

INTERNAL AUDIT REPORT 2017/18
SALTNEY 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 •
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

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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 • 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

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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

Conclusion

On the basis of the internal audit work carried out, in our view the council's system of internal controls are NOT in place, adequate for the purpose intended and effective, and the recommendations reported in the action plan overleaf should be implemented promptly.

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: 17/07/2018

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	ISSUE	RECOMMENDATION	FOLLOW UP
1	<p>From May 2017 until the end of March 2018 one of the two cheque signatories for the current account cheques was an ex-councillor. This is a breach of the council Financial Regulations and Standing Orders of the council.</p> <p>The issue was resolved from April 2018, however, only two current councillors are listed as signatories.</p>	<p><i>The Annual Return internal audit certificate has been qualified for breaches of proper practice and breaches of the Financial Regulations and Standing Orders of the council.</i></p> <p><i>The council should only use current councillors as signatories to cheques.</i></p> <p><i>Additional members should be included as signatories as it would assist the clerk with ensuring there are always 2 signatories available for signing cheques.</i></p>	<p>Implemented</p> <p>Signatories have been updated prior to the audit taking place. All old signatories have been removed the Council's current account.</p>
2	<p>RECURRING ISSUES</p> <p>HMRC Real Time Information payroll submissions and year end payroll submissions had not been made for the entire financial year. Both internal and external audit raised this issue in 2016/17 and it has not been addressed.</p> <p>No information was presented for internal audit to evidence that statutory responsibilities with regard to the Pension Regulator auto enrolment have been complied with. The clerk has a</p>	<p><i>HMRC payroll requirements for RTI submissions must be complied with. If the council determine that support is needed to comply then the services of a payroll agent should be urgently secured.</i></p> <p><i>The council should urgently ensure that Statutory responsibilities with regard to Pension Regulator auto enrolment requirements are complied with.</i></p>	<p>Issues have been resolved. Council may consider employing an assistant at some point to help clerk with the inputting and producing relevant reports for payroll and finance system.</p> <p>Clerk has been in touch with the pension's regulator. There was some confusion as the Clerk thought she didn't need have a second pension</p>

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	salary in excess of the pension threshold for auto enrolment.		
3	<p>For the second year in succession, the RFO had not certified section one of the Annual Return by the June 30th statutory deadline. Therefore, the council were again unable to approve section one of the Annual Return by the same June 30th statutory deadline.</p> <p>The council has therefore breached regulation 15 of the Accounts and Audit (Wales) Regulations 2014.</p>	<p><i>The council must ensure it complies with the June 30th statutory deadlines per the Accounts and Audit (Wales) Regulations 2014</i></p>	<p>End year 31/3 agreed first report to Council in April and May if necessary, then further report back to June meeting for sign off for the 30/6 deadline.</p>
4	<p>The CCLA account statements are still sent to the former clerk.</p> <p>RECURRING ISSUE:</p> <p>In 2015/16 (and 2016/17) the external auditor reported that CCLA deposits are investments rather than deposits and should be included in fixed assets. The adjustments to reflect this have not been carried out by the council and we understand guidance in Wales may be updated to align with England where CCLA deposits are required to be classified as cash and bank deposits.</p>	<p><i>The registered individuals with the CCLA should be amended to reflect the current clerk and councillors to ensure up to date statements are not sent to former employees</i></p> <p><i>If, after completion of the 2017/18 audit, the external auditor requires the CCLA to be disclosed as fixed assets for 2016/17 and 2017/18 then the accounts will have to be amended and 2016/17 restated.</i></p>	<p>CCLA needs new signatories and old one removed. report to Council with recommendation for a further 2 signatories. - implemented</p> <p>Councillors may need to look at projects within the township in the future. It was suggested that the Town Council could go out to a public consultation to see what the community wants most. – on going</p>

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5	<p>RECURRING ISSUE</p> <p>As the council has previously included CCLA in cash and bank balances instead of fixed assets we have tested the CCLA year end bank reconciliation.</p> <p>The CCLA bank reconciliation, and therefore total receipts in the accounts, is incorrect. None of the dividends received through the CCLA investment have been posted to the RBS ledger or included in the accounts since 2016. The total dividends not included up to the end of 2016/17 was £369 (rounded) and further monthly dividends have been received in 2017/18. Therefore, the accounts show the year end CCLA balances as the 2015/16 £100896.88 whereas the correct figure should be £101494.59 (balance as at 28/2/18) plus the March dividend.</p> <p>The bank statement to verify the year end CCLA balance was not on file.</p>	<p><i>The external auditor may require this error to be corrected. In future all CCLA dividends should be posted into the RBS system for the financial year to which they relate.</i></p> <p><i>A copy of the bank statement that evidences the year end CCLA balances should be secured.</i></p>	<p>Clerk will check with RBS at training.</p> <p>Clerk to pick up at her training with RBS</p>

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6	<p>No budgetary control information has been reported to council for the entire financial year. The agreed budget to support the 2017/18 precept had not been updated into the RBS ledger to enable budgetary reporting information to be provided during the financial year.</p> <p>Year end reserves are approximately 216% of the annual precept. Sector guidance is that general reserves should be maintained between 3 months and 12 months of net operating expenditure (or the precept). The working papers provided for audit did not identify any earmarked reserves. Previously reserves have been earmarked for a potential asset transfer but the council have withdrawn their interest.</p>	<p><i>Training is needed for the clerk to ensure the RBS ledger system can be populated with agreed budgets and then used to produce monthly budget monitoring reports.</i></p> <p><i>Regular budgetary control information must be presented to council in 2018/19.</i></p> <p><i>The council need to carry out a review of reserves and determine if sums are to be earmarked for other community improvement schemes. The council could also establish a medium term community improvement plan financed by earmarked reserves. If no earmarked schemes are identified the level of the precept should be reviewed.</i></p>	<p>½ day refresh training for the clerk and ½ day for members of the F&GP Committee. – agreed by F&GP Committee</p> <p>Implemented bank reconciliation monthly reports to Council.</p> <p>A consultation will take place with Community Leaders from community groups, scouts, boxing club, history group licensees also have their ears to the ground - Clerk has contacted Nial Waller from FCC for advice initially, a consultant will need to be employed money is in the budget for this – on going</p>
7	<p>No bank reconciliations had been produced during the financial year and reported to council and the RBS ledger had not been accurately maintained during the financial year. The year end</p>	<p><i>The RBS cash book ledger should be updated on a regular basis and bank reconciliations should be carried out monthly and reported to council.</i></p> <p><i>The clerk needs to secure training in the</i></p>	<p>Implemented</p>

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	reconciliations provided for the internal audit were incorrect and RBS accounting support had to be requested to provide complete and accurate reconciliations to enable the internal audit to proceed.	<i>correct use of the RBS accounting package.</i>	Training is being sourced
8	<p>RECURRING ISSUE</p> <p>The input VAT on purchases for 2016/17 of £3714.15 has not been reclaimed. The VAT inputs for 2017/18 of £3618.99 have not been reclaimed.</p>	<i>A VAT126 reclaim for the 2016/17 and 2017/18 VAT refunds due should be submitted to HMRC promptly as there are statutory three year time limits to reclaim.</i>	Done retrospective
9	<p>We were unable to agree the following payments to supporting invoices or signed confirmations of receipts for donations:</p> <ul style="list-style-type: none"> • £28.5 Deeside lodge cheque number 102700 • £28.5 Deeside lodge cheque number 102703 • £28.5 Deeside lodge cheque number 102712 • £90 One Voice Wales cheque number 102715 • £2100 Deva Boxing cheque number 102716 • £918.8 Victoria Road Allotments cheque number 102717 	<i>Invoices should be retained for all supplies and signed confirmations of receipt secured for donations</i>	Some of cheques mentioned didn't have an invoice, in particular the grants that had been given along with the cheques for the Christmas Parade

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	<ul style="list-style-type: none"> • £612 Vision ICT cheque number 102727 (email on file but no invoice) • £120 Mark Jones Disco cheque number 102737 • £75 Chester Heritage Bus Tours cheque number 102738 • £150 Deeside Round Table cheque number 102739 • £180 Jason Shallcross cheque number 102751 • £1660 Saltney Memory Café Grant cheque number 102771 		
10	<p>We were unable to agree the following payments to supporting authorisation in the minutes:</p> <ul style="list-style-type: none"> • £5 Flintshire County Council chq 102684 • £628.56 RBS software solutions chq 102682 • All £ payments for the financial year to Prism Solutions Ltd • £317.58 HMRC chq 102699 • £316.05 FCC chq 102704 • £78.75 Veronica Gay chq 102726 	<p><i>All payments should be approved in the minutes</i></p>	noted

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11	<p>£6045.77 of income received as a Scottish Power Energy rebate had been posted to a contingency expenditure account ((n/l code 4501) as a Credit, and further review of this account identified mis-posting of mayors charity payments as follows:</p> <ul style="list-style-type: none"> • £45 Eaton hall charity event • £25 poppy wreath • £70 Lord Mayors Charity Dinner • £70 Chairmans Charity dinner • £35 ICO registration fee 	<p><i>The income of £6045.77 relates to a previous service provider and therefore the external auditor may require this to be posted to income in the annual return rather than set off against expenditure.</i></p> <p><i>The mis-postings noted should be posted to the correct nominal ledger codes and the Contingency code cleared to zero.</i></p>	<p>Miscoding rectified Implemented payments detailed in the minutes. All receipts kept and letters from grants in the future to show the payment had been received.</p>
12	<p>We were unable to agree the street lighting provision from FCC to a signed Service Level Agreement or contract.</p>	<p><i>The council should secure a signed contract for the annual provision of street lighting services by FCC.</i></p>	<p>Check with FCC re SLA for streetlighting. F&GP to discuss the SLA</p>
13	<p>The Christmas lighting contract is in excess of the threshold of £5000 requiring three quotations as per the Financial Regulations.</p>	<p><i>The council should identify the agreed term of this contract and ensure three quotations are sought for the supply when the contract is renewed.</i></p>	<p>The three-year contract is up this year. Three quotes be sought for 2019 onwards</p>

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2016/17 audit		next meeting 28/11	
1	<p>No information was presented for audit to evidence that:</p> <ul style="list-style-type: none"> - HMRC RTI and year end payroll submissions had been made for the entire financial year. - statutory responsibilities with regard to the Pension Regulator auto enrolment have been complied with. The current clerk has salary in excess of the pension threshold for which auto enrolment is a requirement 	<p><i>The council should urgently ensure that:</i></p> <ul style="list-style-type: none"> - <i>HMRC payroll requirements for RTI in-year end year end submissions are complied with.</i> - <i>Pension Regulator auto enrolment requirements are complied with</i> 	Outstanding - see 2017/18 issues
2	<p>Recurring Issue – Fixed Assets</p> <p>Capital additions during 2016/17 had not been updated into the asset register. We identified the following capital additions (net of VAT) through testing of a purchase invoices:</p> <ul style="list-style-type: none"> - Community safety camera cost £3256 - Dell Latitude cost £762.22 - HP laserjet printer cost 	<p><i>The fixed asset register should be updated before completion of the annual return accounts. All additions (and disposals) should be updated into the asset register in future</i></p>	Fixed Asset Register now amended to include 2016/17 additions

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	<p style="text-align: center;">£212.29</p> <p>The fixed asset register does not include the date of acquisition of disposal of assets</p> <p>In 2015/16 the external auditor reported that CCLA deposits are investments rather than deposits and should be included in fixed assets. The adjustments to reflect this have not been carried out by the council and we understand guidance in Wales may be updated to align with England where CCLA deposits are required to be classified as cash and bank deposits.</p>	<p><i>The format of the asset register should be improved to include dates of acquisition and disposal</i></p> <p><i>If, after completion of the 2016/17 audit, the external auditor requires the CCLA to be disclosed as fixed assets for 2016/17 and 2015/16 then the accounts will have to be amended and 2015/16 restated.</i></p>	
3	<p>The CCLA bank reconciliation, and therefore total receipts in the accounts, is incorrect. None of the dividends received through the CCLA investment have been posted to the RBS ledger or included in the accounts. The total dividends not included = £369 (rounded). Therefore, the accounts show the year end CCLA balances as £100896.88 whereas the correct figure should be £101265.41.</p> <p>The bank statement to verify the</p>	<p><i>The external auditor may require this error to be corrected. In future all CCLA dividends should be posted into the RBS system for the financial year to which they relate.</i></p> <p><i>A copy of the bank statement that</i></p>	Outstanding

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	year end current account balance could not be located.	<i>evidences the year end balances should be secured from the bank</i>	
4	The input VAT on purchases for 2016/17 of £3714.15 has not been reclaimed.	<i>A VAT126 reclaim for the 2016/17 VAT refund due should be submitted to HMRC</i>	Outstanding
2015/16 audit issues			
1	The Council's reserves have increased to £154721 which is in excess of 12 months of expenditure. The minutes record that balances have been ear-marked for a possible community asset transfer however this has not been quantified.	<i>The Council should quantify the balances being held for the community asset transfer and should include this in the explanation of variances for the external auditor.</i>	Implemented. £100,000 has been earmarked for the community asset transfer
2	The Council purchased CCTV equipment to the value of £8006 during 2015/16, this has not been added to the asset register and the balance on the annual return. The asset register total does not agree with the annual return. It shows a total of £127306. It does not record the date of acquisition or disposal.	<i>The asset should be added to the asset register. The date of acquisition and disposal should be included in the asset register and the asset valuation should agree to the annual return.</i>	Implemented, however, see 2016/17 issues re. additions in 2016/17 not included. Not implemented - See 2016/17 issues

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3	<p>Total other receipts and total other payments were incorrect on the draft annual return as the VAT refund was treated incorrectly. It had been coded to VAT on payments rather than receipts.</p> <p>Total other receipts also did not include the £420.88 income received from the CCLA account.</p>	<p><i>Please ensure the accounts and the annual return are amended to show the following:</i></p> <p><i>Total other receipts = £11,575</i> <i>Total other payments = £41,846</i> <i>Balance carried forward =£155,143</i> <i>Total cash & investments = £155,143</i></p>	Implemented
Follow up of 2014/15 audit recommendations			
1	<p>The balances provided for audit were incorrect as they had removed £100,000 of the £100476 balance with the Public Sector Deposit Fund. There also was no corresponding increase in the level of fixed assets.</p> <p>The Public Sector Development Fund is an instant access managed fund and was previously treated in the accounts as a bank balance rather than a long term investment.</p>	<p><i>Including the Fund within the Council's bank accounts for consistency, the annual return should show the following balances:</i></p> <p><i>Balance bf: 137814</i> <i>Annual Precept : 76485</i> <i>Total other receipts: 412</i> <i>Staff costs: 16240</i> <i>Total other payments: 75357</i> <i>Balance cf: 123114</i></p> <p><i>The bank reconciliation should show the following balances:</i></p> <p><i>Balance bf: 137814.19</i> <i>Add receipts: 76896.77</i> <i>Less payments: 91596.52</i> <i>Balance cf: 123114.44</i></p> <p><i>Bank balances</i> <i>Deposit account: 16057.12</i></p>	Implemented

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		<p><i>Current account: 10000.00</i> <i>Public Sector Deposit Fund: 100476.32</i> <i>Less up cheques: 3419.00</i> <i>Balance c/f: 123114.44</i></p>	
2	<p>There will be some changes to the annual return for 2015/16 which will include a thematic review each year. For 2015/16 this will include examining councils' arrangements for budget setting and monitoring.</p> <p>We could not see evidence within the minutes that the Council have monitored income and expenditure against the budget during the year.</p>	<p><i>Monitoring of income and expenditure against the budget should be recorded within the Council minutes.</i></p>	<p>The Council have carried out a six monthly budget review during 2015/16. They should consider increasing budget reporting against actual to quarterly.</p>
3	<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.</p> <p>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.</i> <i>See www.thepensionsregulator.gov.uk for further information.</i></p>	<p>Noted</p>
<p>Follow up of 2013/2014 audit recommendations</p>			

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1	<p>The accounts are out of balance by £36.90. A review of payments in the ledger against the bank statements found the following errors:</p> <p>Chq 2380 entered in ledger as £726.07 cleared the bank as £762.07.</p> <p>DD 27/12/13 BT entered in ledger as £82.39 cleared the bank as £83.29.</p>	<p><i>The bank reconciliation and annual return must be amended to show a balance carried forward and bank balance of £137,814.19.</i></p> <p><i>Please amend the annual return (see issue 3) and return for signing.</i></p>	Implemented
2	<p>Total other receipts does not include the grant receipt of £500 for the website grant which has also been netted off payments.</p>	<p><i>Receipts and payments must be adjusted to include the £500 grant (see recommendation 3).</i></p>	Implemented
3	<p>As in previous years, the accounts software has removed VAT from receipts and made a corresponding adjustment to payments. When the level of VAT from the previous year is a similar level or if VAT has been reclaimed in the year that is incurred this would not distort the accounts, however in 2013/14 the amount of VAT reclaimed in the year relating to 2012/13 was £7602, the amount of VAT on payments made was £4987. This means that payments have been misstated by £2615.</p>	<p><i>The annual return should be amended to show the following:</i></p> <p><i>Total other receipts £8263 (addition of VAT 7602 and grant £500)</i></p> <p><i>Total other payments £48036 (addition of VAT 7602, grant £500, error £36)</i></p> <p><i>Balance carried forward £137814.</i></p>	Implemented

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Follow up of 2012/2013 audit recommendations			
1	The fixed asset register and subsequently the balance on the annual return do not include the CCTV system and laptop purchased in 2012/13 at a cost of £7600.	<i>These items should be added to the fixed asset register and the annual return.</i>	Implemented
2	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.	<i>The risk assessment should be updated to include disaster recovery and business continuity risk management</i>	This was documented in the minutes when the internal audit report was discussed but the risk assessment has not been updated.
3	The accounts software has removed VAT from receipts and made a corresponding adjustment to payments. The accounts are prepared on a receipts and payments basis and therefore they do not include a debtor for VAT.	<i>VAT should only be removed from the annual return when accounts have been prepared on an income and expenditure basis.</i>	Implemented

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