



Church Stretton Town Council

Internal Audit 2019/20

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

INTERNAL AUDIT REPORT CHURCH STRETTON TOWN COUNCIL

The internal audit of Church Stretton 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 council has met its responsibilities as trustee

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 internal audit work carried out, which was limited to the tests above, in our view **the council's system of internal controls is NOT in place, adequate for the purpose intended and effective**. The recommendations included in the action plan should be implemented promptly.

JDH Business Services Limited

	ISSUE	RECOMMENDATION	FOLLOW UP
Year end internal audit			
1	<p>We recommended the following after our first interim internal audit of the council:</p> <p><i>'The council should secure the services of a VAT consultant that has experience in local authority VAT issues to review the current VAT arrangements, including whether the submission of a VAT return for four separately constituted organisations is valid, how the partial exemption threshold and partial exemption calculations would be completed under the current arrangement, and whether VAT is being accounted for correctly on all outputs.'</i></p> <p>The council has now received the VAT consultant reports and calculations of potential VAT liabilities, including whether the partial exemption threshold has been breached for any financial years. As a result, the council has included £12000 in creditors to cover confirmed liabilities by the VAT consultant. The council has set aside a further £32,000 as an earmarked reserve primarily to cover potential liabilities for breaching the partial exemption threshold of £7500 for specific financial years. However, further evidence</p>	<p><i>It is clear from the VAT consultant report that the arrangements for administering and accounting for VAT at both the council and the sole trustee charities has not been compliant in previous years. Therefore, the council must ensure an action plan is established to implement promptly each of the VAT issues/recommendations raised by the VAT consultant regarding both the council and the charities for which it is sole trustee. This VAT action plan should be reported to council regularly for monitoring purposes.</i></p> <p><i>The council must ensure that the partial exemption calculations of the VAT consultant that evidence any further VAT liabilities due are updated to reflect the recent evidence the council has identified for the VAT classification of certain categories of sports hires. The council</i></p>	

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	has recently been identified by officers that changes the VAT classification of certain supplies (ie VAT exempt or standard rated) used by the VAT consultant in their partial exemption calculations, and this could materially affect the level of further VAT liabilities due.	<i>should then ensure all further VAT liabilities are remitted to HMRC. In future, the council should ensure that a VAT partial exemption calculation is carried out for each financial year.</i>	
2	RBS ledger system An imbalance in the RBS system between the draft income and expenditure accounts and balance sheet was resolved during the internal audit with RBS remote systems support. We note that the RFO is the only officer able to process transactions on the RBS system.	<i>As an important contingency, the council should ensure that a nominated officer has adequate RBS training to enable receipts and payments transactions to be processed in the event the RFO is not available.</i>	
3	The council did not review, update and approve a risk assessment during the financial year. Key risks such as compliance with the GDPR/Data Protection Act 2018 are not being identified and addressed.	<i>The risk assessment should be reviewed, updated and approved by council each financial year</i>	
4	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	<i>The council should ensure sufficient information is retained to evidence compliance with the legal requirements for the Annual Notice of Public Rights, such as a dated image of the first day the notice is</i>	

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	<p>(2018/19 financial year) was compliant with the Regulations.</p> <p>Although the dates included in the public notice were compliant no evidence had been retained by the council to evidence the notice was displayed on June 19th 2019. In addition, the notice had not been published on the website. Therefore, we are unable to conclude the council complied with the requirements for the Public Rights Notice for 2018/19 and have noted ‘Not Covered’ in the AGAR internal audit certificate.</p>	<p><i>published on the noticeboard. The council should also publish the annual notice on the council website.</i></p>	
5	<p>No evidence was provided that the following contracts were subject to three quotations as required by the Financial Regulations:</p> <ul style="list-style-type: none"> - 02/01/2020 £3,793.21 Erection of Christmas Lights - 07/10/2019 £9,504.64 New Electricity Connection - 06/03/2020 £9,020.65 SHI roof works 	<p><i>The council must comply with the procurement requirements of the Financial Regulations</i></p>	

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6	A duplicate payment to Shropshire County Council of £1,940.37 occurred because a Direct Debit was already in place to pay for the supply and newly appointed officers were not made aware of this. Controls have been implemented to ensure no further Direct Debits are paid in duplicate through internet banking. The payment has been set off against further supplies from the same provider.	<i>No further action required.</i>	
7	There is an out of date cheque in the bank reconciliation for £300 to Masons (15/05/19)	<i>Council should be requested to authorise the write back of the out of date cheque and decision taken regarding reissue of the cheque</i>	
2019/20 second interim internal audit			
1	There are no detailed pre-authorisation payroll checks carried out by councillors. There is no periodic system of checking the accuracy of payroll to source documentation.	<p><i>As part of the in-year checks of finance, members should:</i></p> <ul style="list-style-type: none"> - <i>Review payroll totals and individual payments before authorisation</i> - <i>Periodically check the monthly payroll analysis to source</i> 	

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		<i>documents including timesheets and contracts of employment</i>	
2	Payroll changes such as salary increase due to pay scale changes are not included in the minutes. Therefore, there is no evidence council have authorised any the changes to staff pay in 2019/20.	<i>Changes to staff pay through increments, change in hours or scale point increases should be agreed by Council and recorded in the minutes (part 2).</i>	
3	The staff contracts of employment were not available during the internal audit visit to enable a payroll sample to be agreed to contracts of employment as the council do not currently have the key to the locked cupboard containing the information.	<i>The council need to urgently secure the key to the cupboard containing staff payroll information. Council need to then check payroll payments to ensure the correct pay as per contracts is being paid.</i>	
4	The locum clerk does not have a contract of employment.	<i>A contract for the locum clerk should be established as soon as possible.</i>	
5	VAT is being charged on hire of the Pavilion (which would normally be a VAT exempt supply), but no Option to Tax has been submitted to HMRC.	<i>The VAT status of the Pavilion should be investigated, including whether a valid Option to Tax exists.</i>	
6	Car Parking income There is no control in place to ensure that for every week of the financial year car	<i>Controls over the completeness and accuracy of car parking income need to be introduced including setting up a weekly log to evidence car park income has been</i>	

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	park income has been collected, reconciled to ticket duplicates and banked.	<i>collected for every week of the year, reconciled to tickets issued, and banked.</i>	
7	The council has not yet updated, reviewed and approved an annual comprehensive risk assessment covering financial and non-financial risks and mitigation actions for 2019/20.	<i>Risk assessment should be reviewed and updated each financial year, and approval by the council minuted.</i>	
2019/20 First Interim Internal Audit			
1	The Financial Regulations not been reviewed and updated since 2014 to reflect the current scope and activity of the council. The Standing Orders have not been updated since 2011.	<i>The council should adopt NALC model Financial Regulations and Standing Orders which have been aligned to the council scope and activity, including appropriate regulations for procurement and online banking.</i>	
2	The Purchase Order system is not being utilised as required by the Financial Regulations (FRs). Without authorised purchase orders there is limited evidence the 'authority to spend' requirements of the FRs have been complied with.	<i>A sequential Purchase Order system should be implemented with the orders signed as authorised according to the Authority to Spend requirements of the Financial Regulations.</i>	
3	The system in place for payment authorisation from April 2019 to date comprised the RFO making online payments and then presenting the payments list to council for retrospective	<i>The most effective internal control over online banking is for two councillors to directly log in to the council bank account to authorise payments, however, where the bank online system does not provide this</i>	

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	<p>approval with members signing individual invoices. However, Financial Regulations require two member authorised signatories for each payment whether paid online or by cheque. Therefore, the council is not complying with the authorisation requirements of the FRs. We were informed the current bank account online system does not permit members to be provided with online access to authorise a payment before the payment is made.</p>	<p><i>functionality, the compensating internal controls should be as follows:</i></p> <ul style="list-style-type: none"> - <i>Appropriate staff should be set up as System Administrators for online banking. Therefore, they alone will be able to make online payments.</i> - <i>Each batch of proposed payments should be analysed on a payment schedule, which will be signed and dated by two authorised member signatories after comparison with invoice details, or any two nominated councillors could instead email authorisation of the payment schedule.</i> - <i>Each quarter a nominated councillor should select a random sample of payments from the payment schedules and agree the online payment bank details to the bank account details of the supplier on the invoice.</i> - <i>All payments made should be presented to council for review and minuted approval</i> <p><i>Internal controls will need to be updated to incorporate supplier fraud prevention</i></p>	

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		<p><i>controls. Procedures will need to be established to ensure members check bank details for the first payment to a supplier to a signed confirmation letter from the supplier. The same procedure should apply where a supplier has purported to have changed bank accounts (particularly if the request is via email). In addition to a confirmation letter the supplier could also be telephoned to ensure their bank details are correct.</i></p>	
4	<p>There is no evidence the council have complied with the contract procurement requirements of the Financial Regulations, where three quotations are required for all contracts over £3000 and formal tenders for all contracts over £60000. We could not identify time-limited contracts for the following supplies, which have been in place for a significant number of years, rolled over annually, and are in excess of the threshold in the FRs that require three quotations:</p> <ul style="list-style-type: none"> • The street lighting contract for £11335 • The contract for public convenience cleaning is 	<p><i>The council should ensure it complies with the procurement regulations of the Financial Regulations.</i></p> <p><i>Contracts should always be time limited so the council can market test the supply periodically in accordance with the FRs.</i></p>	

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	<p>approximately £7300 annually plus mileage payments and has been in place for at least 10 years. We could identify no contract invoices for the works provided.</p> <ul style="list-style-type: none"> The contract for cleaning Sylvester Hall and the council offices is approximately £11k annually and has been in place for at least 12 years. 		
5	<p>Review of the payments approved in the minutes identified that June and July 2019 payments are not recorded as presented to council and approved. In addition, the minutes do not record that payments are ‘Approved’ as the council minutes state ‘Accepted’.</p> <p>Minutes also state that the list of payments is attached to the minutes but this practice actually ceased from April 2019. In the previous months the payments were attached to the relevant minutes but were not allocated a sequential number reference in the minutes and signed by the Chair to evidence they are a complete and accurate record of the payments that were approved by council.</p>	<p><i>All payments for the financial year to date should be put to council for approval and this approval should be clearly recorded in the minutes. The payments analysis should then form a sequential reference in the minutes and be signed by the Chair.</i></p>	

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6	<p>The council is registered for VAT and quarterly returns are submitted to HMRC for the council and the three separately constituted charities for which the council is sole trustee. Staff were not able to provide evidence that HMRC have agreed to this arrangement. It is unusual for four separately constituted bodies to be registered under the same VAT number. Due to this group arrangement, it is difficult to determine how the partial exemption threshold would be applied.</p>	<p><i>The council should secure the services of a VAT consultant that has experience in local authority VAT issues to review the current VAT arrangements, including whether the submission of a VAT return for four separately constituted organisations is valid, how the partial exemption threshold and partial exemption calculations would be completed under the current arrangement, and whether VAT is being accounted for correctly on all outputs.</i></p>	
7	<p>The Fixed Asset Register is incomplete as the allotments are not recorded.</p> <p>The Russells meadow is recorded at £3.5m in the asset register but the adjoining land which belong to a sole trustee charity of the council is valued at £1.</p> <p>There is no internal control in place for an annual review of capital expenditure in the RBS ledger to identify and record additions to the asset register.</p> <p>The asset register does not contain a column to confirm insurance arrangements. This is an important internal control to</p>	<p><i>The allotments should be recorded in the asset register and a review carried out to ensure all other fixed assets are identified and recorded in the register.</i></p> <p><i>The council should ensure there are no restrictive covenants on the meadow which could give rise to a notional valuation (eg £1) rather than the current open market value recorded in the asset register.</i></p> <p><i>The asset register should be updated annually by reviewing the ledger and identifying capital additions (and removing obsolete items).</i></p>	

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	ensure all owned assets that require insurance cover are included in the insurance policy.	<i>A column should be added to the asset register to confirm insurance cover in the insurance policy.</i>	
8	<p>Budgetary control is devolved to the Amenities, Finance and General Purposes committee (AFGP) but for the financial year to date (April to November) the only evidence of a review of budgetary control information is the September 3rd meeting which states ‘SOA for 4 months to July 31 has been circulated - figures were accepted - copy attached in minute book’. However, there is no copy of the information attached to the minute book.</p> <p>The information presented to the AFGP committee is not the budgetary control report from the RBS ledger which is the prime record of the council. Instead a spreadsheet is presented that contains a ‘balance brought forward‘ for most operational expenditure budget headings. The spreadsheet discloses ‘payments in hand’ (ie annual expenditure budget remaining), but as it adds brought forward reserve budgets to current year expenditure there is no disclosure as to whether the current financial year budget is over or under spent. Using a spreadsheet instead of</p>	<p><i>Significant improvements should be made to the council system of budgetary control and reserve accounting:</i></p> <ul style="list-style-type: none"> - <i>The council should review total reserves and establish earmarked reserves that represent medium/long term schemes and capital projects. The RBS ledger should be populated with the approved earmarked reserves to enable accurate reserve accounting</i> - <i>The current spreadsheet used to report budgetary control information should be replaced by the budget monitoring report that is already available from the RBS ledger. This report will also disclose expenditure against earmarked reserves.</i> - <i>Budgetary control reports should be presented regularly to every AFGP meeting</i> 	

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	<p>the RBS nominal ledger to report budgetary control information introduces the risk that incorrect accounting information is reported to the council.</p> <p>There is no evidence the brought forward budgets in the spreadsheet are approved earmarked or general reserves of the council. Earmarked reserves are amounts set aside for medium/long term community schemes and projects, they are not amounts set aside for annual revenue expenditure. We were informed the earmarked reserves recorded in the RBS ledger are incorrect so there is no accurate reserve accounting carried out.</p> <p>In summary, the current budgetary control spreadsheet is not fit for purpose as it is not produced by the council RBS ledger system which is the prime council record, and does not evidence the under/over spending on the annual budget for the financial year. There is no accurate record of earmarked reserves in the council ledger system.</p>		
9	The monthly bank reconciliation from the RBS ledger is not reviewed and approved by council.	<i>The monthly bank reconciliations of all bank accounts should be reviewed and approved by the AFGP committee.</i>	

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10	The Fidelity cover is currently £250k but cash and bank reserves are substantially higher. Fidelity insurance should cover the maximum projected cash and bank balances which is calculated as the year end cash and bank balances plus the next precept instalment which is an estimated total of £804k.	<i>The council should estimate maximum projected cash and bank balances as part of annual risk assessment and set the level of fidelity insurance cover accordingly</i>	
11	<p>Data protection risks:</p> <p>There is no evidence that action has been taken to ensure compliance with the GDPR (as enshrined in the Data Protection Act 2018), for instance:</p> <ul style="list-style-type: none"> - we could not identify an adopted external and internal privacy notice - the data protection policy published on the council website relates to the DPA1998 and has not been updated to reflect the GDPR - no evidence that Subject Access Request and Data Breach procedures compliant with the GDPR had been adopted - no evidence data processing/sharing agreements 	<i>The council should carry out a personal data audit and establish the required policies and procedures to help ensure compliance with the GDPR.</i>	

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	have been established with relevant third parties		
12	Income - The fees and charges levied by the council 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>	
<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>			