

**INTERNAL AUDIT REPORT  
NANNERCH COMMUNITY COUNCIL  
2020/21**

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

<b>Internal Control</b>	<b>Internal Audit Testing</b>
Books of account have been properly kept throughout the year	<ul style="list-style-type: none"> <li>• Ensure the cashbook is maintained and up-to-date and arithmetically correct</li> <li>• Document and assess the adequacy of the prime books of record (and where relevant computer software) used to record council income and expenditure transactions</li> </ul>
<p>Standing Orders &amp; 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"> <li>• Ensure the Council has formerly adopted Standing Orders &amp; Financial Regulations</li> <li>• Ensure a Responsible Financial Officer has been appointed</li> <li>• Through sample testing ensure contracts above the tendering threshold established in the Financial Regulations/Standing Orders been competitively purchased</li> <li>• 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</li> <li>• Ensure VAT on payments been identified, recorded and reclaimed</li> <li>• Ensure Section 137 expenditure is separately recorded and within statutory limits</li> <li>• Where material services are received from independent or public sector provider(s) ensure an appropriate Service Level Agreement is in place</li> <li>• Having regard to the size of the council, review policy and procedure documents</li> </ul>
Adequate arrangements are in place to manage all identified risks	<ul style="list-style-type: none"> <li>• Review the minutes and identify and query with the council any unusual financial activity</li> <li>• Ensure the minutes record the Council carrying out and approving an annual risk assessment</li> <li>• Ensure key categories of insurance are in place and that fidelity cover is adequate</li> <li>• Having regard to the size of the Council, review whether internal financial controls are documented and regularly reviewed</li> <li>• 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</li> </ul>

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<b>Internal Control</b>	<b>Internal Audit Testing</b>
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"> <li>• Ensure the Council has prepared an annual budget in support of its precept request</li> <li>• Verify whether actual expenditure against the budget is regularly reported to the Council</li> <li>• Review budgetary control information and year end variance analysis. Follow up any significant unexplained variances from the budget</li> <li>• 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</li> </ul>
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"> <li>• Ensure through review of records that income is properly recorded and promptly banked</li> <li>• 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</li> <li>• Ensure security controls over cash and near cash adequate and effective and that insurance cover is held</li> </ul>
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"> <li>• Through sample testing ensure petty cash expenditure is recorded and supported by VAT invoices/receipts</li> <li>• Ensure petty cash expenditure is reported to Council meetings</li> <li>• Review regularity of petty cash reimbursement</li> <li>• Ensure VAT is reclaimed on petty cash expenditure</li> </ul>
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"> <li>• Ensure all employees have contracts of employment with clear terms and conditions</li> <li>• Ensure wages and salaries paid agree with those approved by the Council</li> <li>• Through sample testing ensure other payments to employees are reasonable and agreed by the Council</li> <li>• Verify that PAYE and NIC has been properly operated by the Council as an employer</li> </ul>

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

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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: 20/05/2021**

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	<b>ISSUE</b>	<b>RECOMMENDATION</b>	<b>FOLLOW UP</b>
1	<p>Payments are made mostly via internet bank transfer. A review of the approval by two signatories found that approval in 20/21 was given after the bank payment was made.</p> <p>Whilst the financial regulations allow for the Clerk to authorise payment of invoices under particular circumstances and report the payment to the next Council meeting, two signature approval is still required before a payment is made.</p> <p>For the following payment, approval has not been provided in the Council minutes: 18/12/20 Work on play area £11,400.00</p>	<p><i>Payments by internet bank transfer must be approved prior to payment by two signatories.</i></p> <p><i>This payment should be approved retrospectively by Council and recorded within the minutes.</i></p>	<p>The payment had been made using 5.5 of the Financial Regulations - a) If a payment is necessary to avoid a charge to interest under the Late Payment of Commercial Debts (Interest) Act 1998, and the due date for payment is before the next scheduled Meeting of Council. The payment was then agreed by two signatories in February by email. The payment was added to 8th June payments to retrospectively minute the authorisation.</p>
2	<p>We have not seen evidence that the risk assessment has been reviewed by Council in 2020/21.</p> <p>The minutes state that there are no changes to policies and procedures from 2019/20 but do not explicitly state that the risk assessment has been reviewed.</p> <p>The risk assessment does not address the risks of supplier (procurement) fraud.</p>	<p><i>The risk assessment should be reviewed annually and then should be approved by Council.</i></p> <p><i>The risk assessment should be updated to include supplier (procurement) fraud including the adequacy of supplier onboarding controls.</i></p>	<p>The risk assessment was approved at the 2nd July 2020 Meeting, Item 35.1. Response to Internal Audit in July 2020 stated: ‘The Risk Assessment has since been updated, reviewed and approved by Council as noted in item 35.2 of the Minutes of 2nd July 2020.’</p> <p>The Risk Assessment was updated at 8th June 2021 Meeting. It was assessed and approved by Council at this Meeting. The Chair subsequently signed and dated it</p>

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	ISSUE	RECOMMENDATION	FOLLOW UP
			before the July Meeting.
<b>Follow up of 2019/20 internal audit recommendations</b>			
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>	<p>The procedure is always to review, then approve policies and procedures. The approval had not been minuted, so Council need to confirm approval of the risk assessment for 2019/20. There had been no change from 2018/19, no changes were required. Council confirmed for the Minutes at the 8th June 2021 Meeting that the Risk Assessment is. retrospectively approved for 2019/20.</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><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><b>Implemented</b></p>

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	<b>ISSUE</b>	<b>RECOMMENDATION</b>	<b>FOLLOW UP</b>
	<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 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>	<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>	