

INTERNAL AUDIT REPORT 2019/2020
PENMAENMAWR 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

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Internal Control	Internal Audit Testing
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

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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

DATE: 30/11/2020

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	ISSUE	RECOMMENDATION	FOLLOW UP
1	<p>The asset register has been updated in 2019/20 for assets purchased in 2018/19 (see issue 3 from 2018/19 audit)</p> <p>The 2018/19 asset value has not been restated on the annual return.</p>	<p><i>The 2018/19 asset value should be restated on the 2019/20 annual return to include the 2018/19 assets..</i></p> <p><i>The word 'RESTATED' should be entered on the annual return and an explanation should be provided for the external auditor.</i></p>	
Follow up of 2018/19 audit recommendations			
1	<p>As reported in 2017/18 (issue 1), there were significant weaknesses in the budget setting process for the 2018/19 budget.</p> <p>The Council have informed us that they have introduced regular reports of actual expenditure against budget from September 2018. We have not however seen these reports during the 2018/19 audit.</p> <p>The budget set for 2019/20 has included a contribution to reserves of £36,250 as the general reserves are at a low level (the clerk has calculated that they are £4,567 as at 31/3/19). We have seen that a budget has been prepared for 2019/20 but we have not seen any reports against budget for 2018/19 that may have assisted in the budget setting process as the Council</p>	<p><i>The Council will need to ensure that they monitor the budget regularly over the year.</i></p> <p><i>When setting the 20/21 budget, they should use the budgeted spend against actual reports to inform the budget setting process.</i></p> <p><i>Budgetary reports produced during the year should be provided for audit. A report of actual against budget should also be prepared at the year end.</i></p>	<p>Implemented</p> <p>Evidence seen of regular budget monitoring throughout 2019/20.</p>

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	<p>have taken a zero based approach to setting their budget. It should be noted that budgeted expenditure excluding the contribution to reserves is £122,150 which is approximately £56,000 (excluding VAT) less than 2018/19 actual expenditure.</p>		
2	<p>Testing of a sample of payments found the following:</p> <ul style="list-style-type: none"> - The minutes don't approve the payment of cheques 3604 – 3620 - There was no letter of receipt on file for the £5500 payment to 'Penmaenmawr Community Environment Group'. - There was no letter of receipt on file for the £8000 payment to 'Penmaenmawr Community Events CIC' (although there was a completed grant application form on file). 	<p><i>When payments are approved by Council they should be recorded within the Council minutes.</i></p> <p><i>Letters of receipt should be requested for all grants.</i></p>	Implemented
3	<p>The annual return balance for 2017/18 fixed assets appears to have been amended following our 2017/18 audit. The 2017/18 annual return was not available for audit so we were not able to verify this balance.</p>	<p><i>The asset register should only be updated for additions and disposals. The movement on fixed assets should reconcile to additions and disposals in the year.</i></p>	See issue 1 in 2019/20

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	<p>The asset register has not been updated for the following assets purchased in 18/19:</p> <ul style="list-style-type: none"> - laptop and projector from 'Karmic Synergy' -New Christmas lights purchased from LITE ltd 	<p><i>The asset register should be updated for assets purchased during the year.</i></p>	
5	<p>We have seen no evidence that three quotes were received before the following contracts were awarded in 18/19:</p> <ul style="list-style-type: none"> - Karmic Synergy - Bebbington & Wilson - G-Mec - Plantscape - Gareth Roberts - CrowM Ltd - LITE Ltd - RML Ltd <p>The financial regulations require that for contracts over £1000: <i>The clerk or RFO shall obtain 3 quotations (priced descriptions of the proposed supply).</i></p>	<p><i>Contracts should be awarded as per the financial regulations of the Council.</i></p>	<p>Implemented for 2019/20</p>

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6	<p>The Council have a debit card that they have used for some purchases in 18/19.</p> <p>One payment tested could not be traced to a receipt with a signed authorisation by two councillors. This was a payment of £288 for a renewal of the ‘text local service’, the decision to renew was recorded within the minutes but the actual amount was not recorded.</p> <p>The financial regulations have not been updated to state that a debit card is a method of payment and the controls that are in place such as who the use of the card is restricted to, authorisation limits, and reporting the payments to Council.</p>	<p><i>The Financial Regulations should be updated for controls over debit card payments.</i></p> <p><i>All debit card payments should be approved by two signatories following the payment.</i></p> <p><i>Receipts should be retained on file for all debit card payments.</i></p>	Implemented
7	<p>The Council have carried out a risk assessment in 2018/19. The minutes record adoption of revised financial policies and regulations but do not explicitly approve the risk assessment.</p>	<p><i>The minutes should record approval of the annual risk assessment.</i></p>	Implemented
8	<p>Staff costs on the annual return is incorrect as it includes staff training and travel costs. The ledger shows the total staff costs as £29,993.73</p> <p>We have not seen evidence that employees have contracts of employment.</p>	<p><i>The annual return should be amended to state:</i></p> <p><i>Staff costs £29,994</i></p> <p><i>Total other payments £158,387 (including adjustment below)</i></p> <p><i>The Council must ensure all employees have contracts of employment.</i></p>	<p>Implemented</p> <p>Outstanding – not provided for audit</p>

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	Payments to staff made by standing order have not been authorised by two signatories as in the previous year.	<i>A schedule of salary payments should be approved by two signatories each month.</i>	Implemented
9	<p>A review of the accounts found the following minor error on the annual return:</p> <ul style="list-style-type: none"> - £2.33 of interest received in the deposit account on 29/3/18 had not appeared in the 17/18 accounts (see 17/18 issue 4 re: bank statement dates), it should therefore be included in the 18/19 accounts as a receipt. - Total payments of £188,381.46 from the ledger does not agree to the balance of £188,379 on the annual return. 	<p><i>The correct balances for the annual return should be:</i></p> <p><i>Total other receipts £13,257</i> <i>Total other payments £158,273</i></p>	Implemented
10	The Council reclaimed VAT during 18/19 amounting to £11,561.59. This does not agree to the VAT claim on file that shows that a claim for £11,701.79 was made.	<i>The difference between the claim and amount paid of £140.20 should be followed up with HMRC.</i>	No information provided relating to 2018/19 VAT claim. 2019/20 VAT claim agrees to the accounts.
Follow up of 2017/18 audit recommendations			
1	The Council have set a budget in support of their 2018/19 precept request, however the precept calculation predicts a brought	<i>The council should urgently improve budgetary control and budget setting:</i>	Implemented

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ISSUE	RECOMMENDATION	FOLLOW UP
<p>forward balance at 1/4/18 of £105,638. The balance as at 31/3/18 is £45,661. We have seen no calculation showing how the predicted brought forward balance had been calculated.</p> <p>The budgeted expenditure for 2018/19 is £213,851. The brought forward balance (£45661) plus expected income for 2018/19 (including 17/18 VAT) is £204,364. The Council therefore do not have budgeted income and reserves that meet their budgeted expenditure for the year.</p> <p>The budgeted expenditure for 2017/18 had been amended during the year to £169,785. Actual expenditure (excluding VAT) was £180,468. There is no evidence of budgetary reporting to Council during the year and any explanation as to why there is an overspend.</p> <p>The precept calculation also suggests that the Council are holding a reserve for 'asset transfer' of £20,000 and 'Promenade & Parks improvement' of £70,000. This does not appear to have been included within budgeted expenditure (as occurred in 16/17) or within the precept calculation.</p>	<ul style="list-style-type: none"> • <i>The Council must urgently review their budget analysis and ensure that they can balance the budget for 2018/19.</i> • <i>They must also ensure that they are carrying an adequate general reserve. Sector guidance is that this should be between 3 and 12 months of the precept level</i> • <i>Budgetary control reports detailing spend to date against budget should be regularly reported to Council (at least quarterly) and explanations should be reported to Council for any overspends and how this will be financed (either from reserves or virements from other budget headings).</i> 	

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2	<p>The Council have made a grant of £1457 to an individual to fund charity work in India. The minutes appear to incorrectly class this as section 19.</p> <p>The Local Government Act (Miscellaneous Provisions) 1976 s.19 gives powers to provide facilities, premises etc. for recreation and to assist others in providing such facilities.</p>	<p><i>The Council need to identify what powers they have used in making this payment, and if this payment is classed as section 137, they should be able to demonstrate that it is for the benefit of all or some of the community.</i></p>	<p>We have not identified any items paid to individuals in our payments testing in 18/19</p>
3	<p>The annual return balances are incorrect due to the following:</p> <ul style="list-style-type: none"> - VAT appears to have been excluded from payments within the accounts and included as a debtor. The accounts are prepared on a receipts and payments basis and therefore cannot include a debtor. - Receipts do not include interest received in 2017/18 of £12.71 on the deposit account. 	<p><i>The annual return should be amended to show the following:</i></p> <p><i>Total other receipts £8,943</i> <i>Total other payments £157,663</i> <i>Balances carried forward £45,661</i> <i>Debtors nil</i> <i>Total cash & investments £45,661</i></p>	<p>Implemented</p>
4	<p>The bank reconciliation is incorrect as it includes the deposit account balance as at 31/3/17 and does not include interest received within receipts.</p> <p>Th bank statements available for audit only show the deposit account balance up to 16/3/18.</p>	<p><i>The bank reconciliation should be amended to the following:</i></p> <p><u>Cash Book</u> <i>Balance brought forward £93,889.12</i> <i>Add Receipts £143,943.31</i> <i>Less Payments £192,171.01</i></p>	<p>Implemented</p>

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		<p><i>Balance carried forward <u>£45,661.42</u></i></p> <p><i><u>Bank</u></i></p> <p><i>Deposit account £58,751.62</i></p> <p><i>Current account £72.78</i></p> <p><i>Petty cash £135.93</i></p> <p><i>Less w/p cheques -£13,298.91</i></p> <p><i>Balance @ 31/3/18 <u>£45,661.42</u></i></p> <p><i>Bank statements should be provided for audit showing the balance as at 31st March.</i></p>	
5	<p>Payments approved at the Council meeting on the 19/9/17 have not been listed within the minutes. We have not seen approval for cheques 3390 – 3399.</p>	<p><i>When payments are approved by Council they should be recorded within the Council minutes.</i></p>	<p>Implemented</p>
6	<p>We tested a sample of payments as part of our audit testing, we have not seen a letter of receipt for a grant made to ‘Quarry Villages Community Transport’ for £5200.</p>	<p><i>Letters of receipt should be obtained for donations.</i></p>	<p>Implemented</p>
7	<p>The fixed assets balance on the annual return of £92,999 does not agree to the fixed asset register which shows a valuation of £141,948.</p> <p>The large increase in the valuation in the asset register is partly due to the addition</p>	<p><i>The annual return should reflect the balance on the asset register.</i></p> <p><i>Assets should be added to the asset register at purchase cost.</i></p>	<p>The annual return was amended to show fixed assets as £111,266. We have not seen a reconciliation of additions and disposals for 17/18 that shows how this figure has been calculated.</p>

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	<p>of Christmas lights in 17/18 amounting to £17,983. This is not matched by expenditure on Christmas lighting in 17/18 (this may partly be due to issue 2 in 16/17).</p> <p>The following assets were purchased in 17/18 and do not appear in the asset register:</p> <ul style="list-style-type: none"> - Notice board £2835 - Heritage lighting columns £7501. 	<p><i>If these assets are owned by the Council, they should be added to the asset register.</i></p>	
8	<p>The Council have a debit card that they have used for some purchases in 17/18. The financial regulations have not been updated to state that a debit card is a method of payment and the controls that are in place such as who the use of the card is restricted to, authorisation limits, and reporting the payments to Council.</p>	<p><i>The Financial Regulations should be updated for controls over debit card payments.</i></p>	Implemented
9	<p>We could not find evidence that the Council is registered with the ICO. The Information Commissioner has determined that parish councils do process personal data and unless an exemption applies, are required to register.</p>	<p><i>The Council should ensure that they are registered with the ICO.</i></p>	Implemented
	Guidance note 2018	<p><i>The impact of GDPR on the council should be identified through review of</i></p>	

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	<p>Data Protection Law changed 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 imposes 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>ICO and NALC guidance and the Data Protection policy, risk assessment and internal controls should be updated accordingly</i></p>	
Follow up of 2016/17 audit recommendations			
1	<p>The annual return balances are incorrect due to the following:</p> <ul style="list-style-type: none"> - Total other payments and the balance carried forward for 2015/16 do not agree to the 2015/16 audited annual return and therefore an incorrect balance has been forward. - VAT appears to have been excluded from payments within the accounts and included as a debtor. The accounts are prepared on a receipts and payments basis and therefore cannot include a debtor. - The following receipts have been netted off payments: 	<p><i>The annual return should be amended to show the following:</i></p> <p><i>Year ending 31/3/16</i> <i>Total other payments £101,156</i> <i>Balances carried forward £126,083</i> <i>Total cash and investments £126,083</i></p> <p><i>Year ending 31/3/17</i> <i>Balances brought forward £126,083</i> <i>Total other receipts £9,553</i> <i>Total other payments £141,869</i> <i>Balances carried forward £93,889</i> <i>Debtors nil</i> <i>Total cash & investments £93,889</i></p> <p><i>If the Council decide that they want their</i></p>	Implemented

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	<ul style="list-style-type: none"> ○ Jati Ltd £5 ○ £10 – no description ○ Ice rink takings £318.90 ○ Return of grant paid in 15/16 £2000 ○ Your hwb £170.00 	<p><i>accounts to be prepared on an income and expenditure basis, they must calculate the value of debtors, creditors, receipts in advance and prepayments at the year end. They also would need to restate the previous year's accounts as income and expenditure.</i></p>	
2	<p>The value of assets has increased by £15014, we could not identify from the asset register the additions that make up this balance.</p> <p>The Council purchased Christmas lights in 2016/17 at a cost of £5993. These have not been added to the asset register.</p>	<p><i>The Council must ensure that the value of assets changes only for additions or disposals or this is likely to be queried by external audit. The asset records should clearly show the movement on assets each year.</i></p> <p><i>The asset register should be updated for the Christmas lights purchased in 16/17.</i></p>	See issue 7 in 17/18
3	<p>We could not see evidence that petty cash is regularly reported to Council or that the reconciliation is checked by Council.</p>	<p><i>Petty cash expenditure should be reported to Council at least annually and the petty cash reconciliation should be certified by Council.</i></p>	Implemented
4	<p>The 2017/18 budget calculation shows budgeted expenditure for 2017/18 as £250785 and budgeted income including brought forward reserves as £250785. If all expenditure and income is as budgeted for 17/18 the Council would have a nil balance at 31/3/18.</p> <p>Some of the expenditure within the budget appear to actually be reserves that</p>	<p><i>The budget should set out realistic forecasts for expenditure and should not include reserves within it.</i></p> <p><i>The precept calculation should then state the reserves that are being maintained as ear marked reserves and the amount of general reserves (predicted year-end balance less ear-marked reserves) and the amount of reserves being used to fund the</i></p>	Implemented

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	<p>may not be spent in 2017/18 such as: Asset transfer reserve £40,000 Promenade & Parks improvement £70,000 Community projects £20,000</p> <p>We could not see a general reserve heading within the budget but we note that some of the budget headings are in excess of the actual predicted expenditure to 31/03/2017.</p>	<p><i>budget if the budget is in excess of the precept.</i></p> <p><i>Expenditure against budget should then be regularly reported to Council.</i></p>	
5	<p>The Local Authorities (Model Code of Conduct) (Wales)(Amendment) Order 2016 came into force on 1st April 2016. We have seen no evidence in the minutes that the Council have adopted the amended code of conduct.</p>	<p><i>The Council should adopt the amended code of conduct.</i></p>	Implemented