

INTERNAL AUDIT REPORT
 HA WARDEN COMMUNITY COUNCIL 2017/18

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
<p>Books of account have been properly kept throughout the year</p>	<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
<p>Adequate arrangements are in place to manage all identified risks</p>	<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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<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
<p>Asset and investments registers are accurate</p>	<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

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	<ul style="list-style-type: none"> • 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 Ltd

JDH Business Services Limited

DATE: 05/06/2018

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	ISSUE	RECOMMENDATION	FOLLOW UP
1	<p>Both receipts and payments are under-stated by £28,589 which is s106 monies received in the year that have been incorrectly netted off expenditure.</p>	<p><i>The annual return should be amended to state the following:</i></p> <p><i>Total other receipts= £142,496</i> <i>Total other payments= £218,750</i></p>	
2	<p>Historically the Council has entered an apportionment of the actual staff costs as they have a SLA with two other Councils who pay a contribution to those staff costs. Broughton and Bretton Community Council, one of the Councils within the SLA has been instructed by the external auditor to cease entering a proportion into staff costs and to show it as nil.</p> <p>In the light of this advice, the Council need to seek clarification from the external auditor as to whether they should continue apportioning staff costs or whether they should include the £68,141 apportionment within their own staff costs.</p>	<p><i>The Council should seek clarification from the external auditor as to whether they should amend the annual return to show the total staff costs.</i></p> <p><i>This would increase staff costs to £180,047 and total other payments would be £150,609.</i></p>	
3	<p>Fixed assets includes an asset donated to the Council at no charge</p>	<p><i>Advice given by the external auditor is that assets should be valued at purchase cost.</i></p>	

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	<p>which has been included at the value of £1000.</p> <p>During 2017/18 there has been £21300 of expenditure on LED lights. This has not been added to the asset register.</p>	<p><i>When they are gifted, they should be recorded within the asset register at the value of £1.</i></p> <p><i>The Council should consider whether the expenditure on LED lights enhances the asset and should therefore be included within fixed assets.</i></p>	
<p>2017/18 interim audit recommendations</p>			
<p>1</p>	<p>The Council have introduced online banking payments during 2017/18 and have updated their financial regulations accordingly.</p> <p>Testing of a sample of payments and a review of the financial regulations found the following:</p> <ul style="list-style-type: none"> - All online payments have an accounts voucher attached to the invoice which is signed by the Chair of Council and Chair of Finance prior to payment. This is not currently reflected in the financial regulations which only requires the Chair of Finance to sign the list of payments approved by Council. 	<p><i>The financial regulations should be updated to reflect the controls that are in place.</i></p>	

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	<p>- The Council have introduced a procedure for adding new payees to online banking. The clerk adds the details and prepares a proforma that is signed by the Finance Chair to confirm that the bank details have been added correctly. Currently further evidence such as bank confirmations are not always retained. The financial regulations do not currently state the controls that are in place for adding suppliers to online banking.</p>	<p><i>The financial regulations should be updated to reflect the controls that are in place. The bank confirmations should be printed out and attached to the supplier proformas as further evidence that the details have been input correctly.</i></p>	
<p>2</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>		

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2016/17 audit recommendations			
1	<p>The VAT return as at 31/3/17 differs from the balance on the VAT account by £161.82. This appears to be due to transactions being cancelled in the ledger after the claim was made.</p>	<p><i>An adjustment should be made in the next VAT return to repay the VAT overclaimed.</i></p>	<p>The VAT debtor in 17/18 accounts does not reconcile with the March 2018 claim, there is a difference of £748.18. This should be investigated and the next claim adjusted accordingly.</p>
2	<p>The Council received section 106 monies amounting to £55,030 in 2015/16. We cannot see any balance held in ear-marked reserves relating to the s106 monies received in 15/16 that were unspent.</p>	<p><i>As s106 monies are to be used for specific schemes, any balances held should be identified within ear-marked reserves.</i></p>	<p>An ear-marked reserve is held but this is not separately identified as s106 within the accounting system.</p>
3	<p>A review of the joint services income found that the Administration heading within the ledger was understated by £7210 and the maintenance heading was overstated by £7210.</p>	<p><i>This does not affect any balances on the annual return but should be corrected for management accounting and budgetary control purposes.</i></p>	<p>This has not occurred in 17/18</p>
4	<p>The fidelity cover at £270,000 does not cover the maximum projected cash balances as at 31/3/17 of approximately £300,000 (calculated as year end balance plus first precept).</p>	<p><i>The Council should review the adequacy of their fidelity cover.</i></p>	<p>The Council have increased their fidelity cover to £300,000. The balances of the Council have increased and the maximum balance is now calculated as approximately £359,000.</p>

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Follow up of 2016/17 audit recommendations			
		Implemented	
1	<p>The cumulative bank reconciliation presented to Council for 12/9/16 does not reconcile – the reconciliation shows a difference of £2617.51. Further review identified the reason for the imbalance was that the reconciliation used the bank balances as at 31/8/16 and the cash book balances as at 12/9/16.</p>	<p><i>Council should query any reconciliation presented to them that does not balance.</i></p> <p><i>A bank reconciliation should always reconcile bank statement balances and cash book balances at the same date.</i></p> <p><i>The Council should ensure a cumulative bank reconciliation is compiled that balances bank statements as at 31/8/16 to cash book balances at 31/8/16. Thereafter, bank reconciliations should be completed and presented to council for review and approval using balances as at the end of each calendar month.</i></p>	Implemented
2	<p>The list of payments approved by Council is not always included in the signed minutes. The August payment schedule has been signed by the Chair, however, there is no reference in the minutes to the approval of the August payments.</p>	<p><i>The Council should retrospectively approve these payments by recording within the minutes that the August payments totalling £36,627.16 have been approved by Council.</i></p> <p><i>In future, minutes should include the payment list that has been approved by council.</i></p>	Implemented
3	<p>On-line payments are to be implemented and the Finance Committee minutes in September 2016 noted that Financial Regulations would be updated to</p>	<p><i>Internal controls over on-line payments should ensure:</i></p> <p><i>1.) Authorisation controls over payments are equivalent to those applied to cheque payments</i></p>	Implemented

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	reflect this change.	<p>2.) Controls over access to online bank accounts are clearly established</p> <p>3.) Supplier bank accounts - Procedures are established to ensure members check bank details for the first payment to a supplier to independent supplier confirmation such as a supplier invoice or a signed confirmation letter from the supplier. The same procedure should apply where a supplier has purported to have changed bank accounts. This is an area where significant actual and attempted fraud has recently been encountered by businesses.</p> <p>4.) Risk assessment should be updated for any risks identified, together with appropriate mitigation actions, with respect to online payments</p>	
4	<p>Expenditure testing identified the following capital item:</p> <p>Payment Reference 16/98 for £1589.09 (Denbigh Timber products ltd) – 3 Allotment sheds.</p>	<p>Capital expenditure should be incorporated into the fixed asset register at cost.</p> <p>Also see recommendation 1.) from 2015/16 regarding improvement to the format of the asset register</p>	Implemented
2015/16 recommendations			
1	Currently the asset register lists assets but does not give very detailed information about the asset such as	<p>It would be good practice to add the following information to the register:</p> <p style="padding-left: 20px;">- Location of assets</p>	Implemented

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	valuation method, date acquired and date of disposal.	- Date acquired (if known) - Date of disposal	
Follow up of 2014/15 audit recommendations			
1	Currently a loan to the Hawarden Institute (balance at 31/3/15 £3,500) appears in both the bank reconciliation as a short term investment and the fixed assets total as a long term investment.	The Loan is classed as a long term investment and should therefore be included within fixed assets and not within the bank balance. The accounts should therefore be adjusted to remove the balance from the bank balance, a corresponding adjustment should be made to expenditure.	Implemented
2	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 or the Council already contribute to a pension scheme, the Council may still have to complete a declaration of compliance.	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.	Noted
Follow up of 2013/14 audit recommendations			
1	The accounts include a nil balance for interest from fixed rate deposits.	In future year end procedures should identify whether material interest on fixed rate bank	For consistency the Council are recording interest in the year of

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	At the year end the Council had a fixed rate deposit of £70,000 with Natwest.	<i>deposits should be accrued.</i>	receipt.
2	It would appear that a £2000 transfer made in error from Broughton and Bretton Community Council and then transferred back has appeared in the accounts as income and expenditure. The asset register shows a total value of assets as £719912. The annual return shows the value of assets as £635097.	<i>The correct accounting treatment for this transaction would be to cancel the £2000 of income when it was refunded. Current treatment overstates both income and expenditure by £2000. The asset register should reconcile to the figure shown on the annual return.</i>	No evidence that this has occurred in 14/15
3			Implemented
	Guidance note for 2014/15 Following the repeal of section 150(5) of the Local Government Act 1972 in March 2014, Councils now are not required by law to have cheques or other orders for payment signed by two elected members.	<i>If the Council decide they would like to make any changes to how payments are made it is important that they review the recent guidance issued by SLCC and ensure that any new internal controls meet these requirements. Any changes to internal controls over payments in light of the repeal will be reviewed in future audits.</i>	Noted
2012/2013 audit recommendations			
1	The payments list included in the minutes that covered the period from 25/4/12 to 14/5/12 had not signed by the chair	<i>As the payments schedules form part of the minutes they should be signed by the Chair</i>	Implemented
2	The Level Lane community centre is included within the RBS system as an	<i>An earmarked reserve for £20k in respect of the Level Lane Community Centre should be</i>	Implemented

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	<p>annual £20k budget. However, the £20k was gifted to the council by the former Alyn and Deeside Council to be held in perpetuity for the benefit of the community centre. Therefore, the £20k should be classified as an earmarked reserve</p>	<p><i>established</i></p>	
<p>3</p>	<p>Disaster recovery and business continuity risks are not identified in the annual risk assessment along with identified mitigating action such as regular offsite secure storage.</p>	<p><i>The risk assessment should be updated to include disaster recovery and business continuity risk management</i></p>	<p>Implemented</p>