

Llanharry Community Council

Internal Audit Report (Interim) 2019-20

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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 interim Internal Audit for the 2019-20 financial year, which took place on the 30th October 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 Conclusions

We have followed up the recommendations made in our 2018-19 reports and acknowledge that the members have noted and considered these in their deliberations, enacted the majority of recommendations and that the council continues to make great progress in improving its business processes and performance. We also report that, on the basis of the work undertaken to date in the current year, the Council continues to operate generally adequate and effective internal controls in all areas examined to date.

We commend the Clerk/RFO for her continued professional management and 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 an unqualified External Audit Certificate for FY 2018-19;
- Noted that the Council correctly published the Notice for the Exercise of Public Rights subsequent to the approval of the Annual Statement of Accounts and the Annual Governance Statement;
- Noted that the Council has taken reasonable steps to ensure that it continues to comply with the General Data Protection Legislation;
- Ensured that the opening trial balance detail for 2019-20 agrees with that in the 2018-19 Statement of Accounts and certified Annual Return;
- Verified that the spreadsheet cashbooks remain “in balance” as at 30th October 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 30th September 2019;
- Checked and agreed detail on all bank reconciliations on the Lloyds current and treasury accounts for the year to 30th September 2019; 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 shall extend our review process in this area during our final review of the year including verification of the accuracy of the year-end bank reconciliations on each account and ensuring the accurate disclosure of the combined cash and bank balances in the year's Annual Return.

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 has taken reasonable steps to ensure ongoing compliance with the General Data Protection Regulation;
- 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, unamended at the Annual Meeting of the Full Council in May 2019; and,
- Commenced our review of Council and Standing Committee minutes for the year to the 30th September 2019, in order 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.

Conclusion

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

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 30th October 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 the first two reclaims prepared and submitted to date in 2019-20 to the underlying spreadsheet cashbook accounting records.

Conclusion

There are no issues arising in this area of our review warranting formal comment or recommendation: We shall examine further transactions covering the remainder of the year during our final review of the year, verifying the content of the final two quarters' VAT reclaims and ensuring accurate disclosure of the year-end VAT debtor value.

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 Council's Risk Register continues to be updated bi-annually. The revised Risk Register is due to be scrutinised for approval by the Full Community Council at its November 2019 meeting.

The Council has changed its insurance supplier and now places insured risks with Axa achieving a substantial saving. The new Axa Insurance policy schedule identifies Employers', Public and Products Liability cover as £10 million, Hirers Liability as £5 million, Officers 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 with Urban Recreation Ltd to conducting comprehensive quarterly, and RoSPA conducting Annual inspections of the playground and recreation area.

Conclusions

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

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 during the Audit Committee meeting;
- The Council has formally approved the establishment of specific 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.

The Council was in the process of undertaking the Budget determination and Precept setting process at the time of this interim visit: consequently, we shall review the outcome of members' deliberations at our final review visit.

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 Audit Committee meetings which occur at least quarterly and usually monthly. We 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.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation. We shall undertake further work during our final review of the year, including examining the year-end budget outturn and ensuring the formal approval and adoption of the 2020-21 budget and precept, also considering 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 are pleased to note that the Council reviewed its fees and charges and resolved to approve these at the Annual Meeting in May 2019.

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 five interments had taken place in the year to 30th September 2019: 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 30th October 2019 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

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 30th October 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 this interim visit.

Conclusion

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 2019 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 2019;
- 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.

Conclusion

Three 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.

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

Conclusions

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