

# **Llanvaches Community Council**

## **Internal Audit Report 2018-2019**

Prepared by Sandra Bushell FILCM.

7th June 2019

## 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 £7,747.64

Current Account Play Equipment £1,642.00 (statement to 7<sup>th</sup> January 2019)

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 2017/2018 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 no. 966 was unrepresented.
- Noted from the Council's Risk Assessment that a "Drop Box" was used for the monthly back up of the Councils financial records during the year and that Council proposes to move to using a newly purchased external hard drive in 2019/20.

- Noted that no matters were formally raised by the External Auditor in respect of the 2017/2018 Annual Return.

### **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 15<sup>th</sup> May 2018.
- Council reviewed Financial Regulations on 15<sup>th</sup> May 2018.
- There were two payments for goods or services in excess of £1,000 where a formal tender process may have been applicable. The first – grounds maintenance contract with Newport City Council where Standing Orders were suspended on 17<sup>th</sup> April 2018 (for the second year) in view of difficulties in obtaining alternative quotations. The second - the purchase of 4 replacement benches and 2 picnic tables. Whilst the individual items did not exceed the £1,000 threshold, cumulatively the order amounted to £2,654.40. The formal tender process is both costly and time consuming for the Council and suppliers, many of whom will be reluctant to submit a formal tender for such a low sum. It may therefore be prudent for the Community Council to review its current financial thresholds and thus avoid the need to suspend Standing Orders for routine items of expenditure.
- 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 £4,817 to Newport City Council was recorded in the minutes of the full Council meeting on 15th January 2019.

- Quarterly Budget Monitoring Reports were made to Council on 15<sup>th</sup> July 2018, 16<sup>th</sup> October 2018, 19<sup>th</sup> February 2019 and 16<sup>th</sup> April 2019. 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.
- A review of the minutes raised some concern regarding risk to the Council in respect of the condition of the zip wire and lack of playground inspections prior to September. These matters will be addressed further under Risk Management Arrangements.

### **Conclusion:**

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

### **Recommendation(s):**

- 1.1. *That Council review the following financial thresholds in respect of orders for work, goods and services which have been set at the current level for some considerable time and may therefore be too low to facilitate effective and appropriate levels of financial management.*
  - A) *Official orders or letters required for all works, goods and services above £35.*
  - B) *Formal tender process to be followed in respect of contracts exceeding £1,000.*

## **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
- All payments have been accurately reported in the minutes of Council.
- 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 relating to 2017/2018 totalling £307.24 was refunded during the year. Vat relating to 2018/2019 totalling £766.71 has been reclaimed to 31/03/2019 but has still to be refunded.

**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.

# 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 15<sup>th</sup> May 2018.
- Arrangements were in place for both an annual playground inspection by qualified contractors and for weekly inspections by Councillors. However, a scan of the minutes indicates that no inspection reports were made to Council from April 2018 to September 2018. It is also of concern to note that on the Annual Inspection of play equipment, the manufacturer of the zip wire recommended that Council make adjustments to the zip wire costing some £140 to move the stop spring away from the landing frame and that at the meeting of Council on 17<sup>th</sup> July 2018 Council resolved *“Not to carry out the adjustments to the zip wire. The comments noted on the Annual Inspection for any adjustments to be made are retrospective and therefore not a legal requirement.”* Council would be advised to consult with their insurer's in order to ascertain whether the decision not to modify the zip wire, against the manufacturers advice has implications for the Council's insurance cover.
- Insurance levels are both appropriate and adequate in respect of Employers Liability £10m; Public Liability £10m; Fidelity Guarantee £150,000.

## **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 Council take appropriate measures to ensure that regular weekly playground inspections are resumed and maintained in order that any defects may be reported to Council and necessary repairs actioned promptly.*
- 2.2. *That as a matter of priority the Council consult with their insurer's in order to ascertain whether the decision not to modify the zip wire, against the manufacturer's advice has implications for the Council's insurance cover.*

## 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 15<sup>th</sup> January 2019 evidence that the budget for 2019/2020 has been considered in detail and agreed by full Council.
- I have noted that a copy of the 2018/2019 precept demand is on file.
- Council has received regular budget monitoring reports throughout the year, specifically: 1<sup>st</sup> quarter - 15<sup>th</sup> July 2018, 2<sup>nd</sup> quarter - 16<sup>th</sup> October 2018, 3<sup>rd</sup> quarter - 19<sup>th</sup> February 2019 and year end - 16<sup>th</sup> April 2019.
- I note that Council's plan to establish a new Earmarked Reserves Fund to provide for replacement/new play equipment, staffing requirements and replacement laptop/software were frustrated by banking delays and that much of the Earmarked Reserve was used during the year to fund replacement benches, a new lap top and external hard drive. Thus, at the year end Council holds no specific reserves other than funds held in the separate current account for Play Equipment which continues to stand at £1,642.
- I note that the Council's General Fund balance has reduced by £2,151.94 on the previous year and that the agreed Budget for 2019/2020 provides for a further reduction of £1,701.11 in the forthcoming year. As a consequence the General Fund balance is now at a more appropriate level.

### **Conclusion:**

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

## 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 1<sup>st</sup> 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 21<sup>st</sup> March 2017.
- I note that the Clerk's Contract of Employment provides for her appointment on a single salary point SCP 15, which is the current minimum for clerks under the National Agreement.
- 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 2018/2019. I note:-

- I note that the two new/replacement toddler swings purchased in March 2018 plus the new/replacement picnic tables and benches purchased in January 2019 have been added to the 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.

## 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 Council review the following financial thresholds in respect of orders for work, goods and services which have been set at the current level for some considerable time and may therefore be too low to facilitate effective and appropriate levels of financial management.***
  - A) ***Official orders or letters required for all works, goods and services above £35.***
  - B) ***Formal tender process to be followed in respect of contracts exceeding £1,000.***
- 2.1. ***That Council take appropriate measures to ensure that regular weekly playground inspections are resumed and maintained in order that any defects may be reported to Council and necessary repairs actioned promptly.***
- 2.2. ***That as a matter of priority the Council consult with their insurers in order to ascertain whether the decision not to modify the zip wire, against the manufacturer's advice, has implications for the Council's insurance cover.***