



Newport 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 Newport Town Council is carried out by undertaking the following tests as specified in the AGAR Annual Return for Local Councils:

- 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 audits provide evidence to support the annual internal audit conclusion in the AGAR 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 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 Ltd

	ISSUE	RECOMMENDATION	FOLLOW UP
1	Additional Service Provision of £11413 has been classified in staff costs in the year end accounts. However, these are not payroll costs and should not have been consolidated by the RBS system into staff costs.	<i>The coding hierarchy within the RBS ledger should be changed to ensure only payroll costs are consolidated into staff costs in the year end accounts.</i>	
2019/20 second interim internal audit			
1	The council has a significant CCTV provision but no privacy impact assessment has been carried out for the cameras including justification of the purpose of the monitoring. There is no local CCTV policy and the CCTV Code of Practice has not been adopted.	<i>A privacy impact assessment should be completed for the council CCTV provision.</i> <i>The CCTV Code of Practice and a local CCTV policy should be adopted.</i>	
2	VAT issues: <ul style="list-style-type: none"> - Sample testing identified that for Invoice 48 a concessionary rate had been charged instead of the standard rate for a Wedding - Barn dances – No VAT is accounted for on tickets sold for 	<i>The accuracy of pricing of invoices should be checked before they are processed in the RBS system and sent to customers</i> <i>The council should review whether Barn Dance ticket income is subject to VAT</i>	

	ISSUE	RECOMMENDATION	FOLLOW UP
	dances		
2019/20 first interim audit			
1	The council is reviewing the provision of car parking for the public at a local grammar school. There is currently no options appraisal for the car parking options available and the relative value for money offered by each option.	<i>The council should review options available for the provision of car parking and the relative value for money of each option. Legal certainty would be needed for any proposed agreement including whether a parking provision is offered in perpetuity.</i>	
2	Not all the payment schedules produced in between council meetings were signed as approved by the Chair, eg the June and August payments schedules for those payments to be approved between council meetings had not been signed as approved by the Chair.	<i>All payments schedules should be reviewed and signed by the Chair to evidence approval.</i>	
3	Payroll testing identified the following: <ul style="list-style-type: none"> - No signed data processing/sharing agreement could be located either for the payroll or the HR services provided by the principal council 	<i>Signed data processing/sharing agreements should be in place for the payroll and HR services provided by the principal council</i>	

	ISSUE	RECOMMENDATION	FOLLOW UP
	<ul style="list-style-type: none"> - There is no encryption of emails regarding payroll when sent from the council to the payroll agency. Data protection guidance requires that sensitive personal information should be encrypted when sent by email. 	<i>Emails should be encrypted when they include sensitive personal information</i>	
4	The October bank reconciliation includes an out of date cheque as a reconciling item.	<i>Out of date cheques should be written out of the cash book and bank reconciliation</i>	
2018/19 year-end internal audit			
1	<p>RECURRING ISSUE</p> <p>A significant portion of the creditor accruals for the Telford 50 works was not a valid creditor as not all these works had been carried out prior to the year end.</p> <p>In addition, 80% of the Telford grant due for these works that were completed after March 31st 2019 had been accrued as income debtors.</p>	<p>RECURRING RECOMMENDATION</p> <p><i>Creditors and accruals should only include items where the goods or services have been received during the financial year.</i></p>	Implemented

	ISSUE	RECOMMENDATION	FOLLOW UP
	Both the overaccrual for expenditure on works of £23704 and the overaccrual of income receivable of £18963 were adjusted during the year end internal audit.		
2	The level of fidelity insurance is £595k. The maximum projected cash and bank balances are £397k year end cash and bank plus the next precept instalment of £225k which is £622k.	<i>The adequacy of the level of fidelity cover should be reviewed annually by comparing to maximum projected cash and bank balances.</i>	2019/20 follow up - Implemented fidelity cover is now £750k

IMPORTANT GUIDANCE NOTE

INTERNAL AUDIT CERTIFICATE in the AGAR

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:

- 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 or similar for 2018/19

Our approach to this new requirement will be to tick NO if we have not received the above evidence and explain on the AGAR that we received no evidence to be able to conclude YES, we would also tick NO if the dates advertised were not compliant with the Regulations.

	ISSUE	RECOMMENDATION	FOLLOW UP
This will be an ongoing requirement for internal audit.			
2018/19 Second Interim Audit			
1	The Newport Youth Café Project is now a sole trustee charity of the town council, with full handover occurring from January 3 rd . The RFO has noted that the accounting year end will be changed from December 31 st to March 31 st .	<p>The following will need to be carried out for the 2018/19 accounts:</p> <ul style="list-style-type: none"> - review of the previous annual accounts for the charity indicate that the building is a ‘restricted fund’ so this separate fund needs to be incorporated into the sole trustee charity balance sheet - there is need to urgently secure the accounts and supporting information for the year ended 31 December 2018 in order to set up the opening balance sheet and complete the sole trustee accounts to March 31st - advice should be secured from a VAT consultant as to whether any or all of the VAT on charity expenditure is reclaimable, including VAT on expenditure 	<p>Accounts information and bank statements have been secured and the year end date for the Charity will be set accordingly. We will carry out an independent review when requested and the RFO will complete the annual submission required for the Charity Commission</p> <p>2019/20 follow up - IMPLEMENTED</p>

	ISSUE	RECOMMENDATION	FOLLOW UP
		on the renovation of the HUB building	
2	<p>A £10000 grant has been approved to the Naval Club to form a portion of the funds used to purchase their building for £100k. The remainder of the funds required are currently being sourced through crowdfunding.</p> <p>The council has not put any stipulations on the funding through a written agreement so there is no clawback if the crowdfunding fails (it has raised £275 to date) and the organisation fail to purchase the building.</p> <p>In addition, if the club building is sold on at a substantial profit the town council has no clawback clause included in any funding agreement.</p>	<p><i>Before paying the grant the council should review the progress on the crowdfunding exercise and ensure that there is certainty that the organisation will raise the funds required to buy the building. A written agreement should include a clawback clause should the organisation sell the building for a material profit.</i></p>	<p>The grant has not been paid due to inadequate information provided to support the application</p>
3	<p>The council are now correctly charging VAT on the wedding room hire after the tribunal HMRC decision but they also charge admin fees for weddings on weekends which is incidental to the room hire as the offices are not open on weekends.</p>	<p><i>The council should ask the VAT consultant whether VAT should be charged on the wedding administration fees</i></p>	<p>Noted</p>

	ISSUE	RECOMMENDATION	FOLLOW UP
2018/19 first interim audit			
1	<p>The Guildhall and Community Hub</p> <p>The council will incur material capital expenditure with regard to the guildhall and potentially for the community hub if the ownership transfers to the council. However, the current VAT consultant report is not sufficiently detailed to conclude on the correct VAT treatment of the capital expenditure and future income streams.</p> <p>The council is currently reviewing the community hub transfer process and we suggested during the audit that the council should look at all options, including the establishment of a sole trustee charity.</p>	<p><i>The council should complete a comprehensive options appraisal for the community hub and identify the advantages and disadvantages of each option. The options reviewed should include the option of a sole trustee charity.</i></p> <p><i>The options appraisal process should include securing the services of a VAT consultant to provide a report for the council identifying the VAT implications of each option, including the impact of the VAT partial exemption rules.</i></p>	<p>The council is now sole trustee of the hub.</p> <p>The VAT issues regarding the hub and the Guildhall need to be reviewed by an external VAT consultant.</p> <p>2019/20 follow up – IMPLEMENTED</p>
2	<p>Financial Regulations required that the pressure washing contract in August 2018 should have been subject to three quotations. However, we were only able to identify 2 quotations. We were informed that three quotations were</p>	<p><i>The council should retain documentation including quotations and tenders for all procurement exercises to ensure they can evidence compliance with the Financial Regulations</i></p>	<p>Implemented</p>

	ISSUE	RECOMMENDATION	FOLLOW UP
	sought but that the evidence had not been retained by the council.		
3	The asset register had not been fully updated for the LED lighting capital expenditure and the Christmas lights purchased.	<i>A complete and accurate asset register should be in place by the year end</i>	Implemented
2017/18 year end audit			
1	The Fixed Asset register provided for audit had not been updated for the enhancement expenditure incurred on street lights brought into service before the year end.	<i>The asset register was updated during the internal audit and the Annual Return corrected. The council should ensure the asset register is also updated during 2018/19 for the remainder of the enhanced LED street lights brought into service</i>	Implemented
2	The creditor for painting the chapel was not a valid creditor as no works had been carried out prior to the year end. As the amount was considered immaterial no adjustment was proposed to the accounts.	<i>Creditors should only include items where the goods or services have been received during the financial year.</i>	Recurring issue – a significant amount of the Telford 50 works which had not been completed by the 2018/19 year end had been accrued for in the 2018/19 accounts. The over accrual has now been corrected by the council. 2019/20 follow up - IMPLEMENTED

	ISSUE	RECOMMENDATION	FOLLOW UP
	The material creditor for street lighting was discussed as the creditor description did not clearly identify the reason for the inclusion in the accounts. The clerk informed us that as at the year end the creditor represented actual LED lanterns that had been ordered and held by EON but not yet fitted to streetlights.		
2017/18 second interim audit			
1	The Finance and Resources committee has approved the transfer of £100,000 of cash reserves to the CCLA property fund in order to secure a higher rate of return.	<i>The council should assess the risk, security and liquidity of material investments before committing to an investment. If the level of expertise is not considered to be available in-house an external opinion should be obtained.</i>	The council did not resolve to transfer the £100,000 to the CCLA property fund
2	There is no adopted email, social media and communications policy, although there are a set of Facebook rules.	<i>The council should adopt an email, social media and communications policy</i>	Outstanding – a draft policy is in place which should be reviewed and adopted by council
3	The January 2018 payroll was not signed as evidence of a member check	<i>The payroll should be reviewed every month by members and signed as evidence of this check</i>	Implemented

	ISSUE	RECOMMENDATION	FOLLOW UP
4	Staff attendances at weddings are paid at a flat rate, with the rate depending on whether they also attend the ante room after the wedding. The flat rates of £50 and £70 were not agreed annually by council.	<i>The council should approve flat rate allowances annually</i>	Implemented – the council have approved the new flat rates.
5	VAT has been overclaimed on mileage claims as the fuel-only mileage rates have not been used to calculate the VAT element of claims.	<i>The next VAT return should be adjusted for overclaimed VAT. The fuel-only mileage rate should be used to calculate VAT in future</i>	Implemented - VAT on mileage is no longer reclaimed
2017/18 First interim Audit			
1	The threshold for tendering in the Financial Regulations is £25,000. However, the tender threshold in the Standing Orders is set at £50000. Discussion with the clerk identified that the correct tender threshold is £25,000.	<i>The tendering threshold in the Standing Orders should be reduced to £25,000</i>	Implemented

	ISSUE	RECOMMENDATION	FOLLOW UP
2	The expenditure limit set in the Financial Regulations for credit cards is £500. However, review of the credit card statements identified that the bank had increased the card limits to £7500 without consulting the council.	<i>The bank should be notified that no increases to credit card limits can be actioned without consulting the council</i>	Implemented on site by clerk during interim audit
3	Data Protection Law will change significantly on May 25 th 2018 due to the 2016 EU Directive General Data Protection Regulation (GDPR) taking effect. 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.	<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>	Standing Orders updated and privacy policies in place. Data Protection 2018 Policy in place that incorporates the GDPR
4	The payment of £7500 in April 2017 to Newport in Bloom is not supported by a signed confirmation of receipt	<i>A signed confirmation of receipt should be secured for all significant donations</i>	Implemented

	ISSUE	RECOMMENDATION	FOLLOW UP
2016/17 final accounts audit			
1	The Council have a credit card that is used by two members of staff. No accrual has been made in the accounts for payments made using the credit card in March 2017.	<i>Whilst not significant amounts, in future, an accrual should be entered in the year end accounts for credit card purchases made during March each year.</i>	Implemented
2	The financial regulations require that an analysis of credit card payments is provided to Council. A summary is provided of direct debits but the detailed listing of credit card payments is not presented to Council and signed as approved.	<i>The schedule of direct debit and credit card payments should be approved by Council and signed by the Chair.</i>	Implemented
2016/17 Interim audit two audit recommendations			
1	A review of the minutes found that the Resources & Finance Committee minutes for 7/9/16 had been signed but not initialled on each page.	<i>Loose-leaf minutes should be initialed on each page. Please ensure these minutes are initialed retrospectively.</i>	Implemented
2	Testing of Weddings income found an error on invoice '61/16-17' where the date the deposit was paid was stated	<i>Invoices should state accurately the date the deposit was paid.</i>	Noted

	ISSUE	RECOMMENDATION	FOLLOW UP
	incorrectly as 13/4/16 when it was actually 6/9/16.		
2016/17 Interim audit one audit recommendations			
1	The Financial Regulations require that for contracts over £2,500, the clerk shall obtain three quotations before the contract is awarded. Our testing of payments found that for two such contracts only two contracts had been received.	<i>The fact that only two quotations had been received for a tender exercise should be reported in the minutes.</i>	Quotes were for specialist services and have resolved retrospectively to minute the fact
2	The May schedule of payments totalling £3595.71 has not been signed by the Chair to evidence approval of the individual payments.	<i>As the total of payment schedules is disclosed in the minutes, all supporting lists of payments should be signed by the Chair to evidence these have been reviewed and approved</i>	Noted
3	A partial exemption calculation is not carried out annually. Although the council appears to be below the £7500 threshold in the previous financial year it is good practice to monitor this through a partial exemption calculation	<i>The council should be aware of the VAT partial exemption rules relating to VAT exempt activity such as hall hire and rents to ensure any potential impacts are costed before any large capital schemes are undertaken, for instance, with regard to the Guildhall. VAT partial exemption rules are detailed in VAT notice 749</i>	Noted
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	<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>	Noted

	ISSUE	RECOMMENDATION	FOLLOW UP
	be retained, when they should be disposed of and secure disposal requirements. Such a policy would also help the council save time and storage space by reducing the amount of information held unnecessarily.		