



Llangoedmor Community Council

Internal Audit
2022/23

JDH BUSINESS SERVICES LTD

Registered to carry on audit work by the Institute of Chartered Accountants in England and Wales

The internal audit of Llangloedmor Community Council is carried out by undertaking the following tests as specified in the Annual Return for Local Councils:

- Checking that books of account have been properly kept throughout the year
- Checking a sample of payments to ensure that the Council's financial regulations have been met, payments are supported by invoices, expenditure is approved, and VAT is correctly accounted for
- Reviewing the Council's risk assessment and ensuring that adequate arrangements are in place to manage all identified risks
- Verifying that the annual precept request is the result of a proper budgetary process; that budget progress has been regularly monitored and that the council's reserves are appropriate
- Checking income records to ensure that the correct price has been charged, income has been received, recorded and promptly banked and VAT is correctly accounted for
- Reviewing petty cash records to ensure payments are supported by receipts, expenditure is approved and VAT is correctly accounted for
- Checking that salaries to employees have been paid in accordance with Council approvals and that PAYE and NI requirements have been properly applied
- Checking the accuracy of the asset and investments registers
- Testing the accuracy and timeliness of periodic and year-end bank account reconciliation(s)
- Year-end testing on the accuracy and completeness of the financial statements

Conclusion

On the basis of the internal audit work carried out, which was limited to the tests indicated above, in our view the council's system of internal controls is in place, adequate for the purpose intended and effective, subject to the recommendations 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

June 8th, 2023

ACTION PLAN

	ISSUE	RECOMMENDATION	FOLLOW UP
1	The legal ownership of two material assets was clarified in the financial year as the council accepted legal advice that it did not own the car park and toilet block situated at the Coracle Hall. These items were removed from the 2022/23 fixed asset register and the fixed assets value. However, as the council did not legally own the assets in 2021/22 the external auditor may want the 2021/22 comparative for fixed assets to be restated in the 2022/23 annual return accounts to reflect this.	<i>The council should secure guidance from external audit or One Voice Wales as to whether the comparative 2021/22 fixed asset figure in the 2022/23 Annual Return needs to be restated to reflect the clarified legal ownership of the car park and toilet block.</i>	
2	The bank reconciliation contains a number of minor reconciling items relating to underpayments and minor cashbook errors regarding the value of cheques.	<i>The council should ensure underpayments are corrected with further payments where necessary and the cashbook is amended for any cheque amounts where the incorrect value is included.</i>	
3	The staff costs disclosure in the Annual Return accounts includes the clerks expenses. Only actual payroll costs should be included in staff costs as specified in the following Annual Return guidance 'Staff costs should include expenditure or payments made to and on behalf of all	<i>Staff costs in the Annual Return should not include staff expenses.</i>	

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	<p><i>employees. Include salaries and wages, taxable allowances, PAYE and NI (employees and employers), pension contributions and termination costs. Exclude reimbursement of out-of-pocket expenses.’ If this also occurred in 2021/22 then the 2021/22 comparatives should be restated to exclude staff expenses.</i></p>		
4	<p>General reserves at the year-end were in excess of 100% of the 2022/23 precept level of £30,000. Sector guidance is that councils should aim for a general reserve level of between 25% and 100% of the precept or net operating expenditure. The practitioners Guide also notes this recommended level of reserves.</p>	<p><i>The council should review the level of general reserves during the budget setting process with reference to sector guidance.</i></p>	
5	<p>The council did not review, update and approve the risk assessment during the financial year, although the risk assessment for 2022/23 was reviewed and approved by the council in March 2022.</p>	<p><i>The risk assessment should be reviewed, updated and approved by council each financial year.</i></p>	
6	<p>The risk assessment document could be improved as follows:</p> <ul style="list-style-type: none"> - There is no clear evidenced rationale for classification of individual risks as High, Medium 	<p><i>The risk assessment should be further developed as noted and council should ensure it covers the entire scope of the council operations, governance and finances.</i></p>	

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	<p>or Low, such as an ‘impact vs ‘likelihood’ risk matrix with definitions of scoring weightings. Therefore, ‘impact’ and ‘likelihood’ risk scores are not multiplied to show total risk which should then be plotted on a risk matrix using a traffic light system.</p> <ul style="list-style-type: none"> - The risk assessment does not contain an important part of risk management which is to show the movement in risks (Direction of Travel) since the last risk assessment. Risk management is a dynamic process ensuring that new risks are addressed as they arise. It should also be cyclical to establish how previously identified risks may have changed. 		
7	<p>The risk assessment does not address the risks of supplier fraud. The supplier fraud risks can be managed via appropriately robust policies and procedures. Examples of prevention actions include:</p>	<p><i>The risk assessment should be updated to include supplier fraud including the adequacy of supplier onboarding controls.</i></p>	

	ISSUE	RECOMMENDATION	FOLLOW UP
	<ul style="list-style-type: none"> - training for staff to alert them to the potential risks of providing sensitive company information, by phone or other means, especially contract and account information. - establish a rigorous change of supplier details procedure - where a supplier has purported to have changed their bank details always call the supplier to check the veracity of a request, using details in your system, rather than those on any associated letter or email. A person should be authorised to approve a supplier bank account change after having reviewed the process undertaken to verify the supplier details change - periodic review of supplier accounts should also be undertaken to remove any dormant accounts. This reduces the likelihood of any old supplier information being used to secure fraudulent payments. - checking address and financial health details with Companies House - checking samples of online payments to supplier invoices to ensure the payment has been made to the supplier bank account 		