

# **Llanvaches Community Council**

## **Internal Audit Report 2019-2020**

Prepared by Sandra Bushell FILCM.

6<sup>th</sup> May 2020

## 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 £7,045.11

Current Account Play Equipment £1,642.00 (statement to 9<sup>th</sup> January 2020)

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 2018/2019 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.
- Checked the detail in the bank reconciliations throughout the year and noted that the cash book does not reconcile from June to February as a result of a replacement cheque 000971 being issued in respect of cheque 000966 which continued to be shown as unrepresented. There was a further discrepancy in August and September owing to a Bank error.

- At the current year end cheques 000969, 000985 and 000989 are unrepresented. Cheque 000991 has been issued to replace cheque 000969 but does not appear in the Accounts.
- Noted from the Council's Risk Assessment that an external hard drive is now being used for the backup of payroll data.
- Noted that no matters were formally raised by the External Auditor in respect of the 2018/2019 Annual Return.

### **Conclusion:**

I am pleased to report that the Council appears generally to maintain sound accounting records and bank reconciliations.

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

- 1.1. *That where a replacement cheque is issued, it should be recorded and the original cheque no longer shown as unrepresented.*
- 1.2. *Bank errors affecting the Cash Book balance should be recorded and explained in the Bank Reconciliation.*
- 1.3. *In order to preserve the integrity of the Accounts it is important that the Cash Book balances reconcile with the Bank Statements. These should be regularly checked.*
- 1.4. *Cheque 000969 should be written back and the Cash Book should be amended to include the replacement cheque 000991 Cheque 000991 should also be shown as unrepresented at the Year End.*
- 1.5. *Ensure that monthly backup to hard drive includes all financial data.*

## **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 21<sup>st</sup> May 2019 and 18<sup>th</sup> February 2020.
- Council reviewed Financial Regulations on 21<sup>st</sup> May 2019 and 18<sup>th</sup> February 2020.
- There was one payment for goods or services in excess of £1,000 where a formal tender process may have been applicable. This was in respect of the grounds maintenance contract with Newport City Council where Standing Orders were suspended on 16<sup>th</sup> April 2019 (for the third year) in view of historic difficulties in obtaining alternative quotations.
- The precept amount of £5,500.12 to Newport City Council was recorded in the minutes of the full Council meeting on 19<sup>th</sup> November 2019.
- Quarterly Budget Monitoring Reports were made to Council on 16<sup>th</sup> July 2019, 15<sup>th</sup> October 2019 and 21<sup>st</sup> January 2020 and 16<sup>th</sup> April 2019. The current year end documentation was provided on file to me.
- Council reviewed its internal control procedures and the effectiveness of Internal Audit arrangements at the meeting on 16<sup>th</sup> July 2019.
- During the year no actions have either been taken or are being considered that might result in unlawful expenditure being incurred.
- 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, although on several occasions, eg 18<sup>th</sup> June and 21<sup>st</sup> January, payment schedules have been amended in handwriting and it is not clear from the documentation whether these amendments were made prior or subsequent to reporting. Two replacement cheques were issued during the year, 000971 to replace 000966 and, 000991 to replace 000969. Cheque 000966 has been returned and is on file and the replacement has been noted in the cash book. This is not the case with cheque 000991.
- 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.

**Recommendation(s):**

- 2.1. *In order to maintain the integrity of the payments schedule any changes to the schedule should be initialled by the authorising cheque signatories.*
- 2.2. *Replacement cheques should be notified to Council, the original cheques should be returned and put on file or stopped at the bank. Replacement cheques should be shown in the cash book.*

## 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 has advised 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, with the exception of cheque 000985 for expenses totalling £51.40, which includes payment for "D shackle bolts" of £21.28 but for which the supporting receipts total £19.96.

- Grant payments have been evidenced by a letter acknowledging receipt, with the exception of the payment to St Dubritus Church.
- All payments have been accurately reported in the minutes of Council, with the exception of cheque 000977 for £43.97, which is incorrectly reported in the minutes as £48.97.
- Cheque stubs have been appropriately initialled by two authorised signatories, with the exception of replacement cheque 000971, which appears to have only one initial on the stub.
- 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. There does not appear to be a confirmation order in respect of Geenleaf Landscapes – Christmas Tree £100 or K Morgan – Planting £43.97.
- With regard to income I note that income sources during the year were the precept, 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 and VAT relating to 2018/2019 totalling £766.71 was refunded during the year. VAT in respect of the current year 2019/2020 of £374.82 remains unclaimed at the 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):**

- 3.1. *Members authorising payments to be reminded of the need to exercise due diligence and to check invoices/receipts against payments and to ensure all cheque stubs are initialled.*
- 3.2. *St Dubritus Church should be chased for a receipt in respect of the grant payment for £100.*
- 3.3. *Ensure that confirmation orders/emails are issued where appropriate.*
- 3.4. *Ensure timely submission for VAT refund claims.*

## 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 21<sup>st</sup> May 2019.
- Arrangements were in place for both an annual playground inspection by qualified contractors and for weekly inspections by Councillors.
- Insurance levels are both appropriate and adequate in respect of Employers Liability £10m; Public Liability £10m; Fidelity Guarantee £500,000 and larger assets.

### **Conclusion:**

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

## 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 19<sup>th</sup> November 2019 evidence that the budget for 2020/2021 has been considered in detail and agreed by full Council.
- I have noted that a copy of the 2019/2020 precept demand is on file.
- Council has received regular budget monitoring reports throughout the year, specifically: 1<sup>st</sup> quarter – 16<sup>th</sup> July 2019, 2<sup>nd</sup> quarter -15<sup>th</sup> October 2019, 3<sup>rd</sup> quarter- 21<sup>st</sup> January 2020.
- I note at the year end Council's budget plans for 2020/2021 provide for Reserves of £3,038 comprising Playground £2,538 and Staff £500.
- I note that the Council's General Fund balance has reduced by £846.83 on the previous year and that the agreed Budget for 2020/2021 provides for a further reduction of £1,835.58 in the forthcoming year. As a consequence the General Fund balance is reducing year on year to 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 5, 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 2019/2020.

- I note that the new Dell Inspiron 15 5000 laptop purchased in April 2019 has been added to the Asset Register but that the WD My Passport Hard Drive purchased at the same time has not.
- 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 WD My Passport Hard Drive should be added to the Asset Register.*

## 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 where a replacement cheque is issued, it should be recorded and the original cheque no longer shown as unrepresented.***
- 1.2. *Bank errors affecting the Cash Book balance should be recorded and explained in the Bank Reconciliation.***
- 1.3. *In order to preserve the integrity of the Accounts it is important that the Cash Book balances reconcile with the Bank Statements. These should be regularly checked.***
- 1.4. *Cheque 000969 should be written back and the Cash Book should be amended to include the replacement cheque 000991 Cheque 000991 should also be shown as unrepresented at the Year End.***
- 1.5. *Ensure that monthly backup to hard drive includes all financial data.***
- 2.1. *In order to maintain the integrity of the payments schedule any changes to the schedule should be initialled by the authorising cheque signatories.***
- 2.2. *Replacement cheques should be notified to Council, the original cheques should be returned and put on file or stopped at the bank. Replacement cheques should be shown in the cash book.***

- 3.1. *Members authorising payments to be reminded of the need to exercise due diligence and to check invoices/receipts against payments and to ensure all cheque stubs are initialled.***
- 3.2. *St Dubritus Church should be chased for a receipt in respect of the grant payment for £100.***
- 3.3. *Ensure that confirmation orders/emails are issued where appropriate.***
- 3.4. *Ensure timely submission for VAT refund claims.***
- 4.1. *The WD My Passport Hard Drive should be added to the Asset Register.***