



Nantwich Town Council

Internal Audit 2022/23

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 |
|--------------------------------------|---|---|---|
| 2022/23 year end internal audit | | | |
| | No further issues arising – a robust set of year end records have been maintained with a comprehensive audit trail to supporting information. | | |
| 2022/23 third interim internal audit | | | |
| 1 | <p>There is no income collection/debt write off policy to ensure there is an agreed consistent approach to income collection and the procedures to follow with older debts including write offs.</p> <p>Aged debtor reports are not provided to council or the finance committee to provide management information about the age profile of debtor balances</p> | <p><i>The council should consider establishing an income collection/debt write off policy to ensure a consistent approach to debtors.</i></p> <p><i>Management information provided to council could be improved by providing the Rialtas aged debtor report at least annually so council can review income risks in terms of whether the levels of older debtors is significant.</i></p> | <p>Clerk Response: An income collection/debt write off policy will be drafted to be considered by the next available Policy Committee in March. In addition, the Clerk will include debtors reports on the agenda for Finance committee to be considered once a quarter.</p> |
| 2 | <p>We were informed that the Christmas lighting installation service for £3944 was classified as a specialist service and the exemption provided by 11.1 (ii) of the Financial Regulations was applied so that</p> | <p><i>Where Financial Regulation exemptions are relied on for a contract this should be stated in the minutes where the contract is considered.</i></p> | <p>Clerk Response: The contractor that is used has been working with our in-house electrician for a number of years, and is very familiar with the Christmas light set up. However, the recommendations of the</p> |

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| | <p>standard procurement requirements were not applied (ie market testing via three quotations). However, the minutes do not record that this supply was classified as specialist using exemption 11.1(ii).</p> <p>It is unlikely that lighting installation is a specialist service with a negligible number of suppliers as there are a significant number of providers for this service nationally.</p> | <p><i>The council should ensure where the 'specialist' exemption is relied upon that there is limited provision of the service nationally such that securing even three quotations from identified specialists would be challenging and time consuming.</i></p> | <p>auditor will be addressed for Christmas 2023.</p> |
| 2022/23 second interim internal audit | | | |
| 1 | <p>A payment was made in error to the payroll agent in respect of NI/PAYE in July 2022 and the amount was refunded on the same day.</p> <p>The refund has been posted into the ledger as income. As the refund is from the original payee and an error, both income and expenditure are overstated.</p> | <p><i>A journal should be posted in Rialtas to correct the overpayment and corresponding refund to ensure that the accounts are not overstated.</i></p> | <p>Clerk Response: This correction has now been made to the software.</p> |
| 2 | <p>The Council awarded the contract for bespoke doors to the contractor who had been awarded the door maintenance contract.</p> | <p><i>To ensure transparency the decision not to obtain quotations for contracts in excess of £5000 should be recorded within the Council minutes with the reasons recorded and referenced to the applicable</i></p> | <p>Clerk Response: When the council approved the planned maintenance programme for the new doors we had an existing maintenance contract in place for the fire doors. However, when the contract</p> |

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| | <p>The contract was in excess of £5000, however, three quotes were not obtained as required under normal procurement rules in the Financial Regulations as it was considered an extension of an existing contract. The contract for the door maintenance commenced in April 2023 and the replacement of the doors was approved in the budget in December 2021 as planned maintenance.</p> <p>If it was necessary for the contract for the bespoke doors to be awarded to the door maintenance contractor, this should have been included within the process for awarding the door maintenance contract.</p> | <p><i>exemption(s) in the Financial Regulations. Where no exemptions are relied upon the standard procurement requirements of the Financial Regulations should be applied.</i></p> | <p>was renewed for the maintenance contract officers did not consider the planned maintenance programme, this will be taken into consideration in the future.</p> |
| 3 | <p>We reviewed the records for a sample of events including ensuring the transactions had been posted to the Rialtas ledger correctly. This identified a small error on the 'Alter Eagles' event where VAT had not been accounted for correctly in the ledger on the sale of one ticket.</p> | <p><i>Regular reconciliations should take place between the OSCAR bookings system and the ledger to ensure that entries within the ledger are correct.</i></p> | <p>Clerk Response: A file has since been set up which will hold reconciliations between OSCAR and Rialtas for all shows.</p> |
| 2022/23 first interim internal audit | | | |

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| 1 | The council received a credit from HMRC on 15/06/2022 of £2,074.80 due to a substantial overpayment of class 1a NIC. The overpayment arose because the council had paid to HMRC the full amount of all £150 vouchers Christmas vouchers to staff as class 1a NIC tax instead of applying the applicable percentage rate of NIC to the total calculated benefit in kind. | <i>The council should ensure staff secure a clear understanding of the tax rules for benefits in kind and the associated applicable NIC class 1a tax rates.</i> | Clerk Response: This issue has been raised and addressed with the payroll provider |
| 2 | There is currently no register of licenses detailing all licenses to which the council has to subscribe to or renew periodically, including all IT licenses. | <i>The council should establish a register of licences to ensure all licenses are reviewed and renewed within applicable time limits.</i> | Clerk Response: A register of licences has now been established. |
| 2021/22 year end internal audit | | | |
| No issues further arising from year end internal audit of income and expenditure accounts, balance sheet, public notice requirements and risk assessment. We will follow up the issues identified in the interim internal audits in the 2022/23 internal audit. | | | |
| 2021/22 third interim internal audit | | | |
| 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 | <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</i> | <i>No further issues identified in interim internal audit review of the nominal ledger – we are informed the spreadsheet is now being checked to ensure that it corresponds with the notification from the</i> |

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| | 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>liabilities notified by the payroll agent before updating the Rialtas ledger and processing payments.</i> | <i>payroll provider before being input on the finance software Rialtas.</i> |
| 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. | <p><i>The Council should periodically review the agreement and licence fee to ensure it remains appropriate.</i></p> <p><i>The Council should issue invoices in respect of this fee.</i></p> | <i>Invoices are now issued for all licence income and it is likely the agreement will be renewable annually.</i> |
| 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> | <i>Amendments to FRs approved by full council in November 2021.</i> |
| 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 | <i>The council should ensure compliance with the authority to spend requirements of the Financial Regulations for items up to £2500.</i> | <i>Amendments to FRs approved by full council in November 2021.</i> |

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| | 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. | | |
| 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> | <i>An improved internal control has been implemented so that two signatories review all monthly OneCard payments prior to signing each payment.</i> |
| <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> | | | |

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| 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> |
| 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 | <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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| | 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. | | |
| 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 | <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</i> | <i>Implemented through budget workshops</i> |

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| | restrictions to the services that the council is able to keep open for the public. | <i>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> | |
| 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 | <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> |

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| | 2020/21 if the £7500 partial exemption threshold is breached. | | |
| 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 by officers to confirm the error was one off. | <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> | <i>Implemented – this was an isolated error</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> |