

Handforth Town Council 2022/23 Internal Audit Report

The internal audit of Handforth 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

The interim internal audit provides 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. The recommendations reported overleaf should be implemented. As part of the internal audit work for the next financial year we will follow up all recommendations.

JDH Business Services Limited

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ACTION PLAN

| | ISSUE | RECOMMENDATION | FOLLOW UP |
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| 1 | <p>The council is increasing in size and scope and the fixed asset base is growing. Therefore, the format of the fixed asset register should be enhanced to include key asset management headings.</p> | <p><i>The council should improve the format of the asset register by including the following key information:</i></p> <ul style="list-style-type: none"> • <i>Y/N Insurance reviewed/required</i> • <i>Insurance value</i> • <i>Method of valuation, and if proxy cost is used for first valuation, a note of the method used for valuation and details of any professional advice received;</i> • <i>useful life estimate;</i> • <i>location;</i> • <i>responsibility/custodian);</i> • <i>present use and capacity, for example in terms of site area,</i> | |

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| | | <p style="text-align: center;"><i>internal floor areas, and measures of occupancy and/or usage;</i></p> <ul style="list-style-type: none"> • <i>any available indications of asset value and condition;</i> • <i>any regular charges for usage or occupancy.</i> | |
| 2022/23 Year end internal audit | | | |
| 1 | <p>The council will likely be commencing a lease with Cheshire East Council for the Handforth Youth Centre for 99 years from 01/04/2023. This will have a material impact on the council income and expenditure. For instance, income from lettings, including the nursery, are projected by the clerk to be circa £40k per year.</p> <p>The council has projected the annual income and expenditure of the lease and estimated the annual deficit as £14k. Therefore, the town council resolved to increase the precept by £15k at the October 2022 meeting.</p> | <p><i>The council should ensure that the risk assessment in 2022/23 includes the additional risks identified for the lease and management of the Handforth Youth Centre, along with appropriate mitigation actions for all risks identified.</i></p> <p><i>As the council will be delivering a new lettings service it is important that a data protection impact assessment is applied to all new personal data categories collected and retained, to ensure privacy by design is embedded from the outset of the new service. Retention limits for all new personal data categories should be incorporated into the council retention policy.</i></p> | |

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| | | <p><i>The council should ensure effective internal controls are designed for the lettings income, including an incomes policy and reviewing whether the SCRIBE integrated hire system can be utilised for bookings and invoicing.</i></p> <p><i>The council should ensure the lettings procedures comply with the requirements of section 9.) of the Financial Regulations including section 9.3. that requires the council to review all fees and charges at least annually, following a report of the Clerk.</i></p> | |
| 2 | <p>The 2022/23 floodlight contract for the playing fields of £10,000 was financed wholly by grants/donations. However, in order to secure the funding the council needed to secure the contractor for the works by March 31st 2022. Due to the limited time period available the council approached their incumbent lighting contractor for a quotation for the works which was accepted. The Financial Regulation usually require three quotations for contracts of this size.</p> | <p><i>The council should ensure that when an exemption from the standard procurement requirements of the Financial Regulations is relied upon, then the minutes should reference to the exemption relied on in the Financial Regulations (FRs).</i></p> <p><i>(NB exemptions are listed in the FRs in sections 11.1.a.) i to vi) and section 11.1.d) of the FRs states ‘When applications are made to waive financial regulations relating to contracts to enable a price to be</i></p> | |

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| | | <i>negotiated without competition the reason shall be embodied in a recommendation to the council')</i> | |
| 2021/22 Year end internal audit | | | |
| 1 | <p>The council received a grant from Onward Homes £10,000.00 which was earmarked for specific projects, however, the £10000 had not been earmarked in reserves.</p> <p>The draft accounts were amended to rectify this issue.</p> | <i>Earmarked reserves should be established when monies are received for specific purposes.</i> | <i>The grant was expended in 2022/23</i> |
| 2 | <p>The council established a budget for contingency revenue fund for £5,000, however, the council already has substantial contingency general reserves.</p> | <i>Budgets should be set for actual planned expenditure only.</i> | <i>The only contingency included for 2023/24 budget is for the Handforth Youth Centre</i> |
| 2021/22 interim internal audit | | | |
| 1 | <p>The Christmas lights market testing exercise in 2021 was for a three year</p> | <i>The council must comply with the tender requirements of the Financial Regulations.</i> | <i>Noted by council for next tendering exercise for this contract in 2024.</i> |

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| | <p>agreement which would exceed the £25,000 threshold for tendering in the Financial Regulations. Therefore, the tender regulations in the FRs should have been applied. Instead, the market testing exercise involved securing three quotations with detailed pricing. In addition, as the contract was in excess of £25,000 it should have been advertised on the ContractsFinder website.</p> <p>The FRs require the following for contracts in excess of £25,000:</p> <p><i>'Such invitation to tender shall state the general nature of the intended contract and the Clerk shall obtain the necessary technical assistance to prepare a specification in appropriate cases. The invitation shall in addition state that tenders must be addressed to the Clerk in the ordinary course of post. Each tendering firm shall be supplied with a specifically marked envelope in which the tender is to be sealed and remain sealed until the prescribed date for opening tenders for that contract.</i></p> <p><i>f) All sealed tenders shall be opened at the same time on the prescribed date by the Clerk in the presence of at least one member of council.</i></p> <p><i>g) Any invitation to tender issued under this regulation shall be subject to Standing Orders[],</i></p> | <p><i>All contracts in excess of £25000 should be advertised on the ContractsFinder website.</i></p> | |

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| | <i>4 [insert reference of the council's relevant standing order] and shall refer to the terms of the Bribery Act 2010.</i> | | |
| 2 | Handyman services were subject to market testing during the year. FRs require that for these supplies which are over £3k three quotations sought. However, one of the quotations provided as evidence was from the CheckaTrade website that merely provided hourly prices a customer could expect to pay a handyman in the UK. Therefore, this does not constitute an approach to an individual or consortium supplier for quotation from an individual supplier so only two actual quotations were sought for this contract, including one from the incumbent. | <i>The council must comply with the procurement requirements of the Financial Regulations.</i> | <i>Noted by council for next tendering exercise for this contract in 2024.</i> |
| 3 | The payment dated 13/07/2021 for Floral Displays for £3801 in the payments schedule does not agree to the invoice and SCRIBE ledger payments value of £3989. | <i>When councillors approve the schedule of payments the invoice should be compared with the payments listing to ensure the details, including the invoice value, agree. If differences are identified these should be raised with the clerk and any issues resolved prior to approval of the payment.</i> | <i>No further issues identified in 2022/23 interim internal audit</i> |

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| <i>2020/21 year end internal audit</i> | | | |
| 1 | <p>The final report of the Monitoring Officer (MO) investigation into councillor conduct at the parish council was not available for review as part of our year end internal audit. Therefore, if any evidence of non-compliance with laws, regulations and proper practice is identified in the Monitoring Officer report, including whether individual meetings were compliant with requirements, we will reflect these findings in our internal audit report 2021/22.</p> | | <p><i>We are informed that the MO report will be discussed at the 17/01/2022 Cheshire East Council audit and governance committee.</i></p> |
| 2 | <p>The council did not comply with Regulation 15 of the Accounts and Audit Regulations 2015 as amended by SI 2020/404 the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 as it failed to make proper provision for the exercise of public rights for the 2019/20 accounts, since the approval date was after the start of the period for the exercise of public rights. In addition, the public notice announcement date was the same date that the inspection period commenced. The public notice announcement date must be at least one day before the commencement of the inspection period.</p> | <p>The council must comply with the requirements of the Accounts and Audit Regulations 2015 with respect to the notice for the exercise of public rights.</p> | <p><i>Implemented</i></p> |

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| 3 | The smaller authority failed to approve the AGAR in time to publish it before 1 September 2020, the date required by the Accounts and Audit Regulations 2015 as amended by SI 2020/404 the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, as the AGAR was published in October 2020. | The council must comply with the publication requirements of the Accounts and Audit Regulations 2015. | <i>Implemented</i> |
| 4 | An unrepresented item in the year end bank reconciliation for £3500 was actually a creditor for office rent. Creditors should not be included in the unrepresented items in the bank reconciliation; only payments that have actually been issued and remain unrepresented. | <p><i>The council prepares accounts on a receipts and payments basis and therefore creditors should not be included in any part of the accounts or bank reconciliations.</i></p> <p><i>NB the error has been amended and the correct accounts are now disclosed in the AGAR.</i></p> | <i>Implemented</i> |
| 2020/21 interim internal audit | | | |
| 1 | There is currently an investigation by the Monitoring Officer of the unitary council into councillor conduct at the parish council. The final report of this investigation will be reviewed as part of our year end internal audit and if any evidence of non-compliance with laws, regulations and proper practice is identified, including whether individual meetings were compliant with requirements, we will reflect these findings in our annual internal audit certificate and qualify the 2020/21 internal audit certificate accordingly. | | |

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| 2 | <p>The plant bedding contract ended in July 2020 and is in excess of the level in the Financial Regulations (FRs) that requires market testing. However, there is no evidence that the council carried out any process to secure three quotations for the contract. In addition, there is no formal signed contract extension in place from when the previous contract ended.</p> | <p><i>The council must comply with the procurement requirements of the Financial Regulations.</i></p> | <p><i>A market testing exercise was held in 2021/22 for the plant bedding contract in which quotations were sought from a number of providers.</i></p> |
| 3 | <p>There was a lack regular budgetary control review by the council during the financial year. Section 3.3 of the Financial Regulations require the following :</p> <p><i>'The RFO shall regularly provide the Full 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.'</i></p> | <p><i>Regular budgetary control information should be reviewed by council during the financial year in accordance with the Financial Regulations.</i></p> | <p><i>Implemented</i></p> |

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| 4 | There is ambiguity as to whether the LITE contract was extended for 5 years with the supplier using prices relevant to a 5 year contract, or whether the contract resolution in the minutes for 2018 extended the three year contract by a further two years to the end of 2020. In any event, we are informed the contract was ended in early 2021. | <p><i>The council should ensure the lighting contract is subject to market testing as required by the Financial Regulations in 2021/22.</i></p> <p><i>Signed contracts should be in place for all significant contracts and for any agreed contract extensions.</i></p> | <i>See 2021/22 interim internal audit issues</i> |
| 5 | Petty cash is recorded in the SCRIBE ledger as £564.92 on February 19 th , 2021 which exceeds the maximum level of petty cash authorised in the Financial Regulations of £500. | <p><i>Recurring Issue</i></p> <p><i>Petty cash should be strictly maintained at the levels specified in the council Financial Regulations.</i></p> | <i>2021/22 year end petty cash was within the level authorised by the FRs</i> |
| 6 | Donations were made by petty cash for £100 to Handforth Scarecrows and £250 to Hope Central Foodbank. The FRs authorise petty cash to be used only for the purpose of defraying operational and other expenses, not for providing donations. | <p><i>Recurring Issue</i></p> <p><i>Donations should not be made by petty cash. All donations should be made by cheque or other bank payment mechanism</i></p> | <i>No donations are included in the SCRIBE 21./22 ledger as petty cash receipts.</i> |

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| 7 | 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> | <i>Implemented</i> |
| 2019/20 year end internal audit | | | |
| 1 | Petty cash at the year-end is recorded as £732.85 in the SCRIBE ledger which materially exceeds the maximum level of petty cash authorised in the Financial Regulations of £500. | <i>Petty cash should be strictly maintained at the levels specified in the council Financial Regulations.</i> | <i>See 2020/21 issues</i> |
| 2 | There is a general capital reserve of £25,000 which the clerk has noted concerns the potential devolution of the Handforth Youth Centre. | <i>If the general capital reserves of £25000 are intended to be an earmarked reserves, there should be a clear description of the reserve as an earmarked reserve in the analysis of council reserves.</i> | <i>Implemented - general and earmarked reserves have been disclosed by the council</i> |
| 3 | There are material underspends for Social Support, Parish Council costs, and Youth expenditure budgets. These budgets were reduced in November 2019 with a portion reallocated to general reserves. | <i>The council should aim to set a precept underpinned by budgets that reflect realistic and deliverable expenditure plans in the financial year including identified projects and schemes.</i> | <i>See 2021/22 issues</i> |

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| 4 | <p>Contracts:</p> <ul style="list-style-type: none"> - The current maintenance Service Level Agreement ends in July 2021. - The current plant bedding contract ends in July 2020. - The Christmas lighting contract was initially a three year contract which was then extended for another two years by council | <p><i>The council is increasing in size and scope and therefore a contracts register should be established which should be regularly reviewed to identify those contracts where the upcoming end date signifies that a tender or quotation process is required.</i></p> <p><i>The maintenance SLA ends in July 2021, and the plant bedding contract ends in July 2020. Both contracts should be procured in accordance with FRs.</i></p> <p><i>The council should note that the Christmas lighting contract has been extended once, but that continued extension of the contract should not occur as this would mean the contract would not be subject to the requirements of FRs</i></p> | <p><i>See 2020/21 issues</i></p> |
| 5 | <p>The council should uses model Financial Regulations (FRs) which refer in section 10.) to a Purchase Order (PO) system. However, no PO system is currently in place.</p> <p>NALC have recently issued updated model Financial Regulations, that also cover online banking in detail.</p> | <p><i>If the Purchase Order section of the model FRs is an accepted requirement by council, then the council should establish a sequential Purchase Order system.</i></p> <p><i>The council should align the updated 2019 NALC model Financial Regulations to the council scope and activity and adopt them.</i></p> | <p><i>Recommendation Outstanding</i></p> |

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| 6 | Material purchases invoiced via the HomeAssist contract can also include assets eg office blind. | <i>The council should review the maintenance SLA material purchases to identify items that are capital and update the fixed asset register accordingly. The office blind should be added to the fixed asset register.</i> | <i>Implemented</i> |
| <i>2019/20 interim internal audit</i> | | | |
| 1 | The 2017/18 risk assessment is the latest risk assessment published on the council website | <i>The website should be populated with up to date information. For the risk assessment this should be the 2019/20 version</i> | <i>Implemented</i> |
| 2 | The July, August and April 2019 minutes had not been signed by the Chair | <i>The council minutes should be reviewed and signed by the Chair to confirm they are a complete and accurate reflection of the meetings</i> | <i>Implemented</i> |
| 3 | A donation was made by petty cash for £100 to Transition Wilmslow | <i>Donations should not be made by petty cash. All donations should be made by cheque or other bank payment mechanism</i> | <i>See 2020/21 issues</i> |