



Bridgnorth Town Council

Internal Audit 2020/21

JDH BUSINESS SERVICES LTD

INTERNAL AUDIT REPORT BRIDGNORTH TOWN COUNCIL

The internal audit of Bridgnorth Town Council is carried out by undertaking the following tests as specified on 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 on the Annual Return for local councils.

Conclusion

On the basis of internal audit work carried out, which was limited to the tests 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 reported in the action plan. 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

	ISSUE	RECOMMENDATION	FOLLOW UP
1	<p>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. Therefore, the accounts have been adjusted to remove these invalid accruals and include them instead in earmarked year end reserves.</p>	<p><i>Year end procedures should be improved to ensure accruals included in the council balance sheet are completely and accurately stated.</i></p>	<p>Noted and actioned</p>
2	<p>The unspent mayors allowance was included in accruals. This is actually an earmarked reserve.</p>	<p><i>Unspent mayors allowance should be carried over to the next financial year as an earmarked reserve.</i></p>	<p>Noted and actioned</p>
3	<p>The risk assessment does not address the risks of supplier fraud. The supplier fraud risks can be managed via appropriately robust policies and procedures. Examples of prevention actions include:</p> <ul style="list-style-type: none"> - 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 	<p><i>The risk assessment should be updated to include supplier fraud including the adequacy of supplier onboarding controls.</i></p>	<p>To be carried out. A revised Risk Assessment will be presented to Council later in the year</p>

**INTERNAL AUDIT REPORT
BRIDGNORTH TOWN COUNCIL**

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	<p>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</p> <ul style="list-style-type: none"> - 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 - adequacy of council insurance cover (NB most standard council policies do not cover supplier fraud) 		
2020/21 first interim internal audit			
1	<p>Risk Assessment:</p> <ul style="list-style-type: none"> - The management and control of all risks of fraud is described as 	<p><i>Fraud prevention controls and impacts of the Data Protection Act 2018 should be addressed in the 2020/21 review of the council risk assessment.</i></p>	<p>To be carried out. A revised Risk Assessment will be presented to Council later in the year</p>

**INTERNAL AUDIT REPORT
BRIDGNORTH TOWN COUNCIL**

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	<p><i>'Adhere to requirements of Fidelity Guarantee insurance.'</i> There is no mention of fraud prevention controls including those in place to prevent supplier fraud in the management of the risk of fraud.</p> <p>- There is no risk identified for the impact of the Data Protection Act 2018.</p>		
2020/21 first interim internal audit			
1	<p>Payroll sample checks identified that for an employee that received an increment in 2020/21 no minute or Chair's letter was sent to the payroll agency to confirm the pay award and there was no evidence the council approved the pay rise in the minutes.</p>	<p><i>All pay increases should be authorised by Council and recorded in the minutes.</i></p> <p><i>Payroll increases should be notified to the payroll agency either by sending a copy of the relevant council minute or a signed letter by the Chair.</i></p>	<p>The increment increase was part of the original employment contract. A 'notification of change' form was forwarded to Shropshire Council payroll for implantation. This was signed by the Deputy Town Clerk. All future forms, with regard to increases, will be signed by the Chairman and have the relevant minute number recorded.</p> <p>Noted and actioned</p>
2	<p>The signed monthly schedule of approved payments was not included in the minutes covering the payments in our expenditure sample dated in June 2020.</p>	<p><i>The signed monthly schedule of approved payments must be included in the minutes.</i></p>	

**INTERNAL AUDIT REPORT
BRIDGNORTH TOWN COUNCIL**

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3	<p>There is no cybersecurity policy in place that ensures, for instance, the following key measures are in place:</p> <ul style="list-style-type: none"> - Effective password management including regular changes - Training for employees in recognition of spam emails and unsafe links and attachments, and general cybersecurity awareness - Up to date effective spam filters / anti spoofing controls - Two-factor authentication controls for portable devices - An effective network firewall that blocks unauthorised users from accessing the organisation systems - Up to date antivirus software - Keeping all software, applications and operating systems up to date - Never leaving computers unlocked - Encrypt hard disks used in the organisation such as laptops, memory sticks and USB storage devices 	<p><i>A cybersecurity policy should be adopted which addresses the key cybersecurity measures and risks. We were informed that key cybersecurity measures will be reviewed and addressed during the course of the current IT upgrade.</i></p>	
2019/20 year end internal audit			

**INTERNAL AUDIT REPORT
BRIDGNORTH TOWN COUNCIL**

	ISSUE	RECOMMENDATION	FOLLOW UP
1	Capital expenditure of £2532 in March 2020 for advertising board frames was not included in the fixed asset register as additions	<i>The payments ledger should be reviewed annually and all capital expenditure identified and included in the fixed asset register as additions.</i>	Implemented
2	Creditors and debtors are understated by the £1929 credits in the debtors sales ledger.	<i>Credit balances in the debtors ledger should be reviewed annually and where material should be moved to creditors so there is no material netting down of debtors by credit balances</i>	The credit balances were overpayments and Payments in Advance.
4	The risk assessment states under 'loss of cash' that '£200 petty cash held by Finance Officer in lockable container.' However, the year end balance sheet discloses £430 petty cash.	<i>The risk assessment should be updated to reflect the actual levels of petty cash held</i>	Implemented
2019/20 second interim audit			
1	A lease register is being developed as the clerk had identified cases where leases had rent review deadlines but no review had been carried out. Where an authority has a significant number of leases, a comprehensive lease register is an important control over the completeness and accuracy of lease rental income. The register will ensure that income is not lost through the failure to apply increments as	<i>The lease register should be completed for all leases. Responsibilities should be allocated to named officers for regularly reviewing the leasing register to identify leases where action is required such as applying a rent review.</i>	Recommendation outstanding

**INTERNAL AUDIT REPORT
BRIDGNORTH TOWN COUNCIL**

	ISSUE	RECOMMENDATION	FOLLOW UP
	required by the lease and rent review clauses.		
2	<p>There are a number of out of date items in the last completed bank reconciliation:</p> <p>Cheques: 24/1/19 chq 2259 Vision ICT £90 30/5/19 301390 J L Bowen £2622.52 21/8/19 chq2458 TGMA td £1200</p> <p>Receipts not cleared: 28/6/19 £50</p>	<p><i>Out of date cheques should be written back.</i></p> <p><i>The receipt no cleared dated 28/6/19 for £50 should be investigated.</i></p>	Implemented
3	<p>Review of current Fixed Asset Register</p> <p>The following issues were identified:</p> <p>1.) a significant number of community assets are listed but further review identified that many of those assets listed are not actually community assets, ie assets to be held in perpetuity for the benefit of the community.</p> <p>2.) The council has not completed the task of ensuring every asset is adequately insured and that there is no duplication in the register.</p>	<p><i>The following issues should be resolved:</i></p> <ul style="list-style-type: none"> • <i>the community assets analysis needs to be reviewed and only those assets that meet the definition of community assets included</i> • <i>by the year end the council need to complete the current task of ensuring every asset is adequately insured and that there is no duplication in the register. A review of all capital expenditure in year needs to be carried out to identify all capital additions to be included in the asset register. are included</i> 	Implemented

**INTERNAL AUDIT REPORT
BRIDGNORTH TOWN COUNCIL**

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4	<p>The council has a significant CCTV provision in the town but no privacy impact assessment has been carried out for the cameras including justification of the purpose of the monitoring.</p>	<p><i>A privacy impact assessment should be completed for the council CCTV provision</i></p>	<p>Recommendation outstanding</p>
5	<p>There is no current register of contracts referenced to actual signed contracts to ensure, inter alia, that contracts are tendered in good time before the current contract ends.</p> <p>Testing of contracts identified that the Provac Cleaning contract commenced in the Summer 2015 with a 1 year term which was extendable for a further three years. Therefore, applying the maximum possible contract length then the contract ended in Summer 2019 but there was no tendering process applied or new contract issued.</p>	<p><i>A register of contracts should be established. Responsibilities should be allocated to named officers for regularly reviewing the contract register to identify those contracts where upcoming end date signifies that a tender process or optional extension is required. Where an extension to a contract is authorised this should be recorded in the council minutes.</i></p> <p><i>The cleaning contract should be tendered as the contract end date has expired.</i></p>	<p>Implemented – Mid 2020</p> <p>Recommendation outstanding</p>
6	<p>Review of the contract tender in which Healthmatic was awarded the contract identified there was no cost/quality scoring matrix used to assess the relative value for money for each tender received. The</p>	<p><i>A cost/quality scoring matrix should be used to assess the relative value for money of tenders received in a procurement process. The matrix also provides</i></p>	<p>2020/21 follow up – no procurement/contract issues identified</p>

**INTERNAL AUDIT REPORT
BRIDGNORTH TOWN COUNCIL**

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	<p>contract document states the agreement is for a three year period but the section that shows the commencement date of the contract is blank.</p>	<p><i>transparency for the decision making process.</i></p> <p><i>The commencement date should always be stated on signed contracts.</i></p>	
7	<p>We reviewed the latest available accounts (Y/E 31/7/18) for the Sole Trustee Charity, Bridgnorth Community Hall and identified that there are significant issues relating to the accounts for the charity as noted below:</p> <p>The Trustee Report states the following: ‘The trustees present their report with the financial statements of the charity for the year ended 31st July 2018. The trustees have adopted the provisions of the Statement of Recommended Practice (SORP) ‘Accounting and Reporting by Charities’ issued in March 2005’</p> <p>STRUCTURE, GOVERNANCE AND MANAGEMENT Governing document The charity is controlled by its governing document, a deed of trust, and constitutes a limited company, limited by guarantee, as defined by the Companies Act 2006.</p> <p>REFERENCE AND ADMINISTRATIVE DETAILS Registered Company number 1050804 (England and Wales)</p> <p>The 2005 SORP noted above is out of date – the current SORP for accruals accounts is Charity SORP (FRS 102) (effective 1 January 2015. The governance is stated</p>	<p><i>The significant issues raised need to be addressed by the council, as sole trustee of the Bridgnorth Community Hall.</i></p> <p><i>The Charity SORP (FRS 102) (effective 1 January 2015) requires that the accounting recommendations of this SORP apply to all charities in the UK that prepare accounts on the accruals basis to give a true and fair view of a charity’s financial position and financial activities regardless of their size, constitution or complexity.</i></p> <p><i>The Charity Commission provides template FRS 102 accruals accounts (CC17) and these run to 30 pages (as well as a template FRS 102 Trustee Report), therefore, the council should review whether for the year ended 31/7/19 they wish to revert to receipts and payments accounts (with restated comparatives) as the Charity Commission template (cc16) is two pages. The Charity is permitted to file receipts and payments accounts as the gross annual income is less than £250,000.</i></p>	<p>Implemented – the sole trustee charity accounts have been prepared correctly for the year ended 31/7/2019 using the Charity Commission Receipts and Payments accounts template so there is no requirement for Charity SORP (FRS 102) recommendations for accruals accounts to be applied.</p>

**INTERNAL AUDIT REPORT
BRIDGNORTH TOWN COUNCIL**

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	<p>incorrectly as the charity is NOT a limited company by guarantee. The registered company number provided in the trustee report does not exist – this is actually the Charity Number.</p> <p>The Independent Examiners Report states : Independent examiner's report to the trustees of Bridgnorth Community Hall ('the Company') I report to the charity trustees on my examination of the accounts of the Company for the year ended 31 July 2018. Responsibilities and basis of report As the charity's trustees of the Company (and also its directors for the purposes of company law) you are responsible for the preparation of the accounts in accordance with the requirements of the Companies Act 2006' ('the 2006 Act').</p> <p>The independent examiner certificate is incorrect as it is for a company, and the trustees are not directors of the charity. There is only one trustee and that is Bridgnorth Town council which is the corporate sole trustee.</p> <p>The Balance Sheet states:</p> <p>The charitable company is entitled to exemption from audit under Section 477 of the Companies Act 2006 for the year ended 31 July 2018.</p>		

**INTERNAL AUDIT REPORT
BRIDGNORTH TOWN COUNCIL**

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	<p>The members have not required the company to obtain an audit of its financial statements for the year ended 31 July 2018 in accordance with Section 476 of the Companies Act 2006.</p> <p>The trustees acknowledge their responsibilities for (a) ensuring that the charitable company keeps accounting records that comply with Sections 386 and 387 of the Companies Act 2006 and (b) preparing financial statements which give a true and fair view of the state of affairs of the charitable company as at the end of each financial year and of its surplus or deficit for each financial year in accordance with the requirements of Sections 394 and 395 and which otherwise comply with the requirements of the Companies Act 2006 relating to financial statements, so far as applicable to the charitable company.</p> <p>All the above statements are incorrect as the charity is not a company.</p> <p>The Accounting notes state the following:</p> <p>These financial statements have been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 relating to charitable small companies.</p> <p>ACCOUNTING POLICIES</p> <p>Basis of preparing the financial statements The financial statements of the charitable company, which is a public benefit entity under FRS 102, have been prepared in accordance with the Charities SORP (FRS 102) 'Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the</p>		

**INTERNAL AUDIT REPORT
BRIDGNORTH TOWN COUNCIL**

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	<p>Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2015), Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the Companies Act 2006. The financial statements have been prepared under the historical cost convention. Accounting Convention</p> <p>Pension costs and other post-retirement benefits The charitable company operates a defined contribution pension scheme. Contributions payable to the charitable company's pension scheme are charged to the Statement of Financial Activities in the period to which they relate.</p> <p>The accounts are apparently prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 relating to charitable small companies, which is not appropriate as the charity is not a company. There is no charitable company pension scheme but this is stated in the accounting disclosures.</p>		
8	<p>Petty Cash</p> <p>VAT is not reclaimed on car parking 'test' tickets at the Severn car park.</p>	<p><i>Test car park tickets related to a business standard rated income so the VAT should be reclaimed</i></p>	<p>Implemented</p>
2019/20 First Interim Internal Audit			

**INTERNAL AUDIT REPORT
BRIDGNORTH TOWN COUNCIL**

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1	<p>GDPR issues</p> <p>1.) There is no data retention policy and schedule in place. Therefore, the council cannot evidence it is only keeping data as long as required for the specified purpose of processing</p> <p>2.) There is no comprehensive internal staff privacy notice in place that complies with the GDPR guidance for privacy notices</p> <p>3.) There is no overarching information security policy in place that covers members and staff</p>	<p><i>A comprehensive data retention policy and schedule should be adopted and the retention limits within complied with</i></p> <p><i>A GDPR compliant staff privacy notice should be adopted</i></p> <p><i>An information security policy that covers members and staff should be adopted</i></p>	<p>Implemented</p> <p>Implemented</p> <p>Recommendation Outstanding</p>
2	<p>Payroll testing:</p> <ul style="list-style-type: none"> - Not all timesheets have been certified as authorised to evidence the timesheet, including total hours, have been checked eg August 2019, March 2019 - sensitive payroll data is not encrypted when it is sent to the payroll provider, Shropshire 	<p><i>All time sheets should be reviewed for completeness and accuracy and signed as evidence of this review</i></p> <p><i>Encryption should be utilised when emailing sensitive personal information</i></p>	<p>Implemented</p> <p>Implemented</p>

**INTERNAL AUDIT REPORT
BRIDGNORTH TOWN COUNCIL**

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	<p>County Council,</p> <ul style="list-style-type: none"> - There is no signed GDPR compliant data processing agreement in place with the payroll provider. Further, review evidenced that there is a data processing agreement in place for HR and Health and Safety - The payroll provider is informed of staff pay rises by the clerk with a copy of the relevant minute attached. There is no independent check by the payroll provider with members to ensure the pay rise is authorised and accurate. 	<p><i>A signed data processing agreement needs to be in place with the payroll provider</i></p> <p><i>The payroll provider should check pay rises they are notified of directly with the Chair</i></p>	<p>Implemented</p> <p>The Chairman signs the ‘notification of change’ form that is sent to Shropshire Council payroll with the relevant minute number recorded</p>
3	<p>The general expenditure and credit card expenditure is provided to members for approval as a spreadsheet rather than as a direct print of the RBS ledger cash book . As a spreadsheet is being reported rather than the prime book of record (the cash book ledger) there is a risk transactions</p>	<p><i>The RBS ledger cash book payments should be reported to council for approval so members can be assured they are approving the transactions that have been paid, input into the ledger and reconciled in the bank reconciliation.</i></p>	<p>Implemented</p>

**INTERNAL AUDIT REPORT
BRIDGNORTH TOWN COUNCIL**

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	will be omitted or incorrectly recorded when compiling the spreadsheet.		
4	<p>Data Security:</p> <p>Members do not use designated town council email addresses. The following risks arise from not using @bridgnorthtowncouncil.gov.uk email addresses:</p> <ol style="list-style-type: none"> 1.) The clerk will be unable to apply the limits set in the retention policy (when adopted) to private emails and any attachments in the emails. Therefore, the council may be unable to comply with an adopted retention policy/schedule 2.) If a Subject Access Request or FOI request is received, the clerk may be unable to secure relevant information from the private email accounts to ensure all personal data in respect of a data subject is completely and accurately captured 3.) The risk of a data breach is increased as the council security envelope does not extend to private email accounts 	<p><i>The council should establish designated @bridgnorthtowncouncil.gov.uk email addresses</i></p>	<p>Recommendation outstanding</p>

**INTERNAL AUDIT REPORT
BRIDGNORTH TOWN COUNCIL**

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5	The signed July ledger schedule of invoices to be paid was not included with the signed minutes	<i>The July schedule of invoices to be paid should be reviewed to ensure this represents a complete and accurate record of the payments approved at the meeting and signed by the Chair</i>	Implemented
6	Although the accounts information provided in the agendas to members includes the petty cash balance and reconciliation there is no analysis of petty cash payments provided.	<i>The analysis of petty cash expenditure should be reported to council regularly for approval.</i>	Implemented

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 and/or a dated computer screenshot showing the first date of the Notice of Public Rights on the website for 2018/19

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