interim internal audit			
1	The Council receive a £150 receipt per quarter in respect of a licence fee from Nantwich Christadelphian Church. This fee was agreed in 2003 and no invoices or receipts are issued in respect of this receipt.	<i>The Council should periodically review the agreement and licence fee to ensure it remains appropriate.</i> <i>The Council should issue invoices in respect of this fee.</i>	Clerks response: The Clerk has made contact with the Church in order to review the license.
2021/22 first interim internal audit			
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	<i>The council should ensure compliance with the authority to spend requirements of the</i>	Clerks response: Financial regulations to be reviewed and revised to meet town

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	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>Financial Regulations for items up to £2500.</i>	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.
<i>2020/21 year end internal audit</i>			
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.	<i>The risk assessment should be reviewed, updated and approved by full council each financial year.</i> <i>The risk assessment should be updated to include supplier (procurement) fraud including the adequacy of supplier onboarding controls.</i>	<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	<i>The council should ensure that in future all new starters receive the standardised</i>	<i>Implemented</i>

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	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>council employment contract and a copy of the staff handbook.</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>
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 is 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>

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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>
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>

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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>
3	The planned completion date of the extension to the civic hall is by 31 st 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.	<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>	<i>Civic hall extension has not been progressed as at date of follow up.</i>
4	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	<i>The overclaim of VAT should be corrected in the next VAT return.</i> <i>Care should be taken when posting invoices into the RBS ledger system to ensure only those supplies where VAT has</i>	<i>Implemented – this was an isolated error</i>

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	by officers to confirm the error was one off.	<i>validly been charged are processed with input VAT in the ledger.</i>	
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 - Two factor authentication has only been confirmed for the council mobile phone used by the clerk 	<p><i>A cybersecurity policy should be adopted and implemented by the council</i></p> <p><i>The council should ensure two factor authentication is applied to all council mobile devices</i></p>	<i>Implemented - Training and new policies developed by PRISM cyber essentials and accreditation passed.</i>