

Llanharry Community Council

Internal Audit Report (Final update) 2021-22

Claire Lingard
Consultant Auditor

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 2021-22 financial year; the Interim (remote) audit which took place on the 17th January 2021, supplemented by the final update (on-site) audit which took place on the 8th April 2022.

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 acknowledge that the Members have formally Noted and Accepted both the prior year's Internal Audit reports, and note that the council has continued to make business process and performance improvements. 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 during the ongoing public-health situation. 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 continued management processes in this regard.

We have noted that the Council has complied with, as far as it is possible to do so, Central and Devolved government: Public Health Wales Covid-19 directives as amended from time to time, whilst maintaining a consistently high standard of service provision. Resultantly, we have made only two recommendations in relation to Best Practice improvements which are detailed in the main body of this report and the appended action plan.

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. Finally, we have noted that once again, the manner in which the requested electronic documents and backup files were presented by Clerk/RFO for audit was exemplary, making the remote interim review, and onsite final update audit straightforward processes.

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

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 now made the Petty Cash system redundant. We have: -

- Noted that the Council has not yet received its 2020-21 financial year 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 2021-22 agrees with that in the 2020-21 Statement of Accounts and certified Annual Return;
- Verified that the spreadsheet cashbooks remain “in balance” as at the 31st March 2022;
- 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 & September 2021 and the period of the 1st October 2021 to the 31st March 2022;
- Checked and agreed detail on all bank reconciliations on the Lloyds current and treasury accounts for the year for April & September 2021 and the period of the 1st October 2021 to the 31st March 2022; and,
- Considered the appropriateness and security of the controls over software systems back-up with no issues arising.

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 continued to take 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 that 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 during the financial year to 31st March 2022, the Council has undertaken Meetings both via Zoom and face to face, in compliance with devolved government public health directives, and ensuring 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 2021 under Minute reference 10; and,
- Concluded our review of Council and Standing Committee minutes for the year to the 31st March 2022, 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.

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 subjected to robust scrutiny, with a coding and authorisation stamp being affixed to each payment document and being properly completed, ensuring continued compliance with its Financial Regulations.

We have examined a sample of payments processed in the financial year to 31st March 2022 with the criteria of every fifteenth payment irrespective of value and all non-pay related payments in excess of £1000: A total of 46 invoices, with a total value of circa £112,037.13 and representing 74% of all non-pay payments were examined 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 checked and verified the four VAT reclaims prepared and submitted in 2021-22 to the 31st March 2022 to the underlying spreadsheet cashbook accounting records with no issues arising.

Conclusion

There are no matters arising in this area of our review warranting formal comment or recommendation. However, we take this opportunity to remind the Clerk & RFO that when

making awards of Grant Aid and Donations, s.137 must only be invoked as the Power of ‘last resort’ and only utilised where no other Power exists.

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.

We confirm the appropriateness of the financial risk assessment, which is reviewed bi-annually, in March and September each year, updated where necessary and re-adopted annually. We note that the amended Risk Register was most recently reviewed by Members on the 16th September 2021 and subsequently Approved and Adopted at the 6th October meeting of the Full Community Council under Minute reference 13. We further note that Members have continued to assess and consider public health directives issued by central and devolved government, in relation to Covid-19, which have been amended from time to time throughout the financial year to the 30th September 2021.

The Council continues to place its insurance with Axa via Inspire under a “Council Commercial Combined Insurance policy”, Policy Number: RGBDX6962034 in year three of a three year deal, The new policy schedule identifies Employers’, Public and Products Liability cover at £10 million, Hirers Liability at £5 million, Hirers Liability at £500,000, Officers Indemnity at £500,000, Employment Liability at £500,000 and Legal Expenses at £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 single play area: ‘Ty Isaf’ at Llanharry, which contains a playground, team shelter and Multi Use Games Area (MUGA). A weekly visual inspection of the playground continues to be undertaken by the Clerk. Urban Recreation Ltd conducts comprehensive monthly inspections, and RoSPA conducts the Independent Annual inspections of the playground and recreation area.

We note that at the council’s site meeting on the 29th September 2021, Members Noted the RoSPA Annual Independent Playground Inspection report and instructed the Clerk to consult with the play area contractor regarding repairs to the surfacing and potential resolutions to the perimeter gate at the Community Centre.

We further note that at the 10th November 2021 meeting of the Full Community Council, Members Resolved to replace the Toddler Play Unit and the Spring Riders.

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, as in previous years, conducted a detailed and robust Budget setting and Precept determination process, in respect of the 2022-23 financial year. Upon conclusion of the successful conclusion of the Budget setting process, Members are resolved to establish the 2022-23 financial year Budget, and Precept in the amount of £111,737 at the 19th January 2022 meeting of the Full Community Council as recorded under Minute reference 27.

Overall reserves as at the 31st March 2022 stood at £144,258 (£147,535 prior year) with Earmarked reserves of £50,000 (£92,400 prior year) leaving a General Reserve fund of £67,841 (£55,135 prior year), which equates approximately 5.5 months' revenue spending at the FY2021-22 level, sitting slightly below the current CiPFA guidelines to retain between 3 and 6 months of General Reserve fund based on prior year expenditure.

The movement of the Council's reserves during FY2021, and the marked increase in spending, is the direct result of the impact of the economy reopening after the central and devolved government and public health directive lockdowns, with the Council completing projects which had been placed on hold or delayed during the 2019-20 and 2020-21 financial years. Resultantly, the Earmarked reserves as at the 31st March 2022 have been depleted as follows:

No.	Description	Value £
1	Tylagarw Play Area	40,000
2	CCTV	-
3	Signage replacement	-
4	Security barrier	-
5	Community Projects	-
6	Cemetery Wall	-
7	Football pitch fencing	10,000
8	Skate Park	-
9	Minor projects delayed by covid	-
	Total EMRs	<u>50,000</u>

We note the council has continued 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. The level of the Council's General and Earmarked Reserves has been given full consideration during the Council's Budget setting process, ensuring the Council financial stability and its ability to deliver against medium and longer term project plans.

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, and that the fees and charges for the 2021-22 financial year were confirmed at the Annual Meeting of the Full Council in May 2021.

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 year to the 30th September 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 with no issues arising.

We have also examined the procedures in place in relation to the collection and banking of fees received from non-Precept income, noting that this remains unchanged from the prior year, checking the detail for the year to the 30 September 2021 from the cashbook with no issues arising.

Finally, in this area, we have examined the detailed income reports for the year to the 30th September 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 use of the Debit Card on the Council's Current Account negated the need for the Council to operate the Petty Cash system;
- Noted that the Petty Cash balance was certified as zero as at the 20th April 2021 and verified the supporting payment documents to that date; and,
- Noted that the Petty Cash system was closed on the 31st March 2022 with the £20.00 float balance being returned to the General Reserve on that date.

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 last pay award to NJC SCP 23, became effective from the 1st April 2020, was confirmed and Resolved in the September meeting of the Council under Minute reference 16. We have been advised by the Clerk that Members are waiting until the new NJC SCP Award scale has been published and the Clerk's salary, along with any instructions to backdate the pay award, will formally be reviewed at that time;
- Checked the amounts paid to the Clerk, being the sole employee, in July 2021 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 2021-22 financial year, with a revised value of £622,949 (£582,958 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 & Loans

Our objectives here are to ensure that the Council is “investing” surplus funds, be they held temporarily or on a longer term basis in appropriate banking and investment institutions, that an appropriate investment policy is in place, that the Council is obtaining the best rate of return on any such investments made, that interest earned is brought to account correctly and appropriately in the accounting records and that any loan repayments due to or payable by the Council are transacted in accordance with appropriate loan agreements.

We noted that the Council does not have a formal Investment Policy in place.

The Council holds its funds in a Lloyds Bank Treasury (current) Account and a Lloyds Bank Business (reserve) on which monthly interest is received: as indicated earlier in this report, we have verified the appropriate receipt of that interest and the 30th September 2021 account balances with reference to electronic copies of the prime supporting documentation and cross-checking the disclosed balances in the corresponding account reconciliations.

The Council has no long-term investments: with “surplus” funds continue to be held in the Lloyds Bank Treasury Account

As at the 30th September 2021, the Community Council held funds totalling circa £198,608, in its Lloyds Bank accounts, as follows:

Account	Cashbook Number	Reconciled Value as at 30-09-21
Lloyds Bank Business account		£525.99
Lloyds Bank Treasury account		£198,062.46
		Total £198,608.45

We have noted that Members have been reviewing the Council’s investments regularly, therefor we take this opportunity to remind the Community Council that it is obliged to protect, as far as is reasonably possible to do so, the public funds under its management.

Currently the Government’s Financial Services Compensation Scheme (FSCS) :-

<https://www.bankofengland.co.uk/prudential-regulation/authorisations/financial-services-compensation-scheme>

provides protection for to £85,000 invested in one institution. Resultantly, as of the 30th September 2021, approximately £113,608 of funds under the Council’s management were not fully protected by the FSCS, as shown in the table below.

Lloyds Bank Business account	£ 525.99
Lloyds Bank Treasury account	£198,062.46
Total	£198,608.45
FSCS guarantee	-£ 85,000.00
Total Exposure	£113,608.45
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The Council has no loans, either owed, or let by it.

Conclusion & recommendation

Given the volatility in the market and future uncertainty due to the ongoing and dynamic global public health situation, we strongly recommend that the Community Council take steps to ensure that the public funds under its management are protected to the extent that it is possible to do so, with the objective of ensuring that each of the Community Council's deposits is covered by the Government's FSCS. To this end, we strongly recommend that the Council reviews its current investment holdings and develops a formal Investment Policy.

- R1 The Clerk/RFO & Members should consider developing and adopting a formal Investment Strategy.*
- R2 The Clerk/RFO & Members should expediently consider the level of funds it has invested in its accounts with the Lloyds Bank and consider how the Council can best protect the public funds under its management, seeking independent financial advice in this matter, if Members deem such action appropriate.*

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 areas.

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NOTE TO REPORT

We confirm that all confidential & sensitive information, supplied for the purposes of this audit including, Personnel Minutes, Payroll and Employment data have been permanently deleted from Auditing Solutions Ltd.'s servers and any printouts made for the purposes of this audit have been destroyed in accordance with the Company's data and document retention policies and with the prevailing General Data Protection Legislation.

Rec. No.	Recommendation	Response
Review of Investments & Loans		
R1	The Clerk/RFO & Members should consider developing and adopting a formal Investment Strategy.	<i>Noted</i>
R2	The Clerk/RFO & Members should expediently consider the level of funds it has invested in its accounts with the Lloyds Bank and consider how the Council can best protect the public funds under its management, seeking independent financial advice in this matter, if Members deem such action appropriate.	<i>Noted</i>