



# Leek Town Council

Internal Audit 2020/21

JDH BUSINESS SERVICES LTD

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

The internal audit of Leek 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

### **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. The recommendations reported in the action plan overleaf should be implemented. 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**

	<b>ISSUE</b>	<b>RECOMMENDATION</b>	<b>FOLLOW UP</b>
1	The fidelity insurance cover is currently £135k. Fidelity insurance should cover the maximum projected cash and bank balances which is calculated as the year end cash and bank balances (£78291) plus the next precept instalment (50% of the annual precept is received in April of each year) which is an estimated total cash and bank balances of over £168k.	<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>	
2	Cheque 0118 dated 17th December 2019 to Trevor George Entertainments for £1194 is included in the bank reconciliation as an unrepresented item. However, this cheque is now out of date	<i>The out of date cheque need to be removed from the bank reconciliation and written back into the accounts.</i>	
3	The risk assessment does not address the risks of supplier fraud. Most standard 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:  - training for staff to alert them to the potential risks of providing sensitive	<i>The risk assessment should be updated to include supplier fraud including the adequacy of supplier onboarding controls.</i>	

	<b>ISSUE</b>	<b>RECOMMENDATION</b>	<b>FOLLOW UP</b>
	<p>company information, by phone or other means, especially contract and account information.</p> <ul style="list-style-type: none"> <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> <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>		

	ISSUE	RECOMMENDATION	FOLLOW UP
<b>2019/20 internal audit</b>			
1	The year end general reserves of £36678 are 24.3% of the precept level. Sector guidance is that general reserves should be between 25% and 100% of the precept.	<i>The level of general reserves should be reviewed annually for reasonableness with reference to the sector guidance</i>	<b>Implemented</b>
2	<p>Contracts</p> <p>Two contracts that were marginally in excess of the £1000 threshold for securing quotations in the Financial Regulations (FRs) were not subject to the procurement requirements of the FRs.</p> <p>Where contracts are established there is not always an end date written into the agreement.</p>	<p><i>Contracts should be procured in accordance with the requirements of Financial Regulations. Council should note that the £1000 threshold set in the FRs for securing three quotations is significantly below the £3000 level set in the NALC model Financial Regulations.</i></p> <p><i>A register of contracts should be established. The register should be used to identify those contracts where an upcoming end date signifies that a tender process, quotation process, or optional extension (if the written contract clauses permit this) is required. Where an extension to a contract is authorised this should be recorded in the council minutes.</i></p> <p><i>All contracts should include an end date.</i></p>	<b>Implemented</b>

	<b>ISSUE</b>	<b>RECOMMENDATION</b>	<b>FOLLOW UP</b>
3	General Purposes Committee minutes record that payments are approved but there is no link with the schedule of payments that supports the approval. The schedule of payments is not signed by the Chair of the GP committee to evidence they were the payments approved at the meetings	<i>The total of payments approved in the payment schedule should be recorded in the minutes to improve the audit trail.</i>  <i>All payments schedules should be signed by the Chair of the GP committee to evidence these were the payments approved at the meeting.</i>	<b>Implemented</b>
4	Gazebo hire and stall hire are standard rated VAT supplies.	<i>The council should monitor the level of income from standard related supplies and if the level exceeds £5000 net in a financial year should contact HMRC to clarify whether VAT registration is required.</i>	<b>Noted, however. There was no gazebo hire income in 2020/21 due to the pandemic.</b>
5	The fidelity insurance cover is currently £100k. Fidelity insurance should cover the maximum projected cash and bank balances which is calculated as the year end cash and bank balances (£55678) plus the next precept instalment (50% of the annual precept is received in April of each year) which is an estimated total cash and bank balances of £131k.	<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>	<b>Implemented, however, see 2020/21 issues</b>
6	The updated model Financial Regulations refer in section 10.) to a Purchase Order (PO) system (which would also clearly evidence the	<i>If the Purchase Order section of the FRs is an accepted requirement by council, then the council should establish a sequential</i>	<b>Implemented</b>

	<b>ISSUE</b>	<b>RECOMMENDATION</b>	<b>FOLLOW UP</b>
	authority to spend). However, no PO system is currently in place.	<i>Purchase Order system as required by the updated model Financial Regulations.</i>	