

**Internal Audit Report for Llanharry Community Council**  
**Year Ending 31<sup>st</sup> March 2016**

Firstly I'd like to thank you for appointing me as your Internal Auditor for 2015/16. I would also like to thank the Clerk for her excellent standard of record keeping as this makes my job a lot easier and the friendly and professional manner in which the whole process was conducted.

Prior to commencing the audit, I discussed with the Clerk the issue of segregation of duties and how this is not possible due to the Clerk being the sole employee of the Council. However, the accounting information that is prepared every month by the Clerk and is scrutinised by the Council at every Full Council Meeting gives me comfort that there are enough internal controls in place on which I can place reliance – further details are provided below.

Another issue I discussed is that the Clerk sets up and authorises electronic bank transfers. This could pose a risk to both the Clerk and the Council as there is the opportunity for the Clerk to make false payments. However, every month there is a list of proposed bank transfers that is authorised by three Members and monthly bank reconciliations are carried out that would identify any discrepancies. Another layer of scrutiny that protects the Clerk and the Council, and I think that it is good practice, is that there is an Audit Committee that meets quarterly to perform an internal audit of the previous quarter's income and expenditure. A control sheet is signed off by three Members of the Audit Committee to demonstrate that they are satisfied with all of the items listed on the sheet (in total there are 18 items considered on this sheet).

In conclusion, I have performed the Internal Audit for the year ending 31<sup>st</sup> March 2016 and I agree compliance with all of the tests for internal audit within the Annual Return.

I have outlined the work that I have performed for each test and my conclusion:

**1. Appropriate books of account have been properly kept throughout the year**

The Clerk keeps excellent books of account that are very comprehensive and easy to follow.

Income

The following information is provided to the Council on a monthly basis:

- Income Summary Sheet (analysed by month and income category)
- General Fund (lists the individual receipts)
- Confidential Report to Councillors (lists the income by individual classes of income)

Expenditure

The following information is provided to the Council on a monthly basis:

- Expenditure Summary Sheet (analysed by month and expenditure category)
- General Fund (lists the individual payments)
- Confidential Report to Councillors (lists the expenditure by individual class of expenditure)
- Budget estimate (monitoring actual spend against budget)

These reports are included in every Full Council Meeting and the Minutes state that these have been presented every month.

I am satisfied that appropriate books have been properly kept throughout the year.

**2. Financial Regulations have been met, payments were supported by invoices, expenditure was approved and VAT was appropriately accounted for.**

I am satisfied that the Council has met its Financial Regulations with the following minor exceptions:

- Regulation 19 states that the Council has a long term capital account with the Bank of Ireland which the Council no longer has.
- Regulation 27 states that *“the Council will not provide the RFO with any sums of money for a petty cash account”*. The Clerk maintains a float of £20. Therefore this Regulation needs to be amended or removed (also affects Regulation 29).
- Regulation 30 states that the Clerk shall be paid by cheque. This should be updated as this is now done by bank transfers.

The Regulations were last reviewed in July 2012 and since that time there has been a new model Financial Regulations document published which reflects the new legislation that has come into force. The Council’s Regulations refer to the Accounts and Audit (Wales) Regulations 2005 but these been superseded by the Accounts and Audit (Wales) Regulations 2014. Additionally, the Council is making payments via bank transfers and this should be included in the Council’s Financial Regulations.

Payments have been properly supported by invoices which have been appropriately authorised. Bank transfer authorisation sheets and cheques have been signed off by three Members and this is documented in the Minutes.

There are detailed VAT records that appear to have been appropriately accounted for.

I was pleased to read in the Minutes of the Annual Meeting that the fees charged by the Council had been reviewed.

I am satisfied that the Council has met this requirement.

**3. The body assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.**

The Council has in place a very detailed Risk Register that is risk-rated and reviewed six monthly. This register considers the risks to the physical assets owned by the Council e.g. playing fields, parks and is signed off by two Councillors and the Clerk. However, this Register does not consider any of the other type of risks facing the Council such as business continuity, threats to income streams, fraud, error, IT issues such as viruses or cyber-attacks, acting ultra vires, non-compliance with laws and regulations, adverse publicity. This is something that I strongly recommend that the Council puts in place as soon as possible.

The Council has appropriate levels of insurance in place and this has recently been reviewed. The level of cover has recently been revised upwards which is evidence that consideration is being given to this. The Clerk explained that she has recently met with a representative from the Council's insurers and there were ideas discussed that the Council will consider in the near future.

I am satisfied that the requirements of this test have been met.

**4. The annual precept/levy/resource demand requirement resulted from an adequate budgetary process, progress against the budget was regularly monitored, and reserves were appropriate.**

The Clerk provided a detailed Projected Budget Estimate spreadsheet for the year ending 31 March 2016. This compared the budget estimate for 2015/16 against the 2014/15 budgeted figure and the 2014/15 actual expenditure to date. The Clerk, Council and Audit Committee regularly monitor these figures. This is evidenced in the Minutes.

The Clerk had recommended to the Council that the precept for 2015/16 was kept the same as for 2014/15, however, the Council decided to raise the precept from £67,502 to £81,154 (approximately 20%) and therefore I am satisfied that discussions and decisions were made by the Council. The main reason for the increase is to fund the two big projects of the play area in Tylagarw and the extension of the Cemetery and to be able to provide some of the functions that Rhondda Cynon Taf CBC have cut.

The reserves held at the year-end of £73,300 at first sight appear a little high and the advice in the Practitioners' Guide is that it is generally accepted that General Reserves should lie within the range of three to twelve months' gross

expenditure. However, the Clerk explained that the Council is building up a sum of money for the above two projects. Consideration should be given to setting these amounts aside in an Earmarked Reserve and then the General Reserve would appear more reasonable and provides for contingencies.

I am happy that the Council has satisfactorily met this test.

**5. Expected income was fully received, based on correct prices, properly recorded and promptly banked, and VAT are appropriately accounted for.**

The Council's main source of income is its Precept. Other income streams are from rental of allotments, cemetery fees, wayleaves, bank interest and VAT refunds. As can be seen from the Annual Return, "other receipts" represent only 4% of income.

The Council has the following Receipts Books:

- Allotment Rentals (6 receipts during the year)
- General Receipts (1 receipt during the year)
- Burial Receipts (23 receipts during the year)

I traced the all of receipts in the Allotment Rentals and General Receipts Books back to the cash book and bank statements. There was a clear audit trail. I selected five receipts in the Burial Receipts Book and traced these back to the cash book and bank statement.

I agreed the VAT refunds to the VAT Return, Remittance Advice Notes, bank statements and cashbook.

I agreed the precept receipt to the cashbook and bank statement.

I agreed a sample of three bank interest receipts from the bank statement to the cashbook.

During the year, the Council received £50.86 in cash for Allotment Fees. These were identified in the Bank Credit Book and traced back to the Allotment Rentals Book and agreed to the cashbook.

The Members are provided with a monthly Income Summary Sheet, a General Fund Sheet (listing individual receipts with details) and a report on income received to date analysed by month and income category. These are approved in the Monthly Full Council Meetings and the Minutes confirm that this take place. In addition to this, the Audit Committee meets quarterly to carry out an internal audit of the previous three months' financial information.

Therefore, I am satisfied that there are very strong controls in place surrounding the income that the Council receives.

**6. Petty cash payments were properly supported by receipts, expenditure was approved and VAT appropriately accounted for.**

A float of £20 is maintained by the Clerk. Petty cash is used very infrequently and only to buy incidental items such as postage stamps. During the year, the total expenditure was £116.13.

Receipts supported the petty cash expenditure. When the float required topping up, a Petty Cash Voucher was completed by the Clerk and submitted to the Council for payment. A cheque signed by three Members was authorised for the amount required. This was reported on the General Fund Expenditure sheet.

The petty cash items purchased did not attract VAT.

I am satisfied that petty cash payments were supported by receipts and expenditure approved.

**7. Salaries to employees and allowances to members were paid in accordance with minuted approvals, and PAYE and NI requirements were properly applied.**

The Clerk had provided copies of the documentation sent to HMRC (using the HMRC Basic PAYE Tools software). This software calculates the PAYE and NI payable and I'm satisfied that it has been correctly used. The amounts are consistent each month and the figures in the HMRC printouts matched the amounts that had been authorised to be paid and had actually been paid.

The value of the Staff Costs for the year to 31 March 2016 is in line with the Staff Costs for the previous years. Therefore, the figure in Box 4 of the Annual Return is a true and fair picture for the staffing costs for the Council.

**8. Asset and investment registers were complete, accurate and properly maintained.**

The Council maintains a detailed Fixed Asset Register. The assets are organised into suitable classes of assets e.g. Buildings, Office Contents, Street Furniture etc...

Additions made during the year were highlighted on the Register so that they were easily identifiable. There was also supporting invoices with the Register to verify the cost of each new asset. I was able to trace back the authorisation of these additions to the Council's Minutes and the payment for these additions to the Expenditure File. There were three signatories authorising the payment of the invoices by Bank Transfer.

I would have benefitted from having a list of additions and disposals made during the year. As there wasn't a significant number of additions made (11 in

total), it was relatively straightforward to add these up to come up with an additions figure. However, the assets that had been disposed of during the year were also highlighted but there was no value assigned to them in the Register. Therefore, in order to derive a disposals figure, I had to calculate the difference between the sum of the assets brought forward plus additions and deduct the balance carried forward. There was a working paper in the back of the Audit File which I used to find out the values of the disposals but it would have been clearer if a front sheet is drawn up for any avoidance of doubt.

The Fixed Asset Register as at 31<sup>st</sup> March 2016 was presented to the Council on 13<sup>th</sup> April 2016 and I am satisfied that appropriate consent has been provided by the Council for the assets that have been written off/disposed of.

I would recommend in future doing a cover sheets such as:

Assets brought forward	xxxxxxx
Additions (supported by a list)	xxxxxxx
Disposals (supported by a list)	<u>(xxxxxx)</u>
Assets carried forward	xxxxxxx

This would avoid the Internal/External Auditor seeking further clarification.

I am satisfied that the Fixed Asset Register is completed, accurate and properly maintained.

The Council does not have any investments and therefore an Investment Register is not required.

## **9. Periodic and year-end bank account reconciliations were properly carried out**

The Clerk prepares monthly bank reconciliations which are presented to and approved by the Council in every monthly Full Council Meeting.

I thoroughly reviewed two month-end reconciliations and the year-end reconciliation and they had been carried out properly. I followed through the audit trail to the Minutes where it is evidenced that the Council reviews the reconciliations monthly.

I am satisfied that periodic and year-end bank account reconciliations were properly carried out.

## **10. Accounting statements prepared during the year were prepared on the correct accounting basis, agreed with the cashbook, were supported by an adequate audit trails from underlying records, and where appropriate, debtors and creditors were properly recorded.**

The Council prepares the Accounting Statements on an Income and Expenditure basis. Due to the size of the receipts and payments, there is no requirement to prepare them on this basis; however, this is the system that has historically been adopted and the Clerk and Council are happy with this method, therefore I see no need to consider reverting to a Receipts & Payments basis.

The figures in the Income and Expenditure statement match the cashbook and are supported by invoices that have been authorised by the Council. The income is supported by Receipt Books and Advice Notes. There are clear audit trails for both income and expenditure as outlined above.

I am satisfied that the debtors and creditors have been properly recorded. There were only two debtors and four creditors and there was clear evidence to support these amounts.

### **11. Trust funds**

Not applicable

### Conclusion

I can conclude that I am able to confirm all of the requirements in the Annual Return for internal audit have been met and have signed off the relevant section as evidence of this conclusion.

Thank you once again.

Mrs Nicola Eyre  
20<sup>th</sup> April 2016