JDH Business Services Ltd

Crewe Town Council

Internal Audit 2022/23

The internal audit of Crewe Town Council is carried out by undertaking the following tests as specified in the AGAR Annual Return for Local Councils in England:

1. Checking that books of account have been properly kept throughout the year
2. 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
3. Reviewing the Council’s risk assessment and ensuring that adequate arrangements are in place to manage all identified risks
4. 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
5. 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
6. Reviewing petty cash records to ensure payments are supported by receipts, expenditure is approved and VAT is correctly accounted for
7. Checking that salaries to employees have been paid in accordance with Council approvals and that PAYE and NI requirements have been properly applied
8. Checking the accuracy of the asset and investments registers
9. Testing the accuracy and timeliness of periodic and year-end bank account reconciliation(s)
10. Year end testing on the accuracy and completeness of the financial statements
11. The council has met its responsibilities as a sole trustee

The interim internal audit provides evidence to support the annual internal audit conclusion in the AGAR Annual Return for larger councils.

**Conclusion**

On the basis of the internal audit work carried out, which was limited to testing above, in our view the council’s system of internal controls is in place, adequate for the purpose intended and effective. The recommendations reported in the action plan overleaf should be implemented.

**J D H Business Services Ltd**

|  | **ISSUE** | **RECOMMENDATION** | **FOLLOW UP** |
| --- | --- | --- | --- |
| **2022/23 year end internal audit** |
| 1 | The fidelity cover is currently £2,0000,000, however, fidelity insurance should aim to cover the maximum projected cash and bank balances which is estimated as the year end cash and bank balances of £1,427,262 plus the estimated next precept instalment of £602,504, which is an estimated maximum projected balances of at least £2,029,766 | *As part of risk assessment procedures, the council should annually estimate maximum projected cash and bank balances and review this against the current fidelity cover and set the level of fidelity insurance accordingly.**The council need to review the current level of fidelity insurance as it does not cover maximum projected cash and bank balances.* | Insurers informed and Fidelity Insurance increased to £3,000,000 |
| 2 | The £amount of the precept request for 2022/23 is not recorded in the full council minutes which is a requirement of the Local Government Act 1992 as the December 2022 council meeting agreed the precept but did not state the monetary amount of the precept. | *The amount of precept requested must be stated in the council resolution of the minutes where the precept was decided.* | Not previous practice, but now will be included as advised |
| **2022/23 interim internal audit** |
| 1 | The sole trustee charity is not being managed in accordance with the trust deed as there have been no meetings of the trustee to determine annual distributions since the town council became sole corporate trustee. The council is also encountering time consuming administrative challenges with the fund manager, for instance, to set up dividend payments to be paid into the charity bank account. The level of permanent endowment in the charitable reserves has still not been established. | *The council should carry out an options appraisal to determine the future of the charity to best ensure the charity objects are delivered. For instance, there are potentially other options available including, for example, transfer of the assets to a local charity with similar objects. The Charity Commission should be asked for guidance regarding all the options available to the council, and processes to be followed, to ensure the Charity Act and other requirements are complied with.* | In progress |
| 2 | The council is not complying with the Financial Regulations (FRs) with regard to transfers between bank accounts and the CCLA deposit funds. Financial Regulations require the following:*8.8. Payments in respect of short term or long term investments, including transfers between bank accounts held in the same bank, or branch, shall be made in accordance with Regulation 5 (Authorisation of payments) and Regulation 6 (Instructions for payments).*In addition, there is conflict between the requirements of the FRs and the risk assessment which simply states that the clerk can transfer money with no authorisation requirements: *‘Transfers - Monies may be transferred between the Councils accounts by the Clerk’* | *The Financial Regulations regarding transfers between bank accounts should be complied with.* *The requirements for transfers described in the risk assessment should match the requirements in the FRs.* | Implemented |
| **2021/22 year end internal audit** |
| 1 | A review of the nominal ledger identified that a grant received of £21487 had been incorrectly posted to expenditure cost centre 4286. The effect of this is to understate both income and expenditure by £21487. The draft accounts have now been amended to rectify this issue. | *All grants received should be posted to a grant income cost centre.*  | Implemented |
| 2 | RECURRING ISSUETesting of the detailed list of creditors identified that a significant element did not relate to goods and services received by the council in 2021/22 as they were approved grants that were due to be paid. Therefore, the accounts have been adjusted to remove these invalid creditors and include them instead in earmarked year end reserves.  | *Year end procedures should be improved to ensure creditors included in the council balance sheet are completely and accurately stated.* | Implemented |
| **2021/22 interim internal audit** |
| 1 | The risk assessment does not address the risks of supplier fraud. Most standard local council insurance policies do not cover supplier fraud. The supplier fraud risks can be managed via robust policies and procedures including prevention actions such as:* 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.
* 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
* 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.
* checking address and financial health details with Companies House
* checking samples of online payments to supplier invoices to ensure the payment has been made to the supplier bank account
 | *The risk assessment should be updated to include supplier fraud including the adequacy of supplier onboarding controls.* | Implemented |
| 2 | The investment dividends for the John McBride Charity are paid into the town council bank account. | *The investment provider should be provided with the correct bank account details to ensure all investment income is paid directly to the sole trustee charity.* | Recommendation Outstanding – the council has encountered administrative challenges with completing this with the fund manager. |
| **2020/21 year end internal audit** |
| 1 | Testing of the detailed list of accruals identified that a significant element did not relate to goods and services received by the council in 2020/21 as they were grants that were due to be paid in 2021/22. Therefore, the accounts have been adjusted to remove these invalid accruals and include them instead in earmarked year end reserves.  | *Year end procedures should be improved to ensure accruals included in the council balance sheet are completely and accurately stated.* | **2022/23 follow up – implemented**2021/22 follow up - Recommendation Outstanding |
| 2 | The risk assessment does not address the risks of supplier (procurement) fraud. | *The risk assessment should be updated to include supplier (procurement) fraud including the adequacy of supplier onboarding controls.* | 2022/23 follow up – implemented2021/22 follow up - Recommendation Outstanding - the risk assessment currently only requires the VAT number of a new supplier to be checked as a supplier fraud prevention action. See 2021/22 issues. |
| 3 | The sole trustee charity accounts provided for review were incorrect as no prior year comparatives had been included, and cash and bank balances in the Statement of Assets and Liabilities were incorrectly stated. In addition, there appears to be doubt as to whether the investments of the charity should be classified as restricted reserves, unrestricted reserves or permanent endowment funds. | *The charity accounts have now been correctly amended. The council should ensure draft charity accounts are thoroughly reviewed before submission to internal audit to ensure they are complete and accurate and include prior year comparatives.**Recurring Issue - charity investment funds: We previously recommended that the council needs to determine whether any of the brought forward Trust funds are Permanent Endowment funds, ie funds which cannot be expended due to restriction in the charity governing documents. This recommendation is still outstanding.* | ImplementedRecommendation outstanding |
| **2020/21 interim internal audit** |
| 1 | A £20000 contract was agreed with CVS Cheshire East in February 2020 by the community plan committee but no signed SLA or contract was established for this supply of community development services.  | *A signed SLA or contract should be established for all material contracts.* | No longer applicable as agreement not continued further after one year. |
| 2 | The cost of services provided by the local council association to support the council substantially exceeded the threshold for securing three quotations in the Financial Regulations (FRs). However, only one quotation was sought for these services which we were informed were considered specialist. The minutes do not record the exemption of the supply from standard procurement requirements of FRs due to the apparent specialist nature of the service. | *When exemptions are relied upon in the Financial Regulations for not securing three quotations for a supply in excess of £3000, the decision and the exemption relied upon should be clearly recorded in the minutes.* | No issues identified in 2021/22 procurement testing |
| 3 | In April 2020 smartphones were purchased using the payment card for £239.94. These assets were gifted to a local charity but as they were purchased through a payment card the council would not have been able to authorise the purchase and gift of these assets in advance. The payment card has now been cancelled so this issue should not recur.  | *Internal controls should ensure that the council authorise in advance the purchase and subsequent gifting off assets to local organisations.* | Purchase of assets for third party organisations with the payment card has ceased |
| 4 | Review of the draft updated fixed assets register identified that each of the eleven allotment sites is now included as a cost of £47272.73 when they were previously recorded as gifted at a nominal value of £1 each.  | *The draft fixed assets register should be reviewed and cross checked to the previous asset register to ensure the cost/value of assets complies with the requirements of the Practitioners Guide for Smaller Councils.* | Implemented |
| 5 | Recurring Issue - Member checks * There was no evidence of an detailed member checks to source documentation of the monthly payroll from April to October
* There is no evidence of member sample checks for online payments with supplier bank accounts from April to October
 | *As part of ongoing probity controls over expenditure, the council should apply member checks to online payments and payroll during the year to satisfy themselves as to the validity of payments, including:** *To provide assurance that the correct suppliers have actually been paid the amounts the council has approved, periodically a nominated councillor should select a small sample of payments from the actioned online payments and agree the online payment bank details to the bank account details of the supplier on the invoice*
* *Supplier fraud prevention controls – A nominated councillor should 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).*
* *Monthly payroll should periodically be agreed on a sample basis back to source documentation such as authorised salary increases, timesheets, employment contracts*

*All the above member checks should be evidenced by a signature and date.*  | Evidence of member checks seen for 2020/21 , however, recommendation outstanding for 2021/22 as at date of interim internal audit. |

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