

Llanharry Community Council

Internal Audit Report (Final Update) 2020-21

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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 Internal Audit process for the 2020-21 financial year; the Interim audit which took place on the 2nd November 2020, and supplemented by the Final Update Audit which was conducted on the 27th April 2021.

Internal Audit Approach

In conducting 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, which has been modified in light of the Covid-19 directives under which Councils are required to operate, 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 2019-20 reports and acknowledge that the members have noted and considered these in their deliberations, implemented the recommendations and that the council makes continuous business processes and performance improvements, even in these challenging times.

We have noted that the Council has complied, as far as it is possible to do so, with Central government, and the Devolved government: Public Health Wales Covid-19 directives as amended from time to time, whilst maintaining a consistently high standard of service provision. The Council has also taken all reasonable steps to ensure the health and safety of its Staff, Members, and members of the public utilising the Council's facilities. All modified and exceptional working practices have been formally Reviewed, Resolved and Recorded in the Council's Minutes and the Council is complimented for its management processes in this regard.

Once again, we commend not only the Clerk/RFO for her continued professional management and administration of the Council's finance and governance functions, but also the Members who have worked tirelessly to maintain services for their constituents during these unprecedented and challenging times. Once again, the manner in which the requested electronic documents and backup files were presented by Clerk/RFO and his team for audit was exemplary, making this remote interim review process as straightforward as possible during these extraordinary times.

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

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Review 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 also note that the Council has now acquired a Debit Card which has reduced the Council's reliance on the Petty Cash system. We have: -

- Noted that the Council has received its External Audit report and Audit Certificate from the external auditors;
- 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 2020-21 agrees with that in the 2019-20 Statement of Accounts and certified Annual Return;
- Verified that the spreadsheet cashbooks remain "in balance" as at the 31st March 2021;
- 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 for April and March 2021;
- Checked and agreed detail on all bank reconciliations on the Lloyds current and treasury accounts for the year for April & September 2020, March 2021; and,
- Considered the appropriateness and security of the controls over software systems back-up.

Conclusions

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

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 all reasonable steps to comply with the Covid-19 directives from central government, the Welsh Assembly and Public Health Wales, ensuring as far as it is possible to do so, the health & safety of the Clerk/RFO, Members and the Council's constituents where interactions with the Council, or its facilities have taken place;
- Noted that the Council has undertaken all Meetings remotely, via Zoom, to ensure the Health & Safety of the Clerk/RFO and Members during and the continuity of the Council's operations during the Covid-19 situation;
- Noted that the Council has taken all reasonable steps to ensure ongoing compliance with the General Data Protection Regulation (GDPR);

- 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,
- Concluded our review of Council and Standing Committee minutes for the year to the 31st March 2021, 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 no issues arising.

Conclusion

There are no matters arising in this area of our review warranting formal comment or recommendation. However, we have noted the inclusion of the Minutes of the working group meeting which detail the dispute with P&P Gardens in the January 2021 Full Council Minutes. We have discussed this matter with the Clerk and understand the reasons that this action was undertaken. However, it is our opinion that the Clerk and Members may wish to consider managing any future items of this nature as a confidential Minute attached to the Full Council minutes.

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. We have noted that all payment documents are being initialled, retrospectively, by Members due to the remote nature of the Council's meetings currently, ensuring continued compliance with its Financial Regulations. Due to the remote nature of the Final Update review, we have examined a sample of payments processed in the financial year to 31st March 2021. Every fifteenth payment irrespective of value and all non-pay related payments in excess of £1000 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 two reclaims prepared and submitted in 2020-21 to the underlying spreadsheet cashbook accounting records with no issues arising.

A final reclaim for the year has been submitted. Only three reclaims for the year have been made for FY2020-21 due to the Council being situated in an area that was subject to full Covid-19 lockdown restrictions during the Autumn, making the production of a 3rd quarterly reclaim non-viable at that time.

Conclusion

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

Review of 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 note that the revised Risk Register was scrutinised and Approved and Adopted by the Full Community Council at its June meeting under Minute reference 14, and the Lone Working Policy was Approved and Adopted under Minute reference 15. We further note that the Council's Risk profile has been reviewed from time to time, in order to address the Covid-19 directives from central and devolved government, which have been amended from time to time throughout the financial year.

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.

The May 2020 Minutes confirm that the Play Area was closed, in compliance with Public Health Wales Covid-19 directives from the 23rd of March until the Council were able to reopen the area with appropriate Covid-19 management protocols and signage in place. Repairs and maintenance to the play area were undertaken by Urban Recreation Ltd.

Conclusions

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

Review of Precept Determination & 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.

We note that Council Members continue to be 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.

The Council has completed a robust Budget setting and Precept determination process in respect of the 2021-22 financial year. Upon conclusion of the successful conclusion of the Budget setting process, Members Resolved to establish the Precept in the amount of £111,594 at the meeting of the Full Council on the 13th January 2021 as recorded under Minute reference '16' of that meeting.

Overall reserves as at the 31st March 2021 stood at £147,535 (£84,661 prior year) with Earmarked reserves of £92,400 (£44,500 prior year) leaving a General Reserve fund of £55,135 (£40,161 prior year), which equates approximately 8.5 months' revenue spending at the FY2020-21 level.

The movement of the Council's reserves during FY2020-21 is the direct result of the impact of central and devolved government and public health directives, including total lockdowns and other restrictions on operations which have varied from time to time, which have led to extraordinary and uncertain working conditions. Resultantly, the Clerk and Members have taken prudent and appropriate steps to ring-fence the funds which had been budgeted for FY2020-21 projects, that have been delayed by the Covid-19 directives, as Earmarked reserves which are recorded as follows:

No.	Description	Value £
1	Tylagarw Play Area	40,000
2	CCTV	4,500
3	Signage replacement	3,000
4	Security barrier	3,000
5	Community Projects	8,400
6	Cemetery Wall	6,000
7	Football pitch fencing	10,000
8	Skate Park	5,000
9	Minor projects delayed by covid	12,500
	Total EMRs	92,400

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.

It should also be noted that the Council's general services expenditure has been somewhat reduced, again due to the impact of the Covid public health directives alluded to above, this has resulted in the anomalous increase in the council's technical General Reserve position. Resultantly, the Council's General Reserve position, sits appropriately at approximately 8.5 months of retained reserves, only slightly above the upper level of the generally recognised CiPFA guidance on the maintenance of

reserve; to retain between three and six months' revenue expenditure in the General Reserve fund, based on prior year expenditure.

The level of the Council's General and Earmarked Reserves was given full consideration during the Council's robust Budget setting and Precept determination process, ensuring the Council financial stability and its ability to deliver against the delayed projects and longer term project plans. The Council's Reserve position is, resultantly, deemed appropriate by this auditor.

Conclusions

There are no matters 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 during the prior year Budget setting and Precept determination process.

We have reviewed the procedures in place in relation to the collection and banking of fees received in relation to Cemetery billings: Burials and Cremations for the full year to the 31st March 2021. Additionally, we have reviewed the procedures in place in relation to the collection and banking of fees received in relation to the Council's Allotments.

We have also examined the procedures in place in relation to the collection and banking of fees received from allotments, noting that this remains unchanged from the prior year, checking the detail for the year to the 31st March 2021 from the cashbook.

Finally, in this area, we have examined the detailed income reports for the year to the 31st March 2021 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, and during this extraordinary when lockdown restrictions and public health directives have permitted physical banking to take place.

Conclusion

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

Review of 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:

- Noted that the acquisition of a Debit Card on the Council's Current Account has reduced the Council's dependence of the Petty Cash system;
- 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 cash holding; and,
- Checked to ensure that VAT on relevant purchases is being identified appropriately for recovery with the reclaims submitted to HMRC.

Due to the remote nature of the Interim and Final Update audit it has not been possible to physically verify the cash-holding of £20.00 as at the 31st March 2021. We have relied, in this instance on the Clerk's self-certification of the balance, supported by corresponding invoices and other supporting receipts.

Conclusion

There are no matters 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:

- Noted that the Clerk's pay award of SCP 22, effective from the 1st April 2020, was confirmed and Resolved in the September meeting of the Council under Minute reference 16.
- Checked the amounts paid to the Clerk, being the sole employee, in June 2020 by reference to the Council's approved pay scale on the NJC annual schedule of rates payable, noting formal approval for implementation of the 2020-21 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

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

Review of the Fixed Asset Register

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. We note the Council's compliance with this requirement; the Clerk maintains and manages

an appropriate register with values identified both at cost price, or when unknown, at the best approximation thereto, together with the annually uplifted insurance value to assist with budgetary planning for future replacements.

We note that the Asset Register has again been reviewed and revised during the 2020-21 financial year, with a revised value of £582,958 (£566,220 prior year) which has been correctly reported in the Annual Return at Box 9 of Section 2.

Conclusion

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

Review of 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

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