

INTERNAL AUDIT REPORT
LLYSFAEN 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

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Internal Control	Internal Audit Testing
<p>The annual precept request is the result of a proper budgetary process; budget progress is regularly monitored and the council's reserves are appropriate</p>	<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
<p>Income procedures ensure that the correct price has been charged, income has been received, recorded and promptly banked and VAT is correctly accounted for</p>	<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
<p>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</p>	<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
<p>Wages and salaries to employees have been paid in accordance with Council approvals and PAYE and NI requirements have been properly applied</p>	<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

05/06/2020

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	ISSUE	RECOMMENDATION	FOLLOW UP
1	<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>	
Follow up of 2018/19 audit recommendations			
1	<p>Staff costs on the annual return is incorrect as it does not agree to the salary paid to the clerk plus home office allowances.</p>	<p><i>The annual return should be amended to the following:</i></p> <p><i>Staff costs £5,768</i></p> <p><i>Total other payments £12,205</i></p>	Implemented
2	<p>VAT on payments is not recorded separately in the cash book.</p>	<p><i>The cash book should record VAT separately in order to ensure the correct amount of VAT is claimed for the year.</i></p>	Implemented
Follow up of 2017/18 audit recommendations			
1	<p>The bank reconciliation provided for audit does not state the bank balance as at 31/3/18 for the current account but instead states the reconciled balance with</p>	<p><i>The bank reconciliation should state the bank balance for the current account as at 31/3/18 as £5553.39 with unpresented cheques of £495.13. This does not affect the balance stated on the</i></p>	Implemented

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	a nil balance for unrepresented cheques.	<i>annual return which is correct.</i>	
2	<p>A review of the Council website found that the website does not display the annual audited accounts for 2015/16 or 2016/17.</p> <p>This is information required by section 55 of the Local Government (Democracy) (Wales) Act 2013.</p>	<i>The Council must ensure they display on the website information required by section 55 of the Local Government (Democracy) (Wales) Act 2013.</i>	Implemented
3	<p>Testing of burial income found that the incorrect fee had been charged by the funeral director for two burials during the year.</p> <p>Burial income received on 26/6/17 should have been at rate of £232, was charged at £223.</p> <p>Burial income received on 16/1/18 should have been at the rate of £232, was charged at £227.</p>	<i>The Council should remind the funeral directors involved in the collection of burial income of the current fees and charges.</i>	Implemented
	<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>	<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>	Noted

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	<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>Follow up of 2016/17 audit recommendations</p>			
1	<p>The value of fixed assets has increased by £2273. This is partly due to the following:</p> <ul style="list-style-type: none"> - Mower added in at value of £1600, this is the purchase cost including VAT. Assets should be added in at the value net of VAT which would be £1333. <p>We could not identify the remainder of the movement.</p>	<p><i>The asset register should be amended to include the mower at the cost of £1333.</i></p> <p><i>The annual return should be amended to show assets at £38,836.</i></p> <p><i>The Council should provide (within the explanation of variances for the external auditor), the reason for the movement in assets and ensure that it is only due to additions and disposals and does not include revaluations.</i></p>	<p>The annual return for 16/17 has been restated and agrees to the asset register which includes the mower at the correct valuation.</p> <p>No additions in 17/18.</p>
2	<p>For most payments, the minutes record approval for the payment but do not state the amount of the payment.</p>	<p><i>The minutes should record the amounts paid when approving payments.</i></p>	<p>Implemented</p>

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3	Staff costs on the annual return does not include a home/office allowance of £420 paid to the clerk during 16/17 or HMRC payments of £5.60.	<i>The annual return should be amended to show staff costs as £5190 and other payments as £7873.</i>	Implemented
2015/16 audit			
1	<p>The cash book presented for audit did not represent an adequate analysis of all the income and expenditure transactions of the council due to the following:</p> <ul style="list-style-type: none"> • expenditure was netted off against income for the cemetery account • there were no totals for income and expenditure • the transactions were merely a duplicate of the bank account transactions rather than a cash book that records expenditure when cheques are issued and receipts physically received • bank transfers were included when they should not be as they are internal transactions 	<i>We provided guidance to the clerk and as a result a spreadsheet cashbook was compiled and submitted to us by email. This was a complete and accurate cashbook and we recommend the cashbook is maintained in this format in future</i>	Implemented

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2	No Financial Regulations were provided for audit review	<i>Please provide Financial regulation for the 2016/17 audit for review</i>	Implemented																				
3	No VAT has been reclaimed for 2014/15 or 2015/16	<i>VAT should be reclaimed on a timely basis</i>	Implemented																				
4	No annual bank reconciliation was provided for audit that summaries all transactions for the financial year from the cash book and then reconciled the balance to bank statements as at March 31st.	<p><i>We have prepared the annual bank reconciliation as follows:-</i></p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="2" style="text-align: left;"><i>Cash Book</i></th> </tr> </thead> <tbody> <tr> <td>Balance b/f</td> <td style="text-align: right;">31586.87</td> </tr> <tr> <td>Add receipts</td> <td style="text-align: right;">14311.96</td> </tr> <tr> <td>Less Payments</td> <td style="text-align: right;">13207.97</td> </tr> <tr> <td>Balance c/f</td> <td style="text-align: right;">32690.86</td> </tr> </tbody> </table> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="2" style="text-align: left;"><i>Bank Balances</i></th> </tr> </thead> <tbody> <tr> <td>Deposit Account Cemetery</td> <td style="text-align: right;">5462.79 24249.37</td> </tr> <tr> <td>Current Account Cemetery</td> <td style="text-align: right;">2446.42 2518.13</td> </tr> <tr> <td>Less u/p cheques</td> <td style="text-align: right;">1985.85</td> </tr> <tr> <td>Balance @ year end</td> <td style="text-align: right;">32690.86</td> </tr> </tbody> </table> <p><i>Please use the above format for future annual</i></p>	<i>Cash Book</i>		Balance b/f	31586.87	Add receipts	14311.96	Less Payments	13207.97	Balance c/f	32690.86	<i>Bank Balances</i>		Deposit Account Cemetery	5462.79 24249.37	Current Account Cemetery	2446.42 2518.13	Less u/p cheques	1985.85	Balance @ year end	32690.86	Implemented
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		<i>bank reconciliations</i>																			
5	The annual return provided for audit was incorrect. Therefore, we have had to balance the annual return to the annual bank reconciliation and restate the information	<p><i>The following annual return figures should be used for 2015/16:</i></p> <table border="1"> <thead> <tr> <th>Annual Return</th> <th>2015/16</th> </tr> </thead> <tbody> <tr> <td>balances b/f</td> <td>31587</td> </tr> <tr> <td>annual precept</td> <td>11478</td> </tr> <tr> <td>Total other receipts</td> <td>2834</td> </tr> <tr> <td>staff costs</td> <td>4499</td> </tr> <tr> <td>loan interest/ cap repay</td> <td>-</td> </tr> <tr> <td>total other payments</td> <td>8709</td> </tr> <tr> <td>balance c/f</td> <td>32691</td> </tr> <tr> <td>Total cash & investments</td> <td>32691</td> </tr> </tbody> </table>	Annual Return	2015/16	balances b/f	31587	annual precept	11478	Total other receipts	2834	staff costs	4499	loan interest/ cap repay	-	total other payments	8709	balance c/f	32691	Total cash & investments	32691	Implemented
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6	<p>Controls over payroll and clerk expenses are poor:</p> <ul style="list-style-type: none"> • there is no audit trail to supporting documentation for clerk expenses • we were provided with no evidence that a payroll annual return had been made for the former clerk 	<p><i>Payroll and clerk expense internal controls need to be improved:</i></p> <ul style="list-style-type: none"> • <i>Expense claims must be supported by clearly referenced supporting documentation</i> • <i>Payroll returns to HMRC must be provided for audit. If the annual return to HMRC has not been made for the former clerk the Council needs to notify HMRC</i> 	Implemented																		

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	<ul style="list-style-type: none"> the amounts paid as lump sum allowances to the clerk are in excess of the £4 per week permissible by HMRC without dispensation or notification to them 	<ul style="list-style-type: none"> <i>If the Council is to pay above the £4 per week Use of Home as Office Allowance then HMRC need to be notified. If a dispensation is not permitted they may require that the lump sum allowances are taxed</i> 	
7	No cheque numbers are recorded on invoice so there is a lack of audit trail from expenditure invoices to the cash book and bank statements	<i>Cheque numbers should be recorded on invoices paid</i>	Implemented
2014/15 audit			
1	The balances stated on the annual return for total other receipts and total other payments are incorrect and are understated by £480 which is the amount of the VAT claim received in 2014/15. The accounts are prepared on a receipts and payments basis so should not exclude VAT.	<i>The claim should be amended prior to submission to external audit to show the following balances: Total other receipts = £7189 Total other payments = £4279</i>	Implemented
2	The staff costs balance includes £249 which is a reimbursement to the clerk of council expenditure.	<i>Staff costs should include 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>	Implemented
3	The Council has carried out a detailed risk assessment. The minutes refer to the fact the Council carry out a risk assessment but do not record approval of the risk assessment.	<i>Approval of the annual risk assessment should be recorded within the council minutes.</i>	Implemented

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4	<p>The asset register lists the assets and their value but does not state their valuation method or the date of addition or disposal.</p>	<p><i>The asset register should be developed to show information about individual assets such as valuation method, date of acquisition and when disposed of, date of disposal.</i></p>	Implemented
5	<p>There will be some changes to the annual return for 2015/16 which will include a thematic review each year. For 2015/16 this will include examining councils' arrangements for budget setting and monitoring. We could not see evidence within the minutes that the Council have monitored income and expenditure against the budget during the year.</p>	<p><i>Monitoring of income and expenditure against the budget should be recorded within the Council minutes.</i></p>	Implemented
	<p>Guidance note for 2015/16 An area of potential risk for the Council in 2015/16 is ensuring they meet the requirements of The Pensions Regulator with respect to auto enrolment, or they may face fines. Even if staff are not eligible to be auto enrolled into a pension scheme, the Council may still have to complete a declaration of compliance.</p>	<p><i>The Council should review this risk if they have not already done so and ensure they meet any requirements of The Pensions Regulator. See www.thepensionsregulator.gov.uk for further information.</i></p>	Noted