



Birchwood Town Council

Internal Audit 2019/20

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
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><i>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.</i></p>		
2019/20 interim internal audit			
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>	
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>	
2018/19 year end internal audit			

	ISSUE	RECOMMENDATION	FOLLOW UP
<p>No issues arising – a clear audit trail from receipts and payments to extended trial balance and year end income and expenditure accounts was provided.</p>			
<p>IMPORTANT GUIDANCE NOTE</p> <p>INTERNAL AUDIT CERTIFICATE in the AGAR</p> <p>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:</p> <ul style="list-style-type: none"> - 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 <p>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.</p> <p>This will be a new ongoing requirement for 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.</p>			
<p>2018/19 interim audit</p>			

	ISSUE	RECOMMENDATION	FOLLOW UP
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>	Implemented
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>	Implemented
2017/18 year end audit			
1	<p>Fixed Assets</p> <p>Fixed assets in the draft accounts had been understated by £3000 which is the cost of the car park land.</p> <p>The supporting fixed assets schedules did not contain the cost information to enable the fixed assets total for the Vehicles/Tractors and the Plant/Equipment.</p>	<p><i>The land asset should be included in the 2016/17 and 2017/18 fixed assets. The word 'restated' would need to be written above the 2016/17 figures in the annual return.</i></p> <p><i>The supporting fixed asset schedules need to include purchase cost with a total that agrees to the amounts included in fixed assets for each asset category.</i></p>	Implemented

	ISSUE	RECOMMENDATION	FOLLOW UP
2	The regular checks of payments by the Chair do not cover the monthly payroll.	<i>The regular checks of payments by the Chair should cover a sample of monthly payroll payments to verify that the correct pay rates have been applied</i>	See 2018/19 issues
2017/18 interim audit			
1	Council Tax Support Allowance may be removed by WBC from 2019/20. The financial impact on the council has been calculated as £52196. WBC Full Council will decide in February 2018.	<p><i>If the decision to remove Council Tax Support Allowance is passed by WBC in Feb 2018 then we recommend the council formulates a medium term financial plan which also assesses financial options to deal with the material loss of income.</i></p> <p><i>In December 2017, the council resolved that the projected expenditure profile for 2019/20 and 2020/21 as presented be adopted as the target expenditure. Therefore, income raising options will need to be developed to meet this targeted expenditure as well as a review of the reserves policy and whether any general fund reserves could be used to smooth the impact of the material income reduction. Medium term expenditure budgets would also need to be reviewed as part of the process.</i></p>	Implemented

	ISSUE	RECOMMENDATION	FOLLOW UP
2	Proposed updates to the Financial regulations were reviewed.	<p><i>We recommend the following wording is revisited:</i></p> <ul style="list-style-type: none"> - <i>The BACS payment processes - section 2.) second paragraph states ' following approval, the clerk or deputy clerk shall create payments within the council banking system'. The Financial Regulations should be explicit about what approval means i.e. 'Following approval of payments in accordance with FR 5.</i> - <i>Section 2.) 3rd paragraph states 'the Deputy clerk will, in the main, provide A users with an approved schedule of payments when processing payments'. This implies that sometimes the payments will not be approved so 'in the main' should be removed.</i> 	Implemented
3	The council do not apply member checks to online payments to ensure authorised payments are actually made to the correct supplier account.	<p><i>To provide assurance that the correct suppliers have actually been paid the amounts the council has approved, each month the Chair of Finance should select a small sample of payments from the actioned online payments and agree the online payment bank details to the</i></p>	Implemented

	ISSUE	RECOMMENDATION	FOLLOW UP
		<i>bank account details of the supplier on the invoice</i>	
4	<p>Data Protection Law will change significantly on May 25th 2018 due to the 2016 EU Directive General Data Protection Regulation (GDPR) taking effect.</p> <p>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.</p>	<i>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 internal controls should be updated accordingly</i>	Implemented
2016/17 year end audit			
1	The fixed asset register value initially did not comply with the valuation requirements of the Governance and Accountability Guide for Local Councils. The asset register has now been corrected and but an unchanged fixed asset value is disclosed in the draft	<i>The annual return should be amended to reflect the final asset register value inclusive of additions of £522477</i>	Implemented

	ISSUE	RECOMMENDATION	FOLLOW UP
	annual return which does not take account of additions at cost.		
2016/17 interim audit			
1	The clerk has notified us that Barclays Bank has placed the deposit funds into the dormancy process due to lack of activity on the bank account. The going concern basis is not in doubt as there are sufficient working capital funds held with the Coop Bank.	<p><i>The Council should secure a letter of confirmation of monies held under dormancy as at March 31st to satisfy year end audit requirements.</i></p> <p><i>Although the action that has been applied to the council is singular in that this process has not been applied to any other local council that we are aware of, the council will need to review Investment Strategy and confirm with any future bank it is considering depositing monies what their Dormancy time limit is on account inactivity as this will help satisfy the Liquidity test of the Investment Strategy.</i></p>	Barclays Bank have refunded all the funds placed into the dormancy process by cheque
2	At the beginning of the financial year, the council had deposits of approximately £450k in the COOP bank, as well as further funds with Barclays Bank. The deposit compensation scheme covers £85k of deposits per bank. There	<i>The risk assessment and investment strategy should review credit ratings of banks to ensure the Security of its reserves are assessed as well as the Liquidity.</i>	Implemented

	ISSUE	RECOMMENDATION	FOLLOW UP
	is no evidence that a risk assessment or investment strategy review of bank credit ratings to confirm that investments are in sufficiently high credit grade banks.		
3	The Financial Regulations contain no supplier fraud prevention controls	<i>Financial Regulations (FRs) should stipulate procedures for adding supplier bank account details and the level of checking to supplier bank account details that should be carried out. The FRs should also contain procedures to be carried out where a supplier notifies there is a change of bank account and where a new supplier is used. Model Financial Regulations are available from NALC which reflect best practice requirements for online payments. access controls and verification of supplier bank details</i>	Implemented
4	The council does not currently have an adopted document retention policy. Such a policy would provide the council with a simple framework as to how long documents of different categories should be retained, when they should be disposed of and secure disposal requirements. Such a policy would also	<i>The council should establish a document retention policy. A copy of a retention policy for a town council has been provided to the clerk with this report as a guide</i>	Implemented

	ISSUE	RECOMMENDATION	FOLLOW UP
	help the council save time and storage space by reducing the amount of information held unnecessarily.		