

INTERNAL AUDIT REPORT 2019/20
LLANIDLOES TOWN 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 2019/20
LLANIDLOES TOWN 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
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

INTERNAL AUDIT REPORT 2019/20
LLANIDLOES TOWN COUNCIL

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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

INTERNAL AUDIT REPORT 2019/20
LLANIDLOES TOWN 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

DATE: 06/07/2020

INTERNAL AUDIT REPORT 2019/20
LLANIDLOES TOWN COUNCIL

ACTION PLAN

	ISSUE	RECOMMENDATION	FOLLOW UP
1	<p>The accounts provided for audit were incorrect as creditors and debtors had not been treated correctly:</p> <p>a.) The debtors balance is incorrect as it includes an incorrect balance for VAT, The VAT debtor should be the balance on the VAT account which should have been calculated as the 2018/19 VAT debtor of £1202 Plus the VAT on 2019/20 payments of £4589 Less VAT refunds received of £4425. This equates to a year end VAT balance of £1366 and added to other debtors of £5708 gives a total debtor figure of £7,074.</p> <p>b.) The Total Other Receipts figure included in the Annual Return was the cash book figure which had not been adjusted for debtors or VAT. The correction of this error is as follows: Other receipts from cash book £50,566 Less VAT received - 4425 Less 18/19 debtor - 5546 Plus 19/20 debtor + 5708</p>	<p><i>The draft annual return should be amended for the errors we identified as follows:</i></p> <p><i>Total other receipts £46,303</i> <i>Total other payments £88,700</i> <i>Balances carried forward £181,960</i> <i>Debtors £7,074</i> <i>Balance carried forward £181,960</i></p> <p><i>Recurring Recommendation</i> <i>The VAT claims should be reconciled to the cash book and any discrepancies investigated and corrected.</i></p>	

INTERNAL AUDIT REPORT 2019/20
LLANIDLOES TOWN COUNCIL

	ISSUE	RECOMMENDATION	FOLLOW UP
	<p>Total other receipts = £46,303</p> <p>c.) The Total other payments figure included in the Annual Return was the cash book figure which had not been adjusted for creditors. The correction of this error is as follows: Other payments from cash book 92,549 Less VAT on payments – 4589 Less 18/19 creditors - 3270 Plus 18/19 creditors + 4010 Total other payments = £88,700</p>		
2	<p>The Council's general reserves of £181,960 are in excess of 100% of the precept and no earmarked reserves are disclosed. Sector guidance is that general reserves should be between 25% and 100% of the precept.</p>	<p><i>The Council should review the level of general reserves with reference to sector guidance. Where any amounts are identified that need to be set aside for medium term schemes/projects these should be separately classified and disclosed as earmarked reserves.</i></p>	
3	<p>The fixed assets register contains an incorrect balance for the CCLA Public Sector Deposit Fund. Therefore, the total fixed assets balance on the draft annual return is incorrect.</p>	<p><i>The correct year-end balance for the CCLA Fund is £25,789 and total fixed assets should be £1,895,390. The asset register and the annual return should therefore be amended.</i></p>	
4	<p>A review of the Council website found that it does not include the annual audited accounts which is a</p>	<p>Recurring Recommendation</p> <p><i>The Council must ensure they display on</i></p>	

INTERNAL AUDIT REPORT 2019/20
LLANIDLOES TOWN COUNCIL

	ISSUE	RECOMMENDATION	FOLLOW UP
	requirement of section 55 of the Local Government (Democracy) (Wales) Act 2013.	<i>the website information required by section 55 of the Local Government (Democracy) (Wales) Act 2013.</i>	
2019/20 interim audit recommendations			
1	The updated Financial Regulations refer to a Purchase Order (PO) system (which would also clearly evidence the authority to spend). However, no PO system is currently in place. The Financial Regulations for authority to spend require the Chair and Clerk to certify expenditure up to £500 but this is not currently applied in practice.	<i>The council should establish a sequential Purchase Order system as required by the updated Financial regulations and ensure Purchase Orders for expenditure up to £500 are signed by the Chair and clerk.</i>	Follow up in 20/21
2	The Financial Regulations set a maximum petty cash float of £100 for the purpose of defraying operational and other expenses. The amount held in petty cash has exceeded this maximum value on a number of occasions during the 2019/20 financial year to date.	<i>The petty cash float should be maintained in accordance with the levels set in the Financial Regulations</i>	Follow up in 20/21
3	Minutes state that accounts paid are 'confirmed' rather than 'approved'	<i>Payments should be recorded as 'approved' in the minutes after they have been reviewed and approved by council</i>	Implemented

INTERNAL AUDIT REPORT 2019/20
LLANIDLOES TOWN COUNCIL

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5	There is no evidence of any member review of the monthly payroll for the first nine months of the financial year.	<i>The Chair should review the payroll to supporting documentation during the financial year and sign the payroll to evidence the review has been carried out.</i>	March 2020 payroll signed by Chair of finance. To be further tested by internal audit in 2020/21.
6	There are outstanding issues relating to previous internal audits as noted below		
2018/19 year end internal audit			
1	The accounts provided for audit were incorrect as creditors and debtors had not been treated correctly.	<p><i>A reworked extended trial balance has been provided to the clerk along with amended income and expenditure accounts.</i></p> <p><i>The draft annual return should be amended for the errors identified to state the following balances:</i></p> <p><i>Balance brought forward £101,629</i> <i>Annual precept £131,924</i> <i>Total other receipts £50,958</i> <i>Staff costs £58,922</i> <i>Total other payments £101,904</i> <i>Balances carried forward £123,685</i> <i>Debtors £6,749</i> <i>Total cash & investments £120,206</i> <i>Creditors £3,270</i> <i>Balance carried forward £123,685</i></p>	Implemented – 2018/19 Annual Return amended

INTERNAL AUDIT REPORT 2019/20
LLANIDLOES TOWN COUNCIL

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2	A review of the VAT records found there was a difference between the VAT debtor in the accounts and the 31/3/19 VAT reclaim of £265.05.	<i>The difference of £265.05 should be reviewed and either reclaimed or if it can no longer be reclaimed, it should be written off in the 2019/20 accounts.</i>	Difference of £315.90 as at 31/3/20 between VAT account and VAT return.
3	There was no letter of receipt for a £5000 payment to the Community centre.	<i>Letters of receipt should be obtained for grants and donations.</i>	Recommendation Outstanding – The Dial A Ride and Old Market donations in 2019/20 were not supported by signed confirmations of receipt
4	A review of the Council website found that it does not include the following information required by section 55 of the Local Government (Democracy) (Wales) Act 2013: <ul style="list-style-type: none"> - Political affiliations of Councillors - Whether Councillors had been co-opted - Annual audited accounts 	<i>The Council must ensure they display on the website information required by section 55 of the Local Government (Democracy) (Wales) Act 2013.</i>	Recommendation Outstanding – we could not identify the annual audited accounts on the council website
2017/18 interim audit recommendations			
1	RECURRING ISSUE: A review of the financial regulations and standing orders of the Council in 2017/18 identified an inconsistency between them in relation to Contracts: <ul style="list-style-type: none"> - The standing orders on 	<i>The standing orders and financial regulations of the Council should be reviewed and amended to ensure they are consistent and up to date.</i>	Implemented

INTERNAL AUDIT REPORT 2019/20
LLANIDLOES TOWN COUNCIL

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	<p>contracts require that a formal tender process is followed for contracts exceeding £10,000 and for contracts below £10,000 but above £2,500 two week public notice will be given (see 61 to 70)</p> <ul style="list-style-type: none"> - The financial regulations require a formal tender process is followed for contracts over £20,000 and for contracts below £20,000 but above £3000 three quotations will be obtained. 		
2	<p>Cheque number 766 payment of £3400 related to repair services for external doors that needed to be carried out urgently to secure the building, therefore, the requirement in the Financial Regulations to secure three quotations was not applied.</p>	<p><i>In situations where a supply is required due to an emergency the council should state in the minutes which Financial Regulation clauses were relied on to exempt the council from the standard requirement to secure three quotations.</i></p>	<p>Implemented</p>
3	<p>The council has not approved the rent chargeable to Green and Away and there is no formal rental agreement in place</p>	<p><i>The council should establish a rental contract for the client and approve the rent chargeable</i></p>	<p>Implemented - Signed agreement in place</p>
4	<p>There was no confirmation of receipt for the £2240 paid to Llanidloes Dial A Ride</p>	<p><i>A confirmation of receipt should be secured for all significant donations</i></p>	<p>Implemented</p>

INTERNAL AUDIT REPORT 2019/20
LLANIDLOES TOWN COUNCIL

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5	The balcony office rental agreement states that the rent was set at £2400 per annum up to 2016 and then indexed for the RPI thereafter. However, there is no schedule showing the annual RPI applied and the calculation of the annual rent	<i>A schedule should be attached to the lease detailing the annual calculation of the RPI increase in the rent payable</i>	Implemented
2017/18 year end audit			
1	<p>A number of issues were identified with respect to VAT accounting as described below. The net result was an underclaim of VAT of £1599, plus further minor underclaims relating to the VAT element of power bills.</p> <ul style="list-style-type: none"> - Insurance Premium Tax on the annual policy of £320 had incorrectly been reclaimed as VAT - The VAT reclaimed for the second invoice paid for the boiler instalment was £300 instead of £2218.56 - The manual cash book has been used for VAT reclaims but sometimes items are included gross instead of 	<p><i>The 2017/18 cash book should be amended for these corrections and the significant VAT underclaimed should be included in the next VAT return.</i></p> <p><i>Insurance premium tax is not VAT and should not be reclaimed.</i></p> <p><i>The spreadsheet cash book, rather than the manual cash book, should be used as the basis for compiling VAT reclaims in future.</i></p>	<p>All unclaimed VAT was reclaimed in the first quarter of 2018/19.</p> <p>The full year's VAT reconciliation will be reviewed at the year end internal audit.</p>

INTERNAL AUDIT REPORT 2019/20
LLANIDLOES TOWN COUNCIL

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	<p>separately identifying and reclaiming the VAT</p> <ul style="list-style-type: none"> - VAT receipts of £4998.11 had been recorded as other receipts instead of VAT refunds in the spreadsheet income analysis 		
2	<p>The fixed asset register had not been updated to remove the obsolete boiler and include the net cost of the new boiler. The amendments were made during the year end audit.</p>	<p><i>The fixed asset register should be updated annually by reviewing capital expenditure incurred during the financial year.</i></p>	Implemented
3	<p>The monthly petty cash expenditure analysis and supporting vouchers were not reviewed and approved by the Chair during 2017/18.</p>	<p><i>The petty cash book should be reviewed by agreeing items to supporting vouchers and approved by the Chair.</i></p>	Implemented
2017/18 interim audit			
1	<p>A review of the financial regulations and standing orders of the Council found a disparity between them in relation to Contracts:</p> <ul style="list-style-type: none"> - The standing orders on contracts require that a formal tender process is followed for contracts exceeding £10,000 and for contracts below £10,000 but above £2,500 two 	<p><i>The standing orders and financial regulations of the Council should be reviewed to ensure they are consistent and up to date.</i></p>	Implemented

INTERNAL AUDIT REPORT 2019/20
LLANIDLOES TOWN COUNCIL

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	<p>week public notice will be given (see 61 to 70)</p> <ul style="list-style-type: none"> - The financial regulations require a formal tender process is followed for contracts over £20,000 and for contracts below £20,000 but above £3000 three quotations will be obtained. 		
2	<p>The Council had a contract for a Biomass boiler in 2017/18 that exceeded the tender threshold in the Standing Orders and Financial Regulations.</p> <p>There was no evidence that the contract was awarded as per the Financial Regulations.</p> <p>The Clerk explained that the contract was awarded to the particular contractor as the Council required a local supplier that could respond quickly to any problems and had a good reputation. There was evidence within the minutes that another contractor had been approached but had declined to quote.</p>	<p><i>To improve transparency, the minutes should clearly state when a contract has not been awarded as per the standing orders and state the reasons why.</i></p>	<p>Implemented – no issues identified in 2019/20 contract testing</p>
3	<p>Data Protection Law will change significantly on May 25th 2018 due to the 2016 EU Directive General Data</p>	<p><i>The impact of GDPR on the council should be identified through review of ICO and NALC guidance and the Data</i></p>	<p>Data Protection Policy now adopted.</p>

INTERNAL AUDIT REPORT 2019/20
LLANIDLOES TOWN COUNCIL

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	<p>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>Protection policy, risk assessment and internal controls should be updated accordingly.</i></p>	
<p>Follow up of 2016/17 audit recommendations</p>			
1	<p>There was a difference between the VAT debtor in the accounts as per the VAT reconciliation, and the actual VAT claim total for the final quarter of the financial year.</p>	<p><i>The council should identify reasons for the differences between the VAT debtor in the accounts and the VAT reclaim and amend where necessary at each year end. The cumulative difference between the VAT reclaims and VAT per the accounts since 2013 amounts to £260.02.</i></p> <p><i>If the VAT amount cannot be reconciled the council should authorise the amount to be written off in 2017/18.</i></p>	<p>see 2017/18 issues</p>
2	<p>RECURRING ISSUE (see 2015/16 issues)</p> <p>The Asset Register is not being</p>	<p><i>An exercise was completed during the year end internal audit to complete the 2016/17 asset register.</i></p>	<p>See 2017/18 issues</p>

INTERNAL AUDIT REPORT 2019/20
LLANIDLOES TOWN COUNCIL

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	maintained annually with all additions and disposals recorded to enable the year end asset figure to be accurately included in the Annual Return	<i>The asset register should be updated annually with all asset purchases at cost and disposals removed from the register</i>	
2016/17 interim audit			
1	<p>There is currently discussion with the principal authority regarding devolution of asset/services. The service being reviewed is the library service.</p> <p>However, there is some uncertainty regarding the empowering legislation available to the Town Council to manage a library. Advice has been sought from a Barrister and, separately, One Voice Wales and different opinions have been received.</p> <p>If the council confirms that it is empowered to manage a library but a specific enabling power is not identified, the expenditure would fall under s137 (or within the equal limits of the power of wellbeing). The s137 limit is currently calculated as £7.42 per head multiplied by 2104 electors = £15611.68</p>	<p><i>The council should not proceed with the transfer of an asset and/or management of a service asset/service until legal confirmation is received that the council has the enabling legislation. One of our internal audit clients in England currently manages a library on behalf of the principal authority and if the council wishes we can ask then permission to discuss the empowering legislation used.</i></p> <p><i>The range of expenditure currently being allocated to s137 should be reviewed to consider whether there is in fact specific empowering legislation to which the expenditure items could be allocated. This could release headroom within the s137/well-being limit to potentially enable library services expenditure to be allocated, if the council is empowered to provide library services</i></p>	<p>The council have agreed to contribute £10000 annually for 2 years to Powys County Council which will ensure they remain within the s137 limit</p>

INTERNAL AUDIT REPORT 2019/20
LLANIDLOES TOWN COUNCIL

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2	<p>PAYROLL TESTING</p> <p>We could not identify the minutes that approved the annual pay rises applicable to all employees.</p> <p>Only non-payroll payments are currently listed in the minutes.</p>	<p><i>Minutes should confirm annually the scale points/pay rises applicable to each employee.</i></p> <p><i>The Chair should sign the payroll prints monthly to show that payroll has been verified and checked and agreed to the total payroll paid and this total should be reported in the minutes with the current monthly list of payments as 'wages and salaries'.</i></p>	<p>Implemented in 2016/17</p>
3	<p>Testing of payments identified net expenditure of £9410.38 to Eibe with respect to recreational ground equipment</p>	<p><i>The council should ensure the fixed asset register is updated accordingly for 2016/17</i></p>	<p>Fixed Asset register has been updated</p>