

**INTERNAL AUDIT REPORT
SEALAND COMMUNITY COUNCIL
2018/19**

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 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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<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 • Agree any capital expenditure identified through sample testing of payments to the fixed asset register

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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: 16/4/2019

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	ISSUE	RECOMMENDATION	FOLLOW-UP
1	No issues arising, a robust set of books and records has been maintained throughout the financial year and all internal control objectives have been met.		
Follow up of 2017/18 audit recommendations			
1	<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>The Council has appointed the Clerk as the Data Protection Officer (DPO). The National Association of Local Councils (NALC) has issued guidance to Councils that Clerks should not be designated as a DPO due to a conflict of interest.</p>	<p><i>The Council should review national guidance from the ICO and NALC and ensure that they are meeting GDPR requirements.</i></p> <p><i>The impact of GDPR on the council should be identified and the Data Protection policy, risk assessment and internal controls should be updated accordingly</i></p>	Implemented

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Follow up of 2016/17 audit recommendations		
1	<p>The street lighting contract with Flintshire County Council (FCC) expired in 2015/16. Street Lighting expenditure in the year is in excess of the threshold of £3000 required for 3 written estimates in the Financial Regulations. The clerk has explained that FCC are maintaining the lights to the required level and then adopting them on a phased basis.</p>	<p>Implemented</p> <p><i>The contract with Flintshire County Council should be updated and signed by both parties to the agreement. This is currently being actioned by the clerk.</i></p> <p><i>Clearly FCC are in practice the only provider that could carry out this service as they then formally adopt the street lights as their own assets. However, the minutes should state this is the case so that standard Financial Regulations with regard to securing three written estimates should not apply.</i></p>
2015/16		
1	<p>The new external auditor is requesting that the fixed asset value disclosed in the annual return should now only change if there are additions or disposals and that additions should be included at cost.</p>	<p>Implemented</p> <p><i>The asset register format should include columns for assets showing insurance value, cost, and value to be disclosed in the annual return.</i></p> <p><i>This will ensure the asset register can always be agreed to the annual return and that the council</i></p>

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	<p><i>still monitors insurance values for assets to ensure:</i></p> <p>1.) <i>All assets are insured</i> 2.) <i>Insurance cover is sufficient</i></p>	
2014/15 audit		
<p>1</p> <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>	<p>The council is aware of the upcoming pension enrolment requirements and is taking action to meet its responsibilities</p>
Follow up of 2013/14 audit recommendations		
<p>1</p> <p>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.</p>	<p><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</i></p>	<p>Noted by Council</p>

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	<i>in light of the repeal will be reviewed in future audits.</i>	
Follow up of 2012/2013 audit recommendations		
1	<p>A review of payroll found the following:</p> <ul style="list-style-type: none"> • The contract of employment had not been signed; • The expenses claim for April 2012 showed mileage claimed at a rate of 50p per mile, other months this was claimed at 45p per mile. 	<p><i>The contract of employment should be signed.</i></p> <p><i>The Council need to review the mileage rate and ensure the Clerk is claiming at the correct rate.</i></p> <p>Implemented – provided with a signed copy of contract in 2013/14 audit.</p> <p>Council have approved a mileage rate of 47p per mile. Note the tax free rate for mileage is 45p per mile.</p> <p>Implemented</p>
2	<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>The Clerk has assured us that he addresses this risk. The Council needs to review the action taken as part of the risk assessment to ensure that the mitigation action meets their requirements.</p>	<p><i>The risk assessment should be updated to include disaster recovery and business continuity risk management</i></p> <p>Implemented</p>

