



Sandbach Town Council

Internal Audit 2022/23

JDH BUSINESS SERVICES LTD

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

The internal audit of Sandbach 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
- Checking that during the previous year , the council correctly provided for the period for the exercise of public rights as required by the Accounts and Audit Regulations

The interim internal audits provide 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 the tests indicated above, in our view the council's system of internal controls is in place, adequate for the purpose intended and effective, except for the issues and recommendations reported in the action plan overleaf.

J D H Business Services Ltd

	ISSUE	RECOMMENDATION	FOLLOW UP	STC Management Response
2022/23 Year End Internal Audit				
No further issues arising – a robust set of year end records have been maintained with a comprehensive audit trail to supporting information.				
2022/23 Second Interim Internal Audit				STC Management Response
1	The Informal Group Log than lists the various working groups of the council indicates that one group, the Small Common Refurbishment Project Group, has delegated powers. However, a working group that is not a committee or sub-committee of the council cannot have delegated decision making powers.	<i>The council should review the terms of reference of the Small Common Refurbishment Project Group to ensure it is advisory only with no decision making powers.</i>		The informal group log is in draft form – this is an error and will be removed. All decision making has been delegated by Council 21 September 2022 to the Small Common Sub Committee.
2	Aged debtor reports are not provided annually to council to provide management information about the age profile of debtor balances.	<i>Management information provided to council could be improved by providing the Rialtas aged debtor report at least annually so council can review income risks in terms of whether the levels of older debtors is significant.</i>		This will be presented to Council annually as part of the final accounts. Client confidentiality would need to be addressed.
3	Pay rises are notified to the payroll agent via an email from officers.	<i>The Chair should either email the annual officer pay rise information to the payroll agent or a scanned letter from the Chair should be sent to the agent conforming the annual officer pay rises.</i>		This will be implemented with immediate effect. We assume this means the Chair of Finance,

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				Policy and Governance Committee. We assume this is in relation to NJC increment pay rises which the Council have authorised.
4	Although there is some coverage of investments in the Financial Regulations, there is no current adopted Investment Strategy and Treasury Management strategy.	<i>An Investment Strategy and Treasury Management strategy should be established with reference to the requirements of the Local Government Act 2003.</i>		This will be implemented and presented to the next FPG Committee.
5	The council is not currently provided with the Fixed Asset Register for review and approval annually.	<i>As part of year end procedures, the council should be provided with the Fixed Asset Register for review and approval annually.</i>		The Council reviews the fixed asset register annually but does not present this to Council as it is not required by Financial Regulations. We will present annually as part of the AGAR.
2022/23 First Interim Internal Audit				STC Management Response
1	Sample testing of bar income identified the reconciliation of income to z reads was not always being carried out. Where the reconciliation is completed, we identified examples where the information was not	<i>The reconciliation of bar income must be carried out comprehensively for every event. Where there are significant differences above a specified threshold between the z reads and card/cash income recorded, then these</i>	Implemented - The council has implemented a bar income spreadsheet which	Closed.

	ISSUE	RECOMMENDATION	FOLLOW UP	STC Management Response
	<p>comprehensive enough to evidence that income has been completely and accurately recorded as follows:</p> <ul style="list-style-type: none"> - Where the reconciliation records differences between card/cash and z reads, these are simply recorded with no explanation even where the differences are significant. No threshold has been set for explanations to be required for card and cash reconciliation differences. - The bar takings sheets containing the reconciliation template also has a checklist to be completed, This includes confirmation that an ‘ issues sheet’ has been completed. We noted this is ticked even when no issues sheet has been completed so there is a need for staff training in the completion of the bar takings reconciliations. - Due to the lack of effective reconciliation process in the bar takings sheets, the purchases made out of bar cash at events are not being quantified in the reconciliation and then posted to expenditure in the 	<p><i>differences must be investigated. The ‘issues sheet’ must be completed with the reasons for all significant differences.</i></p> <p><i>Income and expenditure must be posted gross to the Rialtas ledger. The bar takings sheet should include a section containing the required posting to the ledger for income and expenditure for each event. VAT should be reclaimed on all standard rated purchases paid out of bar cash receipts.</i></p> <p><i>Staff involved in the bar events should receive training in the completion of the bar takings sheets, reconciliation with z reads and following up significant differences identified.</i></p> <p><i>Finance staff should review all bar takings reconciliation and ‘issues sheets’ to ensure differences are adequately investigated and explained.</i></p>	<p>evidences regular reconciliations with explanations required. when a defined threshold is exceeded. Staff responsible for managing bar takings have been trained in required procedures.</p>	

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	Rialtas ledger. Therefore, net income is being posted for bar income to the ledger. The purchase invoices are attached to each reconciliation so the information is available to calculate the postings required.			
2	<p>Sample testing of markets income identified that the markets spreadsheet developed to predict income for market days and used for reconciliation to actual market takings has been discontinued.</p> <p>Market takings sheets do not always evidence that any reconciliation of markets income took place, for instance the market takings sheet dated 05/08 /2022 not signed as 'checked by'. The review of the market sheets is also important as it helps ensure that market takings are allocated to the correct category for posting to the Rialtas ledger and that the correct rate of VAT is applied eg Gazebos.</p> <p>We were informed that markets are being moved to a card payment system only which will reduce the administration of cash reconciliations.</p>	<i>The markets income spreadsheet should be reinstated and used to reconcile market takings sheets with predicted income per the spreadsheet. Reasons for differences should be clearly stated in the reconciliations.</i>	Implemented - The council has reinstated the market income spreadsheet and regular reconciliations.	Closed

	ISSUE	RECOMMENDATION	FOLLOW UP	STC Management Response
2021/22 Year End Internal Audit				STC Management Response
1	<p>The balance for deposits held in the year-end Balance Sheet is £13,326.10, however, the analysis of deposits actually held for events dated post 31/03/2022 is £9815.60.</p> <p>We were informed the £3510.50 difference related to items such as deposits not converted into payments for invoices and deposits for events cancelled by the customer who has then forfeited the non-refundable deposit.</p>	<p><i>The difference between deposits held per the year-end Balance Sheet, and actual deposits relating to 2022/23 onwards should be fully reconciled and a report produced for council including the amount that is proposed for write off.</i></p> <p><i>The report to council should also identify the improvements to internal controls over deposits for implementation including:</i></p> <ul style="list-style-type: none"> <i>• a regular reconciliation of the balance of deposits in the ledger with the underlying analysis of deposits held for future events</i> <i>• ensuring officers convert all relevant deposits into invoice payments for events held</i> <i>• ensuring non-refundable deposits that are forfeited are cancelled from the deposits account in the ledger on a timely basis.</i> 	Implemented	Closed.

	ISSUE	RECOMMENDATION	FOLLOW UP	STC Management Response
2	The gross value of debts over 60 days old as at the year end was £4074. This balance represents 39% of the year end trade debtors.	<p><i>Customer debt must be followed up promptly in accordance with the council incomes policy.</i></p> <p><i>Annually the council should carry out a review of the debtors ledger, in advance of the year end, to clear errors/cancelled bookings and identify potential and actual bad debts. A report should be provided to council for identified bad debts for approval for write off. For the total of doubtful debts identified during the review, a provision should be included in the year end accounts.</i></p>	A review of debtors formed part of year end procedures for 2022/23 including debt provision.	
2021/22 Second Interim Internal Audit				STC Management Response
1	We could not identify any approval in the council minutes for the sample of credit card or petty cash payments we tested.	<i>All credit card and petty cash payments should be presented to council for approval.</i>	Implemented	Closed.
2	A number of recommendations from previous financial years remain to be implemented.	<i>The council should implement internal audit recommendations on a timely basis.</i>	See follow up of issues below	See below.
2021/22 First Interim Internal Audit				STC Management Response

	ISSUE	RECOMMENDATION	FOLLOW UP	STC Management Response
1	<p>Insufficient staff resources due to gaps in the organisational structure has meant significant delays in delivering key financial requirements for the year to date:</p> <ul style="list-style-type: none"> - Posting of transactions to the Rialtas ledger has not been completed on a timely basis and as at the date of the internal audit visit on January 20th 2022 the ledger and bank reconciliations had not been completed from November onwards as a process of catch up had to be undertaken in terms of posting entries to the ledger for earlier months. - As a result of the above, it was not possible to present the first half yearly budget report to the Finance and Governance Committee until December 8th 2021. The lack of staff resources also meant the council had to outsource the development of the 2023 annual budget to an accountancy firm. 	<p><i>The council should ensure there are sufficient financial staff resources in place to carry out all financial requirements on a timely basis including regular input of transactions into the Rialtas ledger, monthly bank reconciliations, budgetary control reporting, completing the annual budget for council consideration, and ongoing compliance with all the requirements of the Financial Regulations.</i></p>	Implemented	Closed.
2	<p>An input error resulted in a supplier payment of £838.80 being made to an incorrect sort code and therefore bank account. The</p>	<p><i>When a bank payment is flagged as 'not possible to verify bank details' the payment should not be made to the supplier at that time</i></p>	<p>This was an isolated error – the clerk noted</p>	<p>Council approved write off 30 November 2022</p>

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	Natwest Payments status report states ‘Not possible to verify account details’ for this payment and this should have acted as a prompt to check the supplier bank details but the payment was still made. Natwest have implemented the ‘Confirmation of payee’ control to prevent fraud, and errors of this nature occurring. The amount paid has not been refunded to date.	<i>– the bank details should be checked to the supplier invoice and the supplier should be contacted to verify the bank details.</i>	that the Council approved the write off of the whole amount on 30 November 2022.	
3	The aged debt listing as at the January 20 th 2022 comprised £3991.93 of debtors in excess of 60 days old. Discussion with staff indicated there had not been sufficient staff resources to follow up outstanding debtors or issue regular customer statements.	<i>Outstanding debtors should be followed up regularly and customers issued with debtor statements as part of standard credit control procedures.</i>	See year end internal audit issue 2.)	As above.
4	<p>We were unable to review reconciliations of bar takings cash-sheets to till z-reads as no z-reads were available due to ongoing issues with the bar till. The lack of reconciliations between bar cash-sheets and till z-reads means this important internal control of over the completeness and accuracy of bar income had not been in place for a significant portion of the financial year.</p> <p>We understand finance staff have since contacted the supplier and the bar till has been updated with new software that enables</p>	<p><i>The council should act promptly to resolve key issues that are impacting on the ability to apply internal controls effectively. In this instance the supplier could have been contacted much earlier in the financial year to provide the required software update for the tills.</i></p> <p><i>Staff resources should be identified to complete reconciliations of bar takings for events with the z-reads.</i></p>	Implemented – Z reads are now produced and attached to bar takings reconciliation sheets	Closed.

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	Z-reads to be printed after every event and that these are now available from August 2021 to date.			
5	Review of market takings sheets identified examples of sheets not being checked and signed as 'checked by' . This again was due to lack of staff resources to undertake checks on actual vs expected income and the allocation of income types. The review of the market sheets is also important as it helps ensure that market takings are allocated to the correct category for posting to the Rialtas ledger and that the correct rate of VAT is applied eg Gazebos.	<i>Staff resources should be identified to complete checks over the completeness and accuracy of market income in the market takings sheets. These checks should be evidenced by a dated signature.</i>	2022/23 second interim follow up - The council has reinstated the market income spreadsheet and regular reconciliations.	Closed
6	The Finance & Governance Committee is scheduled to approve payments quarterly. From June 2021 onwards, the schedule of payments produced from Rialtas also includes BACs batch totals of payments rather than the underlying payments.	<i>All individual payments should be reported to the Finance & Governance Committee for approval.</i>	Implemented	Closed
7	The system of authorising payments changed during the financial year so that the previous locum clerk authorised online payments rather than two councillors from August 2021 until the date the interim support ceased. Financial Regulations	<i>The council should authorise payments as prescribed in the current Financial Regulations.</i>	Implemented	Closed

	ISSUE	RECOMMENDATION	FOLLOW UP	STC Management Response
	require two councillors to authorise online payments prior to the payments being made.			
8	We could not identify any approval in the council minutes for credit card or petty cash payments made during 2021/22 to the date of the interim internal audit.	<i>All credit card and petty cash payments should be presented to council for approval. The card and petty cash payments made to date should be put to the next relevant meeting for approval.</i>	Implemented	Closed
9	<p>The budgetary control information presented to council did not contain any explanations of material variances as required by the Financial Regulations:</p> <p><i>4.8. The RFO shall regularly provide the Council with a statement of receipts and payments to date under each head of the budgets, comparing actual expenditure to the appropriate date against that planned as shown in the budget. These statements are to be prepared at least at the end of each financial quarter and shall show explanations of material variances. For this purpose "material" shall be in excess of the greater of £500 and 10% of the budget line.</i></p>	<i>The budgetary control information presented to council should comply with the requirements of the Financial Regulations.</i>	Implemented	<p>Closed.</p> <p>This recommendation is now implemented.</p> <p>Variance report presented to Finance, Policy, and Governance Committee 1 February 2023 Item 6h.</p>
10	An invoice or voucher could not be located for the card payment on 07/4/21 to Dropbox for £60.48.	<i>Supporting documentation must be retained for all transactions.</i>	Implemented – supporting documentation has now been provided.	Closed.
2020/21 Year End Internal Audit				STC Management Response

	ISSUE	RECOMMENDATION	FOLLOW UP	STC Management Response
1	There is an earmarked reserve in the year end accounts for personnel adverts of £1,300, however, this is an annual revenue spend item rather than a medium term scheme/project or a sinking fund.	<i>Earmarked reserves should not be established for annual revenue spend items.</i>	Implemented	Closed.
2020/21 Second Interim Internal Audit				STC Management Response
1	The council is party to a number of contracts with varying lengths and conditions. Current information in the 'Contract List 2021' is not sufficient to show key contract information such as when contracts end, payment terms and whether extensions are permitted. For instance, the information regarding the West Mercia contract with annual value of circa £27,500.00 indicates uncertainty as to whether the council is still within a fixed term contract.	<i>The council should establish a contracts register which should be regularly reviewed to identify those contracts where the upcoming end date signifies that a tender or quotation process is required, or whether a decision is needed regarding an extension which is provided for in the contract terms.</i>	Implemented	Closed.
2	The risk assessment does not address the risks of supplier (procurement) fraud.	<i>The risk assessment should be updated to include supplier (procurement) fraud including the adequacy of supplier onboarding controls.</i>	Recommendation Outstanding – the clerk has noted that the updated risk assessment to be adopted March 3 rd , 2023 will	Now implemented and presented to Council 8.3.23

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			address supplier fraud risks.	
2020/21 First Interim Internal Audit				STC Management Response
1	<p>A cash deficit on market income bankings was identified on April 20th 2020 relating to March 19th, 2020. The total collected in rent according to takings records was £487, however, on reconciling the receipt books, the actual income was identified as £463.</p> <p>The market takings had been reconciled and the paying in slip completed. However, the paying in book is also missing and the bank has no record of an excess of cash bankings recorded that day. The red ledger book used to record bankings had been completed with the takings total and bank giro reference indicating the cash was ready to be banked, however, the money was never banked.</p> <p>It is not known whether the money had been stored in the safe prior to banking according to cash handling protocols. An internal investigation has been carried out and a thorough research of the premises but the cash has not been identified, neither has the paying in book been located. In addition,</p>	<p><i>The Cash Handling Procedures document has been updated for approval by the Finance Committee. However, we would expect further controls over access to the safe to be further developed in the updated policy.</i></p> <p><i>All staff involved in cash handling should receive instruction in applying the updated Cash Handling Procedures and these must be complied with for all cash takings and bankings.</i></p> <p><i>Deficits between bankings and records of cash collected should be investigated promptly and reasons for differences recorded on the cash sheets.</i></p>	A revised cash handling policy is in place including additional restrictions for access to the safe.	Closed.

	ISSUE	RECOMMENDATION	FOLLOW UP	STC Management Response
	<p>there is still no explanation for the £99 difference between market rent collected and the amount of bankings recorded.</p> <p>The internal investigation conclusion reported to the Finance Committee in August 2020 was that the market cash collected and paying in book were missing and the Cash Handling procedures policy had not been followed on March 19th, 2020.</p> <p>Staff have assessed whether all market rents could be paid by card but it was concluded that a proportion of traders would still wish to pash in cash. Full council will be requested to approve the write off of the cash deficit.</p>			
2	<p>The format of the Market Takings sheet does not account for takings paid by card. Therefore, this information has to be included manually, resulting in a presentation of information that can be difficult to follow.</p>	<p><i>The format of the market takings sheet should be revised to ensure all required information and analysis is easily completed and presented.</i></p>	Implemented	Closed
3	<p>A cybersecurity checklist has been provided for completion that contains key cybersecurity measures that should be in place.</p>	<p><i>The council should ensure the key cybersecurity measures are all in place.</i></p>	<p>The council has completed the cybersecurity checklist and there are a number</p>	<p>This will be implemented with immediate effect.</p>

	ISSUE	RECOMMENDATION	FOLLOW UP	STC Management Response
			of issues that need to be implemented.	
2019/20 year end internal audit				STC Management Response
1	<p>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 (2018/19 financial year) was compliant with the Regulations.</p> <p>The council did not comply with Regulation 15 of the Account and Audit Regulations 2015 as it failed to make proper provision for the exercise of public rights in Summer 2019 for the 2018/19 accounts. The public notice was displayed on the first day of the public notice period. However, the notice must be displayed to the public at least one day earlier than the commencement date of the notice period.</p>	<i>The 14ouncill must ensure that It makes proper provision for the exercise of public rights for every financial year. The council need to ensure our finding are taken into account when answering assertion 4 of the Annual Governance Statement for 2019/20.</i>	Implemented	Closed.
2	By the end May 2020 a total of £1523.50 had been collected in respect of the £6,678.65 debts that were over 2 months old as at March 31 st . Therefore, £5155 of balances are now over 4 months old. We	<i>Annually the council should carry out a review of the debtors ledger, in advance of the year end, to clear errors/cancelled bookings and identify potential and actual bad debts. A report should be provided to council for</i>	Recommendation Outstanding - See 2021/22 issues	As Above

	ISSUE	RECOMMENDATION	FOLLOW UP	STC Management Response
	understand the outstanding balances comprise a mixture of old balances that need to be cleared as they relate to cancelled bookings or errors, uncollectible debts and collectible debts. There is no provision for doubtful debts in the year end accounts.	<i>identified bad debts for approval for write off. For the total of doubtful debts identified during the review a provision should be included in the year end accounts.</i>		
2019/20 second interim internal audit				STC Management Response
1	There was no completeness check carried out on Party in the Park tick income. Tickets were issued and all people entering had an armband with a unique sequential number. Therefore, the information was available to reconcile income received with underlying activity information.	<i>The completeness and accuracy of income from the Party in the Park event should be checked by reconciling income received to underlying activity information such as sequential tickets/armbands issued.</i>	The pandemic has resulted in cancellation of events and we are informed the system will be updated in time for the recommencement of events	Closed. New system implemented.
2	Room hire income sample testing identified that VAT is not charged on screen and projector hire as it is classified as the same type of supply as room hire.	<i>The supply of the screen and projector is not the same as the supply of a room for hire. The council should ensure VAT is charged appropriately on all equipment hire.</i>	Guidance currently being reviewed by council to clarify the VAT status of equipment charged separately.	Closed.

	ISSUE	RECOMMENDATION	FOLLOW UP	STC Management Response
3	The annual IT contract is above the levels required for competitive quotations in the Financial Regulations. The contract is rolled over annually by the council.	<i>The council minutes should refer to the Contract Financial Regulations relied upon when rolling over the annual IT contract.</i>	The clerk has confirmed that Financial Regulation 11.1.c will be referred to in future where relevant.	Closed.
2019/20 first interim internal audit				STC Management Response
1	Pay rises are notified to the payroll agent by a document that is sent by staff via the secure IRIS portal, however, this document is not signed by councillor to confirm the pay awards were authorised by council.	<i>The document confirming annual pay rises to the payroll agent should be signed as authorised by the Chair.</i>	The RFO has confirmed that all pay rises and increments for 2020/21 were approved prior to payroll being submitted, by Chair of Personnel and The Mayor.	Closed.
2	A van was purchased on 28/08/2019 for £5500. This expenditure is in excess of the threshold in the Financial Regulations for three quotations. We were informed that a review of prices from suppliers was carried out but the evidence was not retained.	<i>The evidence for quotations for material supplies should always be retained, for instance, by attaching them to the Purchase Order.</i>	Recommendation implemented – no similar issues arising from testing in 2020/21	Closed.

	ISSUE	RECOMMENDATION	FOLLOW UP	STC Management Response
3	The annual expenditure with Hops and Barley is material but there was no evidence of three quotations as per the Financial regulations requirements. The contract is ongoing with no time limit set.	<i>Supplies in excess of the threshold for securing three quotations should be procured in accordance with the Financial Regulations requirements. Where a material contract spans more than one financial year a time limit should be included in the contract.</i>	The clerk has confirmed that a review of regular suppliers is being undertaken. See 2020/21 issue re. establishing a contracts register.	Closed.
4	Financial Regulations require the clerk, in conjunction with the Chair of the appropriate Committee, to provide authority to spend for item/s not exceeding £1,500. Purchase Order 1461 was not signed as authorised by the clerk and Chair and the majority of Purchase Orders for expenditure below £1500 are only signed by the clerk.	<i>The council should comply with the 'authority to spend' requirements in the current Financial Regulations for items of expenditure below £1500.</i>	Not relevant to 2020/21 onwards as the Financial Regulations were amended and approved by Council ref 27.02.20.14.2.	Closed.
5	Income to be allocated to other income codes apart from markets is being recorded in the expenditure section of the Market Income Takings form. This could lead to mis-postings of income when the data is entered into the RBS ledger.	<i>Income to be allocated to non-markets income codes should be recorded in the Other Information section of the markets takings sheet.</i>	See market takings issues 2020/21.	As above.
6	The gross value of debts over 60 days old as at December 2 nd was £3558. This balance represents 26.6% of the £13365 debtor balances at that date.	<i>The debts in excess of 60 days should be followed up in accordance with the council incomes policy.</i>	See 2020/21 and 2021/22 debtors aged ledger issues.	As above.