

Llanharry Community Council

Internal Audit Report (Interim) 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 Interim Internal Audit for the 2020-21 financial year, which took place on the 2nd November 2020.

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, 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 reviewed the Council's modified practices implemented to comply with the Welsh Assembly's Covid-19 directives, and 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 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 strenuously to maintain service levels for their constituents. Once again, the manner in which the requested documents were presented for audit was 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 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 not yet received its External Audit report and Audit Certificate from the external auditors (this is generally the case with councils we have audited to date);
- 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 30th September 2020;
- 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 September 2020;
- Checked and agreed detail on all bank reconciliations on the Lloyds current and treasury accounts for the year for April and September 2020; 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 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,
- Commenced our review of Council and Standing Committee minutes for the year to the 30th September 2020, 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. We shall extend this area of our Review during the year end audit.

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 the its Financial Regulations. Due to the remote nature of the Interim review we have examined a sample of payments processed in the financial year to 30th September 2020, Every 15th 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 first two reclaims prepared and submitted to date in 2020-21 to the underlying spreadsheet cashbook accounting records with no issues arising.

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 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.

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 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.

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 had commenced its Budget setting and Precept determination process at the time of this interim review, however, due to the second mandatory Covid-19 lockdown the process was recessed and is due to recommence once the lockdown has ended. Resultantly, we shall review the outcome of members' deliberations during the year end audit.

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 usually subjected to more detailed scrutiny during the Audit Committee meetings which occur at least quarterly and usually monthly, however, this committee has not convened during the year to date, due to the Covid-19 restrictions, and the necessity to physically examine the original documentation and the resulting potential for cross infection. We have reviewed the Budget reports for April and September 2020 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 during the prior year Budget setting and Precept determination process.

We have not reviewed the procedures in place in relation to the collection and banking of fees received in relation to Cemetery billings: Burials and Cremations to 30th September 2020 as we are required to examine the physical registers which has not been possible due to the remote nature of the interim review. It is anticipated that we shall be able to conduct an onsite audit during the year end audit and plan to examine this documentation at that time. We note the Clerk/RFO's comments that there has not been an increase in Burial Fees during this period.

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 30th September 2020 from the the cashbook.

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:

- 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 quarterly reclaims submitted to HMRC;

Conclusion

We have not been able to check the physical cash balance during this interim review due to its remote nature. We intend undertake a physical check, during the year end audit, thereby ensuring that the correct cash balance is disclosed in the Annual Accounts. There are 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:

- 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 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

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