
Llanharry Community Council

Internal Audit Report (Final Update) 2017-18

Claire Lingard

*For and on behalf of
Auditing Solutions Ltd*

Background and Scope

The Accounts and Audit Regulations introduced from 1st April 2001 require all Town and Parish Councils to implement an independent internal audit examination of their Accounts and accounting processes annually. The Council complied with the requirements to appoint an auditor, independent of the Council's decision making process, by appointing a local contractor from the outset. Auditing Solutions Ltd was approached and appointed to provide the function to the Council for 2016-17 and beyond. This report sets out those areas examined during the course of our two audit visits to the Council for 2017-18, which took place on 7th November 2017 and 13th April 2018.

Internal Audit Approach

In conducting our review for 2017-18, we have paid due regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts.

As the Council's Internal Auditor and under the revised audit arrangements, we have a duty to complete the internal audit report in the Council's Annual Return, which covers the basic financial systems and requires assurances in ten separate areas.

Overall Conclusion

We have determined that, on the basis of the satisfactory conclusion of our annual programme of work, and the adoption of the recommendations made at our Interim Audit, the Council has established adequate and effective internal control arrangements. We also wish to express our appreciation, once again, to the Clerk for the excellent manner in which the Council's records have been presented for our examination this year.

We have completed and signed the 'Internal Audit Report' in the year's Annual Return, having concluded that, in all significant respects, the control objectives set out in that Report were being achieved throughout the financial year to a standard adequate to meet the needs of the Council.

Please note, that due to the late release of the 2018 Annual Return documents by the External Auditors, due to circumstances beyond their control, the 2018 Annual Return was signed off upon receipt on the 18th April, rather than at the time of the Final Update Audit visit on the 13th April.

Maintenance of Accounting Records & Bank Reconciliations

Our objective here is to ensure that the accounting records are being maintained accurately and that no anomalous entries appear in cashbooks or financial ledgers. We note that the Council uses a series of spreadsheets maintained in Microsoft Excel software as the Council's accounting system to record all accounting transactions. We also note the existence of two bank accounts with Lloyds Bank plc (Treasury and Business). We have: -

- Ensured that the opening trial balance detail for 2017-18 agrees with that in the 2016-17 Statement of Accounts and certified Annual Return;
- Verified that the spreadsheet cashbooks remain "in balance" as at 31st March 2018;
- Ensured that the spreadsheet analysis structure is appropriate for purpose;
- Checked detail of all transactions in the Lloyds current and treasury account cashbooks to the supporting bank statements for the year to 31st March 2018;
- Checked and agreed detail on all bank reconciliations on the Lloyds current and treasury accounts for the year to 31st March 2018; and
- Considered the appropriateness and security of controls over software systems back-up.

Conclusions and recommendations

We are pleased to record that no significant issues arise from our work in this area to date. We are also pleased to note that the Council received an unqualified external audit report for 2016-17 and that the Council has adopted all but one of the recommendations for improvement that we made in the previous year's report.

Review of Corporate Governance

Our objective here is to ensure that the Council has a robust regulatory framework in place, that Council and Committee meetings are conducted in accordance with the adopted Standing Orders and that, as far as we are able to reasonably ascertain, no actions of a potentially unlawful nature have been or are being considered. Consequently, we have:

- Noted that the Council's Standing Orders (SOs) and Financial Regulations (FRs) are subject to annual review and update, the most recent review occurring on 26th April 2017 applying the model documents from One Voice Wales.
- Completed our review of the Council and its Standing Committee minutes for the year to determine whether any issues exist that may have an adverse effect, through litigation or other causes, on the Council's future financial stability with only one issue arising.
- Noted the Council maintains a comprehensive and easy to navigate website on which are published the Council's meeting notices, and an archive of its Agenda and Minutes to ensure ease of public access to the Council's democratic processes and access to council resources, governance documents and meeting records.

Conclusion and recommendation

We made one recommendation in this area of examination in our Interim Audit Report which the council has noted.

*R1. The 1972 Local Government Act 1972 S137 or S139 powers do not give council's lawful authority to give grants or donations to an individual. The powers extend ONLY to grants and donations which are for the benefit of a proportion of the community. **Members have noted this recommendation.***

Review of Expenditure and VAT

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Payments are supported by suitable documentation, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due and/or an acknowledgement of receipt, where no other form of invoice is available;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct heading codes have been applied to invoices when processed; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

To ensure compliance with the above criteria, we have reviewed the procedures in place for processing payments and are pleased to note that, following last year's recommendation, members are now routinely initialling invoices as evidence of their review. We have examined all payments processed in the financial year to 31st March 2018 for compliance with the above criteria with no issues arising.

We are again pleased to note that VAT returns continue to be prepared and submitted to HMRC quarterly. We have reviewed and agreed the first three for the financial year to December 2017, noting that these have been settled accordingly and we have verified the value of each to the details maintained in the excel spreadsheets.

Conclusion

We are pleased to record that no issues exist in this area currently that warrant formal comment or recommendation.

Assessment and Management of Risk

Our aim here is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks in order to minimise the opportunity for their coming to fruition.

Whilst acknowledging that the Council continues to exhibit a robust approach to general risk management and specifically, the appropriateness of its financial risk assessment, which is reviewed, updated where necessary and re-adopted annually, we also note that members resolved not to purchase the Local Council Risk System (LCRS), which we recommended in our previous report and continue to maintain the register in spreadsheet format.

We note that the risk register was reviewed during March and formally approved by the Council at the April 2017 meeting of the Full Council.

The Council has changed its insurance supplier from Aviva to Hiscox achieving a substantial saving. The new Hiscox policy schedule identifies Employers' and Public Liability cover as £10 million; Officials & Trustees Indemnity as £500,000; together with Business Interruption (Loss of Revenue) cover in place at £10,000. We consider these levels appropriate for the Council's present requirements.

We discussed the Council's preparations for the introduction of GDPR on the 25th May 2018 with the Clerk and note that active preparations were ongoing. GDPR should be included in the Council's Risk Registers from 2018 onwards.

During our Interim Audit visit, we also examined the Council's arrangements for the regular inspection of playgrounds and play areas noting that the Council has a play area at Llanharry, which contains a playground, team shelter and Multi Use Games Area (MUGA). We noted that the Council did not have a playground management policy in place and that inspections of the playground are currently undertaken by the Clerk who had not received playground inspect training and did not hold a qualification in this regard. We also note that the Council has retained the services of Urban Recreation Ltd to conduct comprehensive quarterly inspections of the playground.

Conclusions and recommendations

At our Internal Audit visit we made four recommendations regarding the Council's management of its playground facilities. We note that the Council has given serious consideration to these, and that members having consulted with their Insurers have developed a reasonable and proportionate strategy for playground management. We welcome their resolution to increase the frequency of formal playground inspections from quarterly to monthly with the Clerk conducting weekly visual inspections

- R2. *A Playground Management Policy should be developed by the Council, which identifies the legal requirements associated with running a playground; gives a statement balancing the Risks and Benefits of the playground; defines the Playground Inspection Methodology; inspection routines, the Council's approach to assessing the Level of Risk and establishes the Risk Rating; associated actions and a statement about how this feeds into the Council's overarching Health & Safety Risk assessment. **Recommended from a best practice perspective and to reduce the potential of a claim for injury rising that there is a risk assessment in place for the play area. This should be reviewed at least annually.***
- R3. *All personnel conducting playground inspections should attend a RoSPA Playground Inspector (RPI) certificated course or equivalent, which is certificated to national standards, with subsequent refresher courses, which are usually held every two years or so. **Individuals tasked with carrying out the routine checks to the play are encouraged to attend training.***
- R4. *Weekly inspection forms and annual inspection reports must be kept for a minimum period of 21 years as the Statute of Limitations allows a person sustaining an injury in a*

playground to make a claim for compensation up to 21 years of age. (Records may be stored electronically). It is best practice to record routine inspections in writing or electronically.

- R5. *Signage on Playgrounds and Recreation Areas should be updated, as soon as it is reasonably possible to do so, stating that “All accidents must be reported to the Clerk at (telephone), (e-mail)”. It is also a good idea to place a notice on Council Notice Boards encouraging people to report any damage or other issues with Playgrounds and Recreation Areas. The council will seek the expert advice from its Playground Inspection company in this regard.*

Precept Determination and Budgetary Control

Our aim here is to ensure that: -

- The Council has undertaken a robust budget setting exercise, which forms the basis of the annual precept request from the parent Council;
- The Council has received monthly reports identifying the budget position throughout the year, the accuracy of these are also reviewed at the regular Audit Committee meetings;
- The Council has formally approved the establishment of specific reserves;
- The utilisation of reserves and the return of unused balances to the General Fund are reported to the Council on a monthly basis; and,
- Year-end reserves and General Fund balances are reviewed to ensure that they are both appropriate and are likely to be utilised.

We note that a robust and detailed Budget setting and Precept determination exercise was undertaken during the third quarter, to December 2017, with the Council formally approving and adopting the 2018-19 Budget and Precept at its meeting in January 2018, resolving to set the latter at £103,013.

We are pleased to note that members continue to be provided with detailed budget performance reports generated in Microsoft excel software at each meeting of the Full Council and that the Council’s full accounts are subject to full scrutiny by members at the regular Audit Committee meetings. We have reviewed the latest report, (as at 14th February 2018), with no significant or unanticipated variances that require further examination.

Finally, in this review area, we have considered the level of funds retained in the General and Earmarked Reserves noting that they stand as at 31st March 2018 at £67,826 and £35,826 respectively. The General Fund balance equates to approximately four months’ revenue expenditure and although this is at the lower end of the scale, it is in line with the generally recognised CiPFA guideline of between three and six months such spending and appropriate for this Council.

Conclusion

We are pleased to record that no issues exist in this area currently that warrant formal comment or recommendation.

Review of Income

In this area of our review, we aim to ensure that income due to the Council is identified, invoiced (where applicable) and recovered at the appropriate rate and within a reasonable time scale, also that it is banked promptly in accordance with the Council's Financial Regulations. We are pleased to note that the Council reviewed its fees and charges and resolved to approve these at the Annual Meeting in May 2017.

We have reviewed the procedures in place in relation to the collection and banking of fees received in relation to Burials and Cremations noting that eleven interments had taken place in the year to 31st October 2017: we have confirmed that, in each case, all supporting documentation was available, the appropriate fees had been charged, collected, receipted, banked and accurately recorded.

We have also examined the procedures in place in relation to the collection and banking of fees received from allotments, checking the detail for the year to the 31st October 2017 from the underlying records prepared by the organisers through to the cashbook and, as detailed above, their consequent banking.

Finally, in this area, we have examined the detailed income reports for the year to date ensuring that, as far as we are able to reasonably ascertain, all income due to the Council has been received and recorded appropriately. We note, and appreciate, that banking does not always take place on the day on which funds are received due to the relatively low value of transactions which does not make it financially viable to travel daily to the nearest bank to make a deposit. Consequently, we consider that banking is undertaken within a reasonable time-frame, when sufficient funds have been accumulated to warrant the expense of travelling to the bank.

Conclusion and recommendation

At our Interim Audit visit we recommended that the council conducted a review of recoverable fees during the Budget setting and Precept determination process and that the implementation of any increase should ideally be linked to this. We welcome the Council's adoption of this recommendation.

R6. Members should consider reviewing the Council's fees and charges during the annual Budget setting and Precept determination process, with any increase in fees implemented from 1st April in the next financial year. This will facilitate more accurate forecasts of annual income. Adopted.

We are pleased to record that no issues arise in this area: as far as we may reasonably be expected to ascertain, all income due to the Council has been received in a timely manner and been brought to account appropriately.

Petty Cash Account

Whilst the amount of petty cash expenditure annually is very limited, we are required, as part of the annual Internal Audit Report process on the Annual Return, to indicate the soundness of controls in this area of the Council's financial activities. Consequently, we aim to ensure that

petty cash payments are appropriately supported by a trade invoice or relevant till receipt and that, where applicable, VAT has been identified for recovery.

In order to provide us with assurance as to the soundness of the Council's controls, we have:

- Reviewed payments made in the financial year from 1st April 2017 to 31st March 2018, agreeing detail to supporting till receipts, invoices, etc.;
- Verified that reimbursements from the current bank account were correctly posted to the petty cash account for the same period bringing the account back to the £20 level;
- Checked to ensure that VAT on relevant purchases is being identified appropriately for recovery with the quarterly reclaims submitted to HMRC; and
- Checked and agreed the physical Council's petty cash holding at the time of this final visit in the presence of the Clerk.

Conclusion

We are pleased to record that no issues exist in this area currently that warrant formal comment or recommendation.

Review of Salaries

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HMRC legislation as regards the deduction and payment over of income tax and NI contributions. To meet that objective, we have:

- Agreed the amounts paid to the Clerk, being the sole employee, in August 2017 by reference to the Council's approved pay scale on the NJC annual schedule of rates payable, noting formal approval for implementation of the 2017-18 national pay award dating from 1st April 2017;
- Ensured that tax and NI deductions have been made applying the appropriate tax code and NI Table by reference to the HMRC website Basic PAYE Tools tables; and
- Ensured that the clerk's net pay and payments to HMRC have been processed accurately and in a timely manner.
- Noted that members resolved to raise the Clerk's working hours from 15 to 20 hours per week in the December meeting of the Full Council.

Conclusion

We are pleased to record that no issues arise in this area warranting formal comment or recommendation.

Asset Registers / Inventories

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. We are pleased to acknowledge that an appropriate register is in place and consider it to be of high quality including appropriate detail of the Council's asset stock,

together with new acquisitions during the year following the recent review of the Council's asset stock.

We note that the Clerk has undertaken considerable work developing the Asset Register during FY 2017-18 and that it is currently undergoing further revision and update. No capitalisation threshold has been agreed, however, we consider the register to be both robust and accurate and agree the value of fixed and long-term assets recorded as £527,341 as of the 31st March 2018 contained therein.

Conclusion

We are pleased to record that no issues arise in this area warranting formal comment or recommendation.

Investments and Loans

The Council has no funds invested, other than by way of the Reserve account with Lloyds bank. Similarly, the Council has no loans either repayable by or to it.

Statement of Accounts and Annual Return

The Council's accounts are managed in a number of Microsoft Excel spreadsheets, detail of which we have examined and consider reflects accurately the year's transactions as recorded therein. The software is also used to generate the detail for inclusion in the year's Annual Return, which we have also verified as being consistent with the accounting and other relevant supporting records.

We have also reviewed the procedures in place for identifying year-end debtors, creditors and accruals and agreed the detailed values recorded in the year-end Balance Sheet to the underlying records with no long standing unpaid accounts or other issues arising.

Conclusion

We are pleased to record that no issues arise in this area and, on the basis of the work undertaken during the course of our review for the year, we have "signed off" the Internal Audit Certificate in the Annual Return assigning positive assurances in all relevant areas.

Please note that the Internal Audit Certificate has been signed off on the 18th April 2018, rather than the date of the Final Update Audit on the 13th April 2018, as the Council had not received the Annual Return documents at that time, as a result the late receipt of those documents by BDO, due to circumstances beyond their control.

Rec. No.	Recommendations made during FY 2017-18	Response
Review of Corporate Governance		
R1	The 1972 Local Government Act 1972 S137 or S139 powers do not give council's lawful authority to give grants or donations to an individual. The powers extend ONLY to grants and donations which are for the benefit of a proportion of the community.	<i>Noted.</i>
Review of Assessment and Management of Risk		
R2	A Playground Management Policy should be developed by the Council, which identifies the legal requirements associated with running a playground; gives a statement balancing the Risks and Benefits of the playground; defines the Playground Inspection Methodology; inspection routines, the Council's approach to assessing the Level of Risk and establishes the Risk Rating; associated actions and a statement about how this feeds into the Council's overarching Health & Safety Risk assessment.	<i>It is recommended from a best practice perspective and to reduce the potential of a claim for injury rising that there is a risk assessment in place for the play area. This should be reviewed at least annually.</i>
R3	All personnel conducting playground inspections must attend a RoSPA Playground Inspector (RPI) certificated course or equivalent, which is certificated to national standards, with subsequent refresher courses, which are usually held every two years or so.	<i>Individuals tasked with carrying out the routine checks to the play are encouraged to attend training.</i>
R4	Weekly inspection forms and annual inspection reports must be kept for a minimum period of 21 years as the Statute of Limitations allows a person sustaining an injury in a playground to make a claim for compensation up to 21 years of age. (Records may be stored electronically).	<i>It is best practice to record routine inspections in writing or electronically.</i>
R5	Signage on Playgrounds and Recreation Areas should be updated, as soon as it is reasonably possible to do so, stating that "All accidents must be reported to the Clerk at (telephone), (e-mail)". It is also a good idea to place a notice on Council Notice Boards encouraging people to report any damage or other issues with Playgrounds and Recreation Areas.	<i>The council will seek the expert advice from its Playground Inspection company in this regard.</i>
Review of Income		
R6	Members should consider reviewing the Council's fees and charges during the annual Budget setting and Precept determination process, with any increase in fees implemented from 1 st April in the next financial year. This will facilitate more accurate forecasts of annual income.	<i>Adopted.</i>