



Llanharry Community Council

Internal Audit Report (Final) 2018-19

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*For and on behalf of
Auditing Solutions Ltd*

Background

Statute requires all town and parish councils to arrange for an independent internal audit examination of their accounting records and system of internal control and for the conclusions to be reported each year in the Annual Return.

This report sets out the work undertaken in relation to the 2018-19 Financial Year Internal Audit. The Interim Audit took place on the 11th December 2018 and the Final Update Audit took place on the 1st May 2019.

Internal Audit Approach

In commencing our review for the year, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts / Annual Return. Our programme of cover is designed to afford appropriate assurance that the Council has appropriate and robust financial systems in place that operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Internal Audit Report' as part of the Council's Annual Return process, which requires independent assurance over a number of internal control objectives.

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.

We commend the Clerk/RFO for her continued professional management and exemplary administration of the Council's finance and governance functions. The method by which this information is stored and presented both for the purposes of the day to day running of the council, and for external scrutiny is exemplary and has made the interim Internal Audit review process straightforward.

We ask that members consider the content of this report and acknowledge that the report has been formally reviewed and adopted by Council.

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: -

- Noted that the Council received a qualified External Audit Certificate for FY 2017-18. However, we also note that expenditure pertaining to the War Memorial was made using LGA 1972 S.144 which this auditor considers appropriate;
- Noted that the Council has taken reasonable steps to ensure that it was immediately, and continues to be compliant with the General Data Protection Legislation which came in force on the 25th May 2018;
- Ensured that the opening trial balance detail for 2018-19 agrees with that in the 2017-18 Statement of Accounts and certified Annual Return;
- Verified that the spreadsheet cashbooks remain “in balance” as at the FY 2018-19 Financial Year End: 31st March 2019;
- Ensured that the spreadsheet analysis structure remains 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 2019;
- Checked and agreed detail on all bank reconciliations on the Lloyds current and treasury accounts for the year to 31st March; and,
- Considered the appropriateness and security of the controls over software systems back-up.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation. We are pleased to note that the Council has now developed a new and informative website and put in place dedicated council e-mail addresses to ensure the Council's compliance with the GDPR which came into force on the 25th May 2018. Members are reminded that all correspondence pertaining to Council business must now be transacted via the Council e-mail addresses.

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 received a qualified audit report which cited incorrect use of S.137 Powers;
- Noted that the Council has taken reasonable steps to ensure immediate and ongoing compliance with the General Data Protection Regulation which came into force on the 25th May 2018;
- Noted that the Council's Standing Orders (SOs) and Financial Regulations (FRs) are based on the model documents published by One Voice Wales, and were most recently re-adopted at the Annual Meeting of the Full Council in May 2018; and,

- Completed our review of Council and 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.

Conclusions and recommendation made during the Interim Audit

We note that the Clerk is citing S137 and S139 powers when awarding grants. However, a grant may only be awarded using one of these Powers. Therefor the Power under which each grant has been made must be recorded individually.

- R1. *The Clerk must ensure that the Power used to make a grant is recorded individually. i.e. “A grant of £100.00 has been awarded to the 1st Collingbourne Kingston Scouts for the purchase of a new flag under LGA 1972 S.137” Response: Implemented*

Review of Expenditure

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.

We have reviewed the procedures in place for processing payments and are pleased to note that, following last year's recommendation, members are now initialling invoices routinely as evidence of their review. We have examined all payments processed in the financial year to the 31st March 2019 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 all the quarterly VAT returns prepared and submitted during the 2018-19 Financial Year to the 31st March 2019 to the underlying spreadsheet cashbook accounting records. The Q4 VAT refund was settled in full on the 29th April 2019.

Conclusions

There are no issues arising in this area of our review warranting 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 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 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 also note that the risk register was reviewed during March and formally approved by the Council at the April 2018 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 also have 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 note that weekly visual inspections of the playground continue to be undertaken by the Clerk and that Urban Recreation Ltd to conducts comprehensive quarterly inspections of the playground and recreation area.

Conclusions

We note that the Council continues to demonstrate a robust approach to Risk Management and conducts two separate Risk reviews during the Financial Year.

Precept Determination and Budgetary Control

Our aim here is to ensure that: -

- The Council has undertaken a robust Budget setting and Precept determination exercise, which forms the basis of the annual precept request from the parent Council, the Precept was set at the 9th January 2019 meeting of the Full Council at £119,276;
- The Council has received monthly reports identifying the budget position throughout the year, the accuracy of these are also reviewed during the Audit Committee meeting;
- The Council has formally approved the establishment of specific, relevant and necessary earmarked reserves; and,
- The utilisation of reserves and the return of unused balances to the General Fund are reported to the Council on a monthly basis.

We are pleased to note that members are provided with regular budget performance reports generated from the account's spreadsheet detail at each meeting where the Clerk / RFO gives a verbal explanation of the budget to date and any variances that may have arisen. We also note that the budget reports are subjected to more detailed scrutiny during the quarterly Audit Committee meetings and have reviewed the latest available report with no significant or unanticipated variances existing requiring further examination.

We note the council continues to make appropriate use of its Earmarked Reserves (EMR), with surplus funds being returned to the General Reserve when an EMR is no longer required. We will review the movement and the retained reserves on these EMRs during our year-end review.

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 2019 at £70,799 and £40,000 respectively. The General Fund balance equates to approximately three-and-a-half 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.

Conclusions

There are no issues arising in this area of our review warranting 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 2018.

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 30th November 2018: 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 December 2018 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.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation.

Petty Cash Account

Whilst the amount of petty cash expenditure annually is very limited, we are required, as part of our review process and certification 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.

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

- Reviewed payments made in the financial year to 31st March 2019, 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 holding;
- 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 both the Interim and the Final Audit visits.

Conclusions

Three no issues arising in this area of our review warranting formal comment or recommendation.

Review of Staff 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 October 2018 by reference to the Council's approved pay scale on the NJC annual schedule of rates payable, noting formal approval for implementation of the 2018-19 national pay award dating from 1st April 2018;
- 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

There are no issues arising in this area of our review warranting formal comment or recommendation.

Asset Registers and 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 undertook considerable work developing and improving the Council's Asset Register during FY 2017-18. 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 £553,056 (£527,341 in the prior year) as of the 31st March 2019 contained therein.

Conclusion

There are no issues arising in this area of our review 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. Resultantly, there are no issues arising in this area of our review warranting formal comment or recommendation.

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.