
Llanharry Community Council

Internal Audit Report (Interim) 2016-17

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*For and on behalf of
Auditing Solutions Ltd*

*Stuart J Pollard
Director*

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 in terms of independence from the Council decision making process appointing a local contractor from the outset: we, at Auditing Solutions Ltd were 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 interim visit to the Council for 2016-17, which took place on 28th March 2017 and will be further updated following our final visit, which is currently scheduled for 2nd May 2017.

Internal Audit Approach

In commencing our review for 2016-17, 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 are pleased to report that, in the areas examined to date, the Councils' officers operate effective financial control systems with no significant areas of concern identified. We have identified a few areas where we consider scope for improved controls exists, detail of which is set out in the body of the attached report with resultant recommendations further summarised in the appended Action Plan.

We ask that the report be presented to the Council and that responses are provided to the recommendations arising in advance of our final visit.

Maintenance of Accounting Records & Bank Reconciliations

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. We note that the Council uses Microsoft Excel software to maintain the accounting records, also noting the existence of two bank accounts with Lloyds Bank plc (Treasury and Business). We have: -

- Ensured that the opening trial balance detail for 2016-17 agrees with that in the 2015-16 Statement of Accounts and certified Annual Return;
- Verified that the spreadsheet cashbooks remain “in balance” as at 31st January 2017;
- Ensured that the spreadsheet analysis structure is appropriate for purpose;
- Checked detail of transactions in the Lloyds current and treasury account cashbooks to the supporting bank statements for a sample of two months’ (April 2016 and January 2017);
- Checked and agreed detail on the bank reconciliations as at 30th April 2016 and 31st January 2017 on the Lloyds current and treasury accounts; and
- Considered the appropriateness and security of the controls over software systems back-up, noting that all data is currently backed up onto an external hard drive in the Clerk’s residence. Ideally an “off-site” back-up arrangement should be in place.

Conclusions and recommendations

Whilst no significant issues have been identified in this area from the work undertaken, we note that the Clerk is responsible for detailing items for payment and for making that payment, when authorised to do so, by BACS. It is considered best practice for a different person to be responsible for making the BACS payments than the person responsible for preparing the payments for approval. However, we acknowledge that this is not practicable as the Clerk is also the RFO.

To safeguard the Clerk/RFO, all authorised BACS payment schedules should be compared with the Bank statement and Bank Reconciliation, at the subsequent full council meeting, and reviewed by the Audit Committee each quarter in order to meet the Council’s fiduciary responsibilities.

Similarly, bank reconciliations should be scrutinised at these meetings in order to comply with the Governance and Accountability Manual requirements.

We shall verify the accuracy of the year-end bank reconciliations on each account at our final visit, also ensuring the accurate disclosure of the combined cash and bank balances in the year’s Annual Return.

- R1. *BACS Payment Schedules should be compared with Bank Reconciliations at the quarterly meeting of the Audit Committee in order to meet the Council’s fiduciary responsibilities and to protect the Clerk & RFO.*
- R2. *Bank reconciliations should be scrutinised at least quarterly and be “signed-off” as approved in order to comply with the Governance and Accountability Manual.*

R3. *The Council should consider using secure “cloud based” back-up in order to reduce the risks associated with fire and theft.*

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 for implementation. Consequently, we have: -

- Noted that the Council’s Standing Orders (SOs) and Financial Regulations (FRs) are subject to annual review and update and that these have been amended in accordance with the previous internal auditor’s recommendation. However, One Voice Wales has issued updated documents that take account of changes in EU legislation and the Public Contracts Regulations relating to purchasing: consequently, we consider that both the SOs and FRs should be brought into line with the latest model documents, which are available for download from the One Voice Wales website.
- Commenced our review of Council and Standing Committee minutes for the year to determine whether or not any issues exist that may have an adverse effect, through litigation or other causes, on the Council’s future financial stability with no issues arising.
- Noted from the current Standing Orders that tenders are required above £60K which does not meet the updated EU and Public Contracts Regulations that refer to £25k.

We note that the Clerk currently uses Microsoft’s own virus checking software and suggest that a more robust package such as AVG Antivirus is used, which also protects effectively from Malware and e-mail attacks would provide better protection.

The Transparency Code (2014) requires all local government organisations to publish detail of all financial transactions in excess of £100 on their websites. To ensure compliance with this requirement, we suggest that the Monthly Payment Schedule, as presented at the full council meetings and referred to in the minutes, be published on the website, suitably edited to protect detail of the Clerk’s earnings.

Conclusions and recommendations

No significant issues arise in this area other than to remind members and the clerk that the Standing Orders and Financial Regulations should be amended to reflect a maximum tender threshold of £25,000, consequent on the changes in EU and Public Contracts legislation. In addition to providing the clerk with electronic copies of the latest model documents, we have also provided her with guidance issued by NALC on procurement arrangements following the above legislative changes. We shall continue to review minutes and assess the Council’s approach to governance at future visits.

R4. *The Council’s extant Standing Orders and Financial Regulations should be reviewed, updated and brought into line with the “One Voice Wales” model templates, copies of which we have provided to the Clerk, but are also available for download from the “One Voice Wales” website.*

- R5. *Consideration should be given to the acquisition of more robust anti-virus software to afford the Council's financial and other records greater security.*
- R6. *In order to fully comply with the reporting requirements of the Transparency Code, the monthly payments listings should be published, suitably edited as indicated in the body of the report. We also suggest that the signatures of the councillors should be redacted for security purposes.*

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 approved budgets;
- Payments are supported by appropriate 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;
- The correct expense codes have been applied to invoices when processed, with one exception as mentioned below; and
- VAT has otherwise been appropriately identified and coded to the control account for periodic recovery.

In order to ensure compliance with the above criteria, we have examined a sample of non-pay related payments in the financial year including all those individually in excess of £500 as recorded in the current account cashbook. Our test sample includes 30 individual payments plus the annual Non-Domestic Rate bills, paid over ten months by direct debit and totals £22,600 equating to 35% of all non-pay related payments made in the year to the date of our interim review.

In line with best practice and following a fraud perpetrated by a Town Clerk a couple of years ago, where invoices were not annotated to demonstrate member approval and were being resubmitted with cheques, written in erasable ink, subsequently amended to the Clerk's name, we suggest that a suitably designed rubber stamp be acquired and be affixed to each payment document.

Ideally, the stamp should include provision for the Clerk / RFO to initial confirming receipt of the goods / services and arithmetic accuracy of the invoice; together with the initials of the two members approving and authorising release of the payment. Additionally, in order to provide a full audit trail, the cheque number or a unique direct debit / BACS reference number and date of payment should also be included on the stamp.

We note that quarterly VAT reclaims are prepared and submitted to HMRC: the first three for the financial year to December 2016 have been settled accordingly and we have verified the value of each to the details maintained in the excel spreadsheets.

Conclusions and recommendation

We are pleased to report that no significant issues have been identified in this area other than in relation to the suggested need to ensure invoices contain appropriate evidence of

member review. We shall examine a further sample of payments at our final visit, also verifying the accuracy of the year-end VAT debtor and its disclosure in the Accounts and Annual Return.

R7. *Consideration should be given to the acquisition of suitably designed rubber stamp, as outlined in the body of the report, with provision for members to initial all invoices.*

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 the appropriateness of the financial risk assessment, which is reviewed, updated where necessary and re-adopted annually. We consider that further more detailed assessments may be appropriate in certain areas. Specific software has been developed to assist councils in this respect (the Local Council Risk System (LCRS) available over the internet from DMH Solutions at a cost of around £100 plus VAT) and commend this as a suitable tool to assist in the more detailed assessment of risks by the Council. The software is used by many of our clients and provides a more detailed assessment of potentially some 500 individual risks over 50 areas. Obviously, not all would be relevant to the Council, but we believe that the software provides a more comprehensive register of risks than is in place currently and may be of benefit to the Council.

We have also examined the Council's insurance policy schedule with Aviva noting that Employers' and Public Liability cover both stand at £10 million and appropriate Business Insurance – "Loss of Revenue" cover in place at £10,000. We consider these levels appropriate for the Council's present requirements.

Conclusions and recommendation

We are pleased to record that no significant issues arise in this area, although, as indicated above, we commend the LCRS software as a useful management tool in assessing and managing risk.

R8. *Consideration should be given to the acquisition of the LCRS software to further strengthen the Council's risk management process.*

Precept Determination and Budgetary Control

Our aim here is to ensure that: -

- The Council has undertaken a budget determination 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 quarterly Audit Committee meeting.
- 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.
- Year-end reserves and General Fund balances are reviewed to ensure that they are both appropriate and are likely to be utilised.

It was not possible to review the January 2017 minutes during the interim visit as only the Agenda is currently posted on the council's website. We note that an appropriate budget exercise was undertaken last year, with the Council formally approving and adopting the 2016-17 budget and precept at its meeting in February 2016. We shall review the budget exercise for the 2017-18 budget and precept at our final review visit.

We are pleased to note that members are provided with regular budget performance reports generated in Microsoft excel software during the year and have reviewed the latest report (as at 28th March 2017) with no significant or unanticipated variances existing requiring further examination.

We note the existence of two Earmarked Reserves (EMRs), one being "Extension of Cemetery" at £46k, £17,950 of which has been spent (March update required) and the other "Tylagarw Play Area" at £30k, of which nothing had been spent at the time of this interim audit visit.

Conclusions

We are pleased to record that no issues arise in this area currently. We shall undertake further work at our final visit, including reviewing the final year-end budget outturn. We shall also ensure the formal approval and adoption of the 2017-18 budget and precept and consider the ongoing appropriateness of the level of retained reserves to finance ongoing revenue spending and any development aspirations.

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 have reviewed the procedures in place in relation to the collection and banking of fees received in relation to Burials and Cremations ensuring that all fees have been charged appropriately, collected, receipted and accurately recorded.

We were unable to examine the procedures in place in relation to the collection and banking of fees received from the Allotments, as the Allotment register was not to hand at the time of our visit. At the Final Audit, we shall check the detail for three months in the current financial year from the underlying records prepared by the organisers through to the Microsoft excel cashbook and, as detailed above, their consequent banking.

Finally, in this area, we have examined the detailed income reports held in Microsoft excel 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.

Conclusions

We are pleased to record that no issues arise in this area at present: as indicated above, we shall examine allotment income at our final visit, also again reviewing the Microsoft excel spreadsheets to ensure that, 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 November 2016 to 28th March 2017, 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 interim visit.

Conclusions

We are pleased to record that although no issues arise in this area at present.

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 HM Revenues and Customs (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 January 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 2016-17 national pay award dating from 1st April 2016;

- 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.

Conclusions

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.

The Council has no loans either repayable by or to it.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Rec. No.	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	BACS Payment Schedules should be compared with Bank Reconciliations at the quarterly meeting of the Audit Committee in order to meet the Council's fiduciary responsibilities and to protect the Clerk & RFO.	
R2	Bank reconciliations should be scrutinised at least quarterly and be "signed-off" as approved in order to comply with the Governance and Accountability Manual.	
R3	The Council should consider using secure "cloud based" back-up in order to reduce the risks associated with fire and theft.	
Review of Corporate Governance		
R4	The Council's extant Standing Orders and Financial Regulations should be reviewed, updated and brought into line with the "One Voice Wales" model templates, copies of which we have provided to the Clerk, but are also available for download from the "One Voice Wales" website.	
R5	Consideration should be given to the acquisition of more robust anti-virus software to afford the Council's financial and other records greater security.	
R6	In order to fully comply with the reporting requirements of the Transparency Code, the monthly payments listings should be published, suitably edited as indicated in the body of the report. We also suggest that the signatures of the councillors should be redacted for security purposes.	
Review of Expenditure & VAT		
R7	Consideration should be given to the acquisition of suitably designed rubber stamp, as outlined in the body of the report, with provision for members to initial all invoices.	
Assessment and Management of Risk		
R8	Consideration should be given to the acquisition of the LCRS software to further strengthen the Council's risk management process.	