

**INTERNAL AUDIT REPORT
NANNERCH COMMUNITY COUNCIL
2019/20**

The internal audit is carried out by the following testing of the internal controls specified on the Annual Return for local councils in Wales:

Internal Control	Internal Audit Testing
Books of account have been properly kept throughout the year	<ul style="list-style-type: none"> • Ensure the cashbook is maintained and up-to-date and arithmetically correct • Document and assess the adequacy of the prime books of record (and where relevant computer software) used to record council income and expenditure transactions
<p>Standing Orders & Financial Regulations have been adopted and applied</p> <p>The Council's financial regulations have been met, payments are supported by invoices, expenditure is approved, and VAT is correctly accounted for</p>	<ul style="list-style-type: none"> • Ensure the Council has formerly adopted Standing Orders & Financial Regulations • Ensure a Responsible Financial Officer has been appointed • Through sample testing ensure contracts above the tendering threshold established in the Financial Regulations/Standing Orders been competitively purchased • Through sample testing ensure payments in the cashbook are supported by invoices, authorised in the minutes, have cleared the bank statements and are not ultra vires • Ensure VAT on payments been identified, recorded and reclaimed • Ensure Section 137 expenditure is separately recorded and within statutory limits • Where material services are received from independent or public sector provider(s) ensure an appropriate Service Level Agreement is in place • Having regard to the size of the council, review policy and procedure documents
Adequate arrangements are in place to manage all identified risks	<ul style="list-style-type: none"> • Review the minutes and identify and query with the council any unusual financial activity • Ensure the minutes record the Council carrying out and approving an annual risk assessment • Ensure key categories of insurance are in place and that fidelity cover is adequate • Having regard to the size of the Council, review whether internal financial controls are documented and regularly reviewed • Review whether the Council assessed the significant risks to achieving its objectives relative to its management of its finances and has risk management and risk mitigation procedures in place

**INTERNAL AUDIT REPORT
NANNERCH COMMUNITY COUNCIL
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The annual precept request is the result of a proper budgetary process; budget progress is regularly monitored and the council's reserves are appropriate	<ul style="list-style-type: none"> • Ensure the Council has prepared an annual budget in support of its precept request • Verify whether actual expenditure against the budget is regularly reported to the Council • Review budgetary control information and year end variance analysis. Follow up any significant unexplained variances from the budget • Review the Council reserves policy if one has been adopted. Review the analysis of reserves between earmarked and general reserves. Ensure earmarked reserves are appropriate. Review whether general reserves may be excessive or insufficient having regard to the levels of council net operating expenditure
Income procedures ensure that the correct price has been charged, income has been received, recorded and promptly banked and VAT is correctly accounted for	<ul style="list-style-type: none"> • Ensure through review of records that income is properly recorded and promptly banked • Through sample testing of each income stream verify that the correct price has been charged, income has been received, recorded accurately and where relevant that VAT has been accounted for • Ensure security controls over cash and near cash adequate and effective and that insurance cover is held
For those councils that maintain a petty cash system – Petty Cash Procedures ensure payments are supported by receipts, expenditure is approved and VAT is correctly accounted for	<ul style="list-style-type: none"> • Through sample testing ensure petty cash expenditure is recorded and supported by VAT invoices/receipts • Ensure petty cash expenditure is reported to Council meetings • Review regularity of petty cash reimbursement • Ensure VAT is reclaimed on petty cash expenditure
Wages and salaries to employees have been paid in accordance with Council approvals and PAYE and NI requirements have been properly applied	<ul style="list-style-type: none"> • Ensure all employees have contracts of employment with clear terms and conditions • Ensure wages and salaries paid agree with those approved by the Council • Through sample testing ensure other payments to employees are reasonable and agreed by the Council • Verify that PAYE and NIC has been properly operated by the Council as an employer

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Asset and investments registers are accurate	<ul style="list-style-type: none"> • Ensure the Council maintains a register of all material fixed assets owned or in its care • Ensure the assets and investments registers are up-to-date • Review asset valuation policies for different asset categories • Agree any capital expenditure identified through sample testing of payments to the fixed asset register
Bank Reconciliation procedures ensure the accuracy and timeliness of periodic and year-end bank account reconciliation(s)	<ul style="list-style-type: none"> • Ensure there is a bank reconciliation for each account and that bank reconciliations carried out regularly and in a timely fashion having regard to the council size • Substantively test the year end bank reconciliation and agree to underlying evidence including the cash book and bank statements
Year End Procedures ensure the accuracy and completeness of the financial statements	<ul style="list-style-type: none"> • Agree brought forward balances • Ensure Annual Return is balanced and cast correctly • Ensure year end accounts are prepared on the correct basis for the council size (ie Receipts and Payments or Income and Expenditure accounts) • Agree audit trail from the annual return accounts to underlying financial records including the cash book • Where appropriate ensure debtors and creditors have been properly recorded • Where relevant review year end journals
Where the Council is Sole Trustee of a Charity the Council has procedures in place to meet its responsibilities as a sole trustee	<p>Where the council acts as a sole trustee of a charity ensure that</p> <ul style="list-style-type: none"> • the charity transactions have been excluded from the annual return accounts • returns required by the Charities Commission have been submitted within deadlines
Recommendations for Improvement are implemented on a timely basis	<ul style="list-style-type: none"> • Ensure the Council has acted on previous audit recommendations and update the internal audit action plan accordingly

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Conclusion

On the basis of the internal audit work carried out, in our view the council's system of internal controls is in place, adequate for the purpose intended and effective, subject to the issues reported in the action plan 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 Limited

DATE: 01/06/2020

**INTERNAL AUDIT REPORT
NANNERCH COMMUNITY COUNCIL
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	ISSUE	RECOMMENDATION	FOLLOW UP
1	<p>We have not seen evidence that the risk assessment has been reviewed by Council in 2019/20.</p> <p>The May 2019 minutes state that there are no changes to policies and procedures from 2018/19 but do not explicitly state that the risk assessment has been reviewed.</p>	<p><i>The risk assessment should be reviewed annually and then should be approved by Council.</i></p>	
2	<p>A review of the financial regulations found that:</p> <p>The Financial Regulations relating to the procurement process include accountants, surveyors and planning consultants as specialist services that can be excluded from the Council's standard procurement processes. The Wales Audit Office has taken the view that these services cannot be classed as specialist.</p> <p>Section 10 of the Financial regulations refers to a Purchase Order system:</p> <p><i>'An official order or letter shall be issued for all work, goods and services unless a formal contract is to be prepared or an</i></p>	<p><i>The Council should amend their financial regulations as per the 2019 model financial regulations issued by One Voice Wales to state the following for section 11.1 a. ii:</i></p> <p><i>'...for specialist services such as are provided by legal professionals acting in disputes;'</i></p> <p><i>The Council should ensure that orders for works, goods and services are made as per the financial regulations of the Council.</i></p>	

**INTERNAL AUDIT REPORT
NANNERCH COMMUNITY COUNCIL
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	<p><i>official order would be inappropriate. Copies of orders shall be retained.</i></p> <p>This does not reflect the current practice where a purchase order system is not in place.</p>		
Follow up of 2018/19 audit recommendations			
1	<p>A review of the Council website identified that the information about Councillors does not currently show the following:</p> <ul style="list-style-type: none"> - Political affiliations - Whether members are co-opted <p>This is information required by section 55 of the Local Government (Democracy) (Wales) Act 2013.</p>	<p><i>If Councillors have political affiliations or are co-opted this should be stated on the website.</i></p>	<p>Outstanding – Council have agreed to update the website but it has not yet been implemented.</p>
Follow up of 2017/18 audit recommendations			
1	<p>The Council make the majority of their payments via online banking. A review of the controls over online banking identified the following:</p> <ul style="list-style-type: none"> - Documentation from online banking is not attached to invoices 	<p><i>Council should consider updating their financial controls as follows:</i></p> <p><i>Documentation should be obtained from online banking showing the payment</i></p>	<p>Implemented – the controls over online banking have significantly improved</p>

**INTERNAL AUDIT REPORT
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	<p>to evidence which bank account number and sort code has been used to allocate the payment (this is important as unlike cheque payments, account names are not used by the bank to allocate payments and the bank statements can not therefore be used to verify online payments).</p> <ul style="list-style-type: none"> - The financial regulations have been updated to allow online payments but do not specify authorisation by two signatories prior to payment as is required for cheque payments. We note that the majority of payments appear to have been approved by full Council prior to payment (with the exception of the payment in issue 2 in respect of the kiosk project). - The financial regulations require that ‘a programme of regular checks of standing data with suppliers will be followed’, we could not see evidence that this had been carried out. 	<p><i>details and this should be attached to the invoices.</i></p> <p><i>Controls over online banking should have the same level of control as for cheque payments. This can be achieved by two signatories signing the invoice prior to payment or having a schedule of online payments authorised prior to payment or operating a bank account where two members are required to provide online authorisation before the payment can be made.</i></p> <p><i>The Council should carry out regular checks of supplier standing data by checking (for a sample of payments) the actual payment details against the account details on the invoice or other hard copy notification by the supplier.</i></p>	

**INTERNAL AUDIT REPORT
NANNERCH COMMUNITY COUNCIL
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2	<p>Testing of a sample of payments found the following:</p> <ul style="list-style-type: none"> - We could not locate invoices/receipts for a payment to Cllr Howard Morgan in respect of the kiosk project for £400.34 (of which £66.74 of VAT is identified in the cash book). <i>The original receipts were submitted to HMRC and copies could not be located.</i> - We could not locate a letter of receipt or hard copy notification of bank details for either of the £1000 donations to ‘St Michael and All Angels Church’ and ‘Nannerch Memorial Hall’ 	<p><i>The Council must retain invoice/receipts for all payments.</i></p> <p><i>Letters of receipt should be obtained for all donations, this is particularly important if the donation is made via online banking (as these donations have been) due to the reduced control over online banking.</i></p>	Implemented
3	<p>We could not find evidence that the Council has in place fidelity cover insurance.</p>	<p><i>The Council should have fidelity cover in place to cover the maximum projected balance as at 31/3/18 of approximately £9000 (calculated as year end balance plus first precept installment).</i></p>	Implemented
4	<p>As at the 31/3/18 the Council has a General Reserve of £359 (after excluding ear-marked reserve of £5000 for match funding). This is below the recommended sector guidance which suggests it should</p>	<p><i>The Council should establish a plan to replenish general reserves to adequate levels or they will not have a sufficient contingency for unforeseen events.</i></p>	Implemented

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	be between 3 and 12 months operating expenditure.		
5	<p>Staff costs on the annual return are incorrect as they include reimbursement of expenses and training costs. They should include the salary costs and the office allowance paid to the clerk of £180.</p> <p>The Practitioners Guide states the following on page 86 in relation to staff costs:</p> <p><i>'This figure comprises all payments made in relation to the employment of staff. Including employment expenses that are benefits (mileage, travel, etc) but not items of reimbursement of postage, stationery or other outlays made on behalf of the council.'</i></p>	<p><i>The annual return should be amended as follows:</i></p> <p>Staff costs = £3027</p> <p>Total other payments = £6923</p>	Implemented
6	At the time of audit, the Council did not have a website.	<i>The Council must ensure that they display on a website information required by section 55 of the Local Government (Democracy) (Wales) Act 2013.</i>	See issue 1 in 18/19
7	Disaster recovery and business continuity risks are not identified in the annual risk assessment along with identified mitigating	<i>The risk assessment should be updated to include disaster recovery and business continuity risk management</i>	Implemented

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	action such as regular offsite secure storage.		
	<p>Guidance note 2018</p> <p>Data Protection Law will change significantly on May 25th 2018 due to the 2016 EU Directive General Data Protection Regulation (GDPR) taking effect.</p> <p>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.</p>	<p><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></p>	<p>Noted</p>