

Llanvaches Community Council

Internal Audit Report 2017-2018

Prepared by Sandra Bushell FILCM.

11th June 2018

Maintenance of Accounting Records and Bank Reconciliations

Objective:

To ensure that the accounting records are being accurately maintained, are up to date and that no anomalous entries appear in the financial ledgers.

I have noted that the Clerk has used Excel Spreadsheets to maintain the Council's financial records for the year and has made regular reports to the Council with regard to monthly expenditure and bank reconciliation.

I also note that the Council uses National Westminster Bank (Newport South Wales Branch) for all of its banking needs operating a Current Account for day to day transactions, a Business Reserve Account and a second Current Account for Play Equipment reserves. At the year end the balances on these accounts was:-

Current Account £100

Business Reserve Account £11,727.88

Current Account Play Equipment £1,642.00 (statement to 3rd January 2018)

The Clerk advises that the Council does not operate a petty cash system or use credit/debit cards and this has been confirmed by my examination.

Audit Process:

I have:-

- Verified the opening balance on the cash book with that on the closing balance of the 2016/2017 Statement of Accounts and Annual Return.
- Noted that the analysis applied in the cashbook is sufficient to facilitate the preparation of the Annual Return and that VAT has been separately recorded and identified.
- Noted that separate provision has been made for the recording of s137 expenditure, whilst also noting that there have been no items of s137 expenditure during the year.
- Checked and agreed the detail of all financial transactions to the bank account statements.
- Verified the detail in the bank reconciliations throughout the year and noted that all cheques which remained unrepresented at the previous year end have now been cleared. At the current year end cheque nos. 930,931, 932, 935, 939, 941 and 942 were unrepresented.
- Noted from the Council's Risk Assessment that a "Drop Box" is used for the monthly back up of the Councils financial records.

- Noted that whilst no matters were formally raised by the External Auditor in respect of the 2016/2017 Annual Return, the External Auditor has recommended that the Council take action to address the recommendations of the 2016/17 Internal Audit Report prior to the end of the financial year.

These recommendations were:-

- 1.1. *That Council give consideration to preparing detailed procedural documentation for all financial procedures. This is best practice and would provide a start point for new appointees or in the long term absence of the Clerk/RFO.*

It is understood that this is in hand.

- 2.1. *That Bethany Baptist Chapel be asked to provide a receipt for the £100 grant paid via cheque no. 00015 dated 21st February 2017.*

Receipt for 2016/2017 & 2017/2018 grant on file.

- 3.1. *That when determining the budget for 2017/2018 Council give due regard to the level of General Reserves and consider making a larger transfer to the Play Equipment Reserve in 2017 and/or identifying other earmarked reserves eg a staffing contingency/equipment renewal contingency.*

In the response (Appendix 4) to the External Auditor it is noted that Council has increased its earmarked reserves to include provision for:- Replacement/new play equipment £5,642, Staffing requirements £500, Replacement laptop/software £1,000.

- 4.1. *The AED should be added to the Asset Register and appropriate insurance cover arranged.*

It is now understood that the AED is not a Community Council asset.

Conclusion:

I am pleased to report that no major issues of concern have arisen in this area of my review process in respect of the maintenance of accounting records and bank reconciliations.

Review of Corporate Governance

Objective:

To ensure that the Council has a robust series of corporate governance documentation in place. That Council meetings are conducted in accordance with adopted Standing Orders and that, as far as it is reasonably possible to ascertain, that no actions of a potentially unlawful nature have been or are being considered for implementation.

Audit Process:

I have ascertained from the minutes that :-

- Council reviewed Standing Orders on 19th September 2017.
- Council reviewed Financial Regulations on 19th September 2017.
- There were no payments for goods or services in excess of £1,000 requiring a formal tender process made during the year.
- During the year no actions have either been taken or are being considered that might result in unlawful expenditure being incurred.
- The precept amount of £4,912 and concurrent grant application to Newport City Council of £1,700 were recorded in the minutes of the full Council meeting on 16th January 2018.
- A review of the Council's system of internal control including internal audit was undertaken by the Council on 24th July 2017.
- Where more unusual expenditure is approved, an appropriate statutory power is quoted in the minutes, thereby ensuring that the Council acts within its legal powers.
- For the first ½ year quarterly Budget Monitoring Reports were made to Council on 24th July 2017 and 17th October 2016. The current year end documentation was provided on file to me.
- I have also noted that the Clerk/RFO has been issued with a Contract of Employment
- I have noted that accounts for payment and bank reconciliations are reported and confirmed at each meeting of Council.
- The Council appears to have limited sources of income and these are appropriately recorded and accounted for.

- The Clerk has advised that the Council does not intend to use electronic banking. Should this policy change in the future Council should consider the introducing appropriate controls.

Conclusion:

I am pleased to report that the Council's general approach to governance issues appears sound.

Review of Expenditure and Income

Objective:

Expenditure - To ensure that Council resources are released in accordance with the Council's approved procedures and budget; that payments are supported by appropriate documentation (either in the form of the original trade invoice or other documentation confirming the payment due and/or an acknowledgement of receipt, where no other form of invoice is available); that expenditure has been correctly allocated to budgets; and, that VAT has been correctly identified and recovered.

Income – To ensure that appropriate records are maintained to ensure that all income due to the Council is identified, received and banked within an appropriate time scale.

Audit Process:

I have examined the financial records, bank statements, minutes etc. and noted that:-

- The only Bank Debit payments made throughout the year are in respect to the Clerk's salary. The Clerk advises that at set up the Bank Mandate was signed by two Councillors and that any changes to the Mandate is also confirmed by two Councillor cheque signatories.
- All payments, other than grant payments are supported by appropriate invoices. Grant payments have been evidenced by a letter acknowledging receipt
- The vast majority of payments have been accurately reported in the minutes of Council. The few exceptions being: Min 2894(C) 20th June 2017 authorises payment of cheque no. 924 for £100 whilst the Bank Statement & Invoice indicate that the payment made was £125; Min 2961(b) 18th January 2018 authorises payment of cheque 935 for £279.36 whilst the Cash Book shows the cheque to be void and replaced by cheque no. 936; similarly Min 2974(a) 20th February 2018 authorises payment of cheques 937 & 938 which are shown as void in cash book and replaced by subsequent cheque 939. The Clerk has explained the circumstances of the void and replacement cheques, which arose at a time when cheque signatories were being changed. I have further discussed with the Clerk measures to help avoid these minor errors in recording payments within the minutes and have recommended that the payments summary be amended to include cheque numbers and be presented to Council together with the original invoices for conformation and approval at the meeting. This summary could then be reproduced within the minutes, ensuring greater accuracy.
- Financial Regulations indicate that an official order or letter will be issued for all works, goods or services in excess of £35 unless a formal contract is to be

prepared. Appropriate email confirmation orders are on file to support invoices.

- Where appropriate quotations for goods and services have been obtained and reported to Council for decision/information.
- With regard to income I note that income sources during the year were the precept, concurrent grant, VAT refund and Bank Interest only and that these were all paid via direct credit into the Council Bank Account.
- VAT has been calculated correctly and recorded in the cash book. Vat has been reclaimed to 31/12/2016. Vat relating to 2017/2018 totalling £307.24 remains unclaimed at year end.

Conclusion:

I am pleased to report that the Council appears generally to continue to operate an effective control system over the processing and approval of accounts for payment.

Recommendation(s):

1.1. That the payments summary be amended to include cheque numbers and be presented to Council together with the original invoices for conformation and approval at the meeting. This summary could then be reproduced within the minutes, ensuring greater accuracy.

1.2. That the outstanding Vat amounting to £307.24 in respect of 2017/2018 be reclaimed as soon as practicable.

Risk Management Arrangements

Objective:

To ensure that Council has put in place appropriate arrangements to identify all potential risks of both a financial and health and safety nature, and ensuring that appropriate arrangements exist to monitor and manage those risks in order to minimise the opportunity for their coming about.

Audit Process:

I have examined the Council's minutes, Risk Assessment documentation and Insurance policy and note:-

- Council adopted a Risk Assessment appropriate to the scale of its activity identifying both the consequence and likelihood of risks on 9th June 2017.
- Arrangements are in place for both an annual playground inspection by qualified contractors and for weekly inspections by Council s. It is noted that any defects are regularly reported on to Council and repairs promptly actioned.
- Insurance levels are both appropriate and adequate in respect of Employers Liability £10m; Public Liability £10m; Fidelity Guarantee £150,000. I note that Council on 9th June 2017 Min. 2889. agreed to enter into 3 year agreement with Hiscox Insurance. I also note from Clerk's report that Hiscox do not insure any item valued as less than £250 which is their excess. Whilst this might appear quite reasonable it has a significant impact on cover where the council owns a large number of lower value items. In this instance Llanvaches CC has assets with a replacement value of £39,597 of which only £30,620 are insured.

Conclusion:

I am pleased to report that the Council appears generally to continue to operate appropriate levels of risk management.

Recommendation(s):

- 2.1. *That the Council be made aware of the potential financial risk arising from the large number of uninsured items and consider making appropriate alternative provision for their replacement, possibly via earmarked reserves.*

Budgetary Control and Reserves

Objective:

To confirm that the Council has determined its annual budget based on sound assumptions of intended spending, that sufficient funds are available to meet future spending plans and that Councillors are kept aware of actual budgetary performance during the course of the financial year.

Also to assess the adequacy of retained reserves, whether earmarked or the General Reserve.

Audit Process:

I have examined the minutes of Council and note:-

- The minutes of Council on 21st November 2017 evidence that the budget for 2017/2018 has been considered in detail and agreed by full Council.
- I have noted that a copy of the 2017/2018 precept demand is on file.
- Council has received regular budget monitoring reports throughout the year, specifically: 1st quarter – 24th July 2017; 2nd quarter – 17th October 2017; and Year end – 17th April 2018.
- I note that during the year that Council held no specific reserves other than funds held in the separate current account for Play Equipment, but that as part of the Budget setting process for 2018/2019 Council agreed to increase its Earmarked Reserves to include provision for:- Replacement/new play equipment £5,642, Staffing requirements £500, Replacement laptop/software £1,000. These funds have still to be transferred to the Reserve Bank Account at the Year End and the Clerk confirms that a transfer will be made once cheque signatory issues have been resolved.

Conclusion:

I am pleased to report that Council appear generally to continue to exercise sound budgetary control arrangement.

Recommendation(s):

- 3.1. *That the new earmarked reserves be transferred to the appropriate Reserve Bank Account once cheque signatory issues have been resolved.*

Payroll Controls

Objective:

To confirm that current legislation is being appropriately observed, including the Employees Rights Act 1996; the requirements of HM Revenue and Customs (HMRC) legislation and the deduction of and payment over of income tax and NI contributions, and that the requirements of the local government pension scheme, as recently amended with effect from 1st April 2014 in relation to employees' contributions.

Audit Process:

- I have reviewed the revised Contract of Employment approved by Council and issued to the Clerk on 21st March 2017.
- I have noted the HMRC Revenue & Customs tax code notification on file.
- I note that salary levels are below the threshold for NI deductions.
- I have considered the essential guidance in respect of pension auto enrolment.

Conclusion:

I am pleased to report that no issues arise in this area.

Asset Controls

Objective:

To confirm that Council assets are appropriately accounted for and maintained and adequately insured.

Audit Process:

I have checked the Asset Register on file headed Asset Register 20172018. I note:-

- That the two new/replacement toddler swings purchased in March 2018 are not yet included on Asset Register.
- Insurance for higher value assets ie in excess of £250 generally appears to be at an appropriate level.
- I have confirmed that the total value as per the Asset Register has been accurately recorded at Box 12 of the Annual Return.

Conclusion:

I am pleased to report that generally Council assets appear to be appropriately accounted for, maintained and larger value items adequately insured.

Recommendation(s):

4.1. The Asset Register be updated to include the two new/replacement toddler swings purchased in March 2018.

Statement of Accounts and Annual Return

Objective:

To satisfy the criteria for assigning positive assurances to the various elements on the Internal Audit Certificate.

Audit Process:

I have also reviewed the detail to be included on Section 1 of the Annual Return by reference to the Council's financial records and other supporting documentation (Cash Book, Receipts and Payments Account, Bank Reconciliation and Asset Register)

Conclusion:

On the basis of the satisfactory conclusion of my review, I have duly signed off the Internal Audit Certificate of the Annual Return, assigning positive assurances in all areas.

RECOMMENDATIONS:

- 1.1. That the payments summary be amended to include cheque numbers and be presented to Council together with the original invoices for conformation and approval at the meeting. This summary could then be reproduced within the minutes, ensuring greater accuracy.***
- 1.2. That the outstanding Vat amounting to £307.24 in respect of 2017/2018 be reclaimed as soon as practicable.***
- 2.1. That the Council be made aware of the potential financial risk arising from the large number of uninsured items and consider making appropriate alternative provision for their replacement, possibly via earmarked reserves.***
- 3.1. That the new earmarked reserves be transferred to the appropriate Reserve Bank Account once cheque signatory issues have been resolved.***
- 4.1. The Asset Register be updated to include the two new/replacement toddler swings purchased in March 2018.***