

INTERNAL AUDIT REPORT 2018/19
BRYNEGLWYS COMMUNITY COUNCIL

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 2018/19
BRYNEGLWYS COMMUNITY COUNCIL

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<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

INTERNAL AUDIT REPORT 2018/19
BRYNEGLWYS COMMUNITY COUNCIL

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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

INTERNAL AUDIT REPORT 2018/19
BRYNEGLWYS COMMUNITY COUNCIL

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

05/05/2019

INTERNAL AUDIT REPORT 2018/19
BRYNEGLWYS COMMUNITY COUNCIL

ACTION PLAN

	ISSUE	RECOMMENDATION	FOLLOW UP
1	<p>The staff costs balance on the annual return is incorrect as it appears to include Councillor allowances and excludes office allowances paid to the clerk.</p> <p>Staff costs is for total payments made to and on behalf of all employees. Councillors are not employees and unless guidance to the contrary is issued by the external auditor, it should be excluded.</p>	<p><i>The draft balances on the annual return should be amended as follows:</i></p> <p><i>Staff costs £4,413</i> <i>Total other payments £5,806</i></p>	
2	<p>The Council have introduced a fixed asset register in 18/19 which has resulted in an increased valuation for fixed assets in 18/19. The 2017/18 balances has not been restated.</p> <p>The Practitioners Guide states the following: <i>If for some reason the basis of valuation is to be changed, the figures shown for the previous year should also be changed to the same new basis and marked as</i></p>	<p><i>The annual return should be restated for 17/18 to show the balance of assets at 31/3/18 at the new valuation:</i></p> <p><i>Fixed assets £91,637</i></p>	

INTERNAL AUDIT REPORT 2018/19
BRYNEGLWYS COMMUNITY COUNCIL

	<i>RESTATED. The council must provide an explanation for the change to the external auditor.</i>		
Follow up of 2017/18 audit recommendations			
1	The 2016/17 audited annual return was not available for audit.	<i>We cannot verify that 2016/17 balances have been entered correctly on the annual return or that issues raised by the external auditor have been addressed by the Council.</i>	17/18 records available for 18/19 audit
2	<p>The draft annual return states 'Total cash and investments' as £14,594 and has classed unrepresented cheques as 'creditors' of £17.</p> <p>'Total other payments' has been overstated by £7473 as the unrepresented cheques from 16/17 have been included within the 17/18 cash book.</p> <p>This has also occurred for the 2016/17 balances.</p>	<p><i>The annual return should be amended to show 'Total cash and investments' as £14577 and creditors as nil.</i></p> <p><i>Total other payments should be amended to £21,355.</i></p> <p><i>The balance carried forward should then be £14,577</i></p> <p><i>Box 9 for the 2016/17 balances should be stated as £17,713 and box 10 should be nil. If these balances were entered on the 16/17 annual return, the word RESTATED should be written at the top of the column and an explanation should be provided for the external auditor.</i></p>	Implemented

INTERNAL AUDIT REPORT 2018/19
BRYNEGLWYS COMMUNITY COUNCIL

3	The Council did not set a budget in support of the precept for 2017/18 and therefore there has been no budget monitoring through the year.	<i>The Council have set a budget for 2018/19. There should be regular monitoring of actual spend against the budget.</i>	Implemented
4	We have seen no evidence that the Council have carried out an annual risk assessment.	<i>A risk assessment should be carried out annually and this should be approved by Council and recorded within the minutes.</i>	Implemented
5	The Standing Orders of the Council state that until financial regulations are drawn up by the RFO, for the time being they will use those adopted by Denbighshire County Council. These were not provided for audit.	<i>We were unable to test whether contracts were procured as per the financial regulations of the Council.</i> <i>The Council need to adopt their own financial regulations.</i>	Implemented
6	The insurance policy details provided for audit do not state the level of fidelity cover.	<i>The Council must ensure that they have fidelity cover that covers the maximum projected cash balance of approximately £17,000.</i>	Implemented
7	Payments for the period April 2017-February 2018 have not been approved within the Council minutes.	<i>The Council should retrospectively approve the payments for 2017/18.</i>	Implemented
8	The acting clerk during 2017/18 does not appear to have been paid through PAYE.	<i>The Council must ensure that they do not have a payroll liability for payments to the acting clerk in 2017/18.</i>	Implemented

INTERNAL AUDIT REPORT 2018/19
BRYNEGLWYS COMMUNITY COUNCIL

9	<p>The Council do not have an asset register. The Council incurred £15,565 of capital expenditure on windows, doors and roofline products. This has not been included within fixed assets on the annual return for 2017/18.</p>	<p><i>The Council should introduce an asset register that should support the entry on the annual return.</i> <i>The Council should review whether the expenditure on windows, doors and roofline products added value to an asset that they own. If this is the case it should be added to the asset register and should be reflected in the valuation on the annual return.</i></p>	Implemented
10	<p>Minutes are loose-leaf but with the exception of January to March 2018 they have not been initialed on each page by the Chair.</p>	<p><i>Loose-leaf minutes should be initialed by the Chair.</i></p>	Implemented
11	<p>The general reserves of the Council at £14,457 are in excess of 12 months of operating expenditure.</p>	<p><i>The Council should review the level of their reserves and should ear mark any reserves being retained for specific schemes.</i> <i>Sector guidance is General reserves should be between 3 and 12 months of operating expenditure.</i></p>	Implemented
12	<p>The Council have not reclaimed VAT in 2017/18. We are not aware of when VAT was last reclaimed by the Council.</p>	<p><i>VAT should be reclaimed annually.</i></p>	Implemented
13	<p>The Council are not registered with the ICO. The Council is a data controller and personal data is processed and retained. e.g.</p>	<p><i>The Council should register with the ICO.</i></p>	Implemented

INTERNAL AUDIT REPORT 2018/19
BRYNEGLWYS COMMUNITY COUNCIL

	employees, resident enquiries, contact details etc.		
	<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>	Noted