



# Birchwood 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*

The internal audit of Birchwood Town Council was 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 on the 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**

	ISSUE	RECOMMENDATION	FOLLOW UP
<b>2022/23 year end internal audit</b>			
<b>No further issues arising – a robust set of year end records have been maintained with a comprehensive audit trail to supporting information.</b>			
<b>2022/23 interim internal audit</b>			
1	<p>A review of governance and policies identified that the following were not in place at the time of the interim internal audit:</p> <ul style="list-style-type: none"> <li>• Investment Strategy and Treasury Management strategy</li> <li>• Expenses Policy</li> <li>• Income Collection / Debts Write Off policy</li> <li>• Gifts and Hospitality policy</li> </ul>	<p><i>None - The council has already resolved to address these policy/strategy gaps at the January 2023 meeting.</i></p>	
2	<p>Pay rises are notified to the payroll agent via an email from officers.</p>	<p><i>The Chair should email the annual officer pay rise information to the payroll agent.</i></p>	
<b>2021/22 year end internal audit</b>			

	<b>ISSUE</b>	<b>RECOMMENDATION</b>	<b>FOLLOW UP</b>
1	<p>The council did not evidence whether it carried out an annual physical verification of fixed assets recorded in the asset register as required by the following Financial Regulation:</p> <p>14.6. .... The continued existence of tangible assets shown in the (Asset) Register shall be verified at least annually, possibly in conjunction with a health and safety inspection of assets.’</p>	<p><i>The Financial Regulations for fixed assets should be complied with and evidence should be retained for the annual asset verification check for audit purposes.</i></p>	Implemented
<b>2021/22 interim internal audit</b>			
1	<p>Sample testing of payments identified that quotations for contracts as required by the Financial Regulations are not centrally held in a quotations file. As a result for some sample items individual searches of electronic/manual information were required to identify the relevant documentation.</p>	<p><i>A separate file should be maintained to evidence all contract procurement market testing exercises.</i></p>	Implemented an electronic and hard copy quotations folder is now maintained.
<b>2020/21 year end internal audit</b>			
1	<p>The risk assessment does not address the risks of supplier fraud. Most standard</p>	<p><i>The risk assessment should be updated to include supplier fraud including the</i></p>	<b>Implemented</b>

	ISSUE	RECOMMENDATION	FOLLOW UP
	<p>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:</p> <ul style="list-style-type: none"> <li>- 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.</li> <li>- 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</li> <li>- 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.</li> </ul>	<p><i>adequacy of supplier onboarding controls.</i></p>	

	ISSUE	RECOMMENDATION	FOLLOW UP
	<ul style="list-style-type: none"> <li>- checking address and financial health details with Companies House</li> <li>- checking samples of online payments to supplier invoices to ensure the payment has been made to the supplier bank account</li> </ul>		
<b>2020/21 interim internal audit</b>			
1	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>	<b>Implementation in progress</b>
2	Although there is good evidence of due diligence assessment of major contractors, this should be further strengthened by ensuring the VAT number of a supplier for a significant contract is formally verified before entering into the contract.	<i>A VAT fraud prevention check should involve formal verification of the VAT number of a new major supplier before entering into a material contract.</i>	<b>Implemented</b>
<b>2019/20 year end internal audit</b>			

	ISSUE	RECOMMENDATION	FOLLOW UP
1	<p>The risk assessment was reviewed and updated during the financial year. However, it was not approved by full council in the programmed March 2020 meeting as it had to be cancelled due to the global pandemic. The risk assessment was subsequently amended and approved at the May 2020 meeting.</p> <p>We will note on the AGAR annual return certificate that although the risk assessment was not approved by full council in 2019/20, that this was due to the global pandemic, the requirement to cancel physical meetings in March, and that the document was approved at the first available meeting in May 2020.</p>		<b>Implemented</b>
<b>2019/20 interim internal audit</b>			
1	<p>The Financial Regulations (FRs) refer to a Purchase Order (PO) system (which would also clearly evidence the authority to spend). However, no PO system is currently in place.</p>	<p><i>The council should establish a sequential Purchase Order system as required by the updated Financial Regulations (FRs) and ensure Purchase Orders are signed according to the Authority to Spend requirements of the FRs.</i></p>	<b>Implemented</b>
2	<p>NALC have issued updated model Financial Regulations that include amendments to sections including contracts.</p>	<p><i>The council should review the latest NALC Financial Regulations and incorporate revisions, where they are applicable, to the council Financial Regulations</i></p>	<b>Implemented</b>
<b>2018/19 year end internal audit</b>			

	ISSUE	RECOMMENDATION	FOLLOW UP
No issues arising – a clear audit trail from receipts and payments to extended trial balance and year end income and expenditure accounts was provided.			
<b>2018/19 interim audit</b>			
1	There was no confirmation of receipt for the £1200 payment to Birchwood Youth Association on 29/06/2018.	<i>Confirmation of receipt should be secured for all significant grants and donations</i>	<b>Implemented</b>
2	The payroll will be reviewed by the Chair every April to confirm pay rises are accurately processed. Review of the payroll to date in 2018/19 also identified the September payroll had been reviewed and signed by the Chair	<i>Payroll is the most significant expenditure of the council and therefore the controls over the review of payroll should be formalised in the council internal controls, with payroll being reviewed and signed by the Chair at least quarterly.</i>	<b>Implemented</b>