

Llanvaches Community Council

Internal Audit Report 2022-2023

Prepared by Sandra Bushell FILCM.

12th June 2023

1. 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 continues to use 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 were:-

Current Account £100.00

Business Reserve Account £3,171.38

Current Account Play Equipment £3,017.37

The Clerk advises that the Council does not currently operate a petty cash system or use credit/debit cards and this has been confirmed by my examination. However, the minutes indicate that the Council proposes to operate a Paypal Account in 2023/2024 and has produced a usage policy.

Audit Process:

I have:-

- Verified the opening balance on the cash book with that on the closing balance of the 2021/2022 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. However, in doing so I found several discrepancies in respect of cheque issue dates and the dates entered in the cash book specifically: cheque 1041 written on 19th April 2022 is entered in the cash book 27th April 2022; cheques 1042 to 1045 written on 14th June 2022 are entered in the cash book 21st June 2022; cheque 1049 written on 30th August 2022 is entered in the cash

book 27th September 2022; and cheque 1054 written on 18th October 2022 is entered in the cash book 15th November 2022.

- Checked the detail in the bank reconciliations throughout the year. The incorrect date entries within the cash book for cheques 1049 and 1054 impact on the accuracy of the bank reconciliations for these months, and the cheques should have been recorded as unpresented in the months they were written. Cheque 1054 for £366 has been omitted from both the cash book and bank reconciliation at the end of November.
- At the current year end cheques 1057, 1058, 1059 1060, 1063 and 1064 were unpresented.
- Noted from the Council's Risk Assessment that an external hard drive continues to be used for the backup of payroll data.
- Noted that no matters were formally raised by the External Auditor in respect of the 2021/202 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. *The cash book is the equivalent of a day book/diary and as such the dates entered should be the dates cheques are actually written.***

2. 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 :-

- There was no review of Standing Orders or Financial Regulations during the year. However, the minutes 21st June 2022 indicate that the Council is awaiting new model Standing Orders from One Voice Wales, which the Clerk advises have only recently been received.

- Contrary to Financial Regulations and Standing Orders only one quotation has been sought for works to play equipment following the Annual Inspection reported 15th March 2022. However, the Clerk advises that there are difficulties in obtaining multiple quotations for this type of work and proposes to make recommendations to Council to raise financial limits within Financial Regulations and Standing Orders, following the sharp increase in costs post covid.
- The precept amount of £11,222.50 to Newport City Council was recorded in the minutes of the full Council meeting on 15th November 2022.
- Council reviewed its internal control procedures and the effectiveness of Internal Audit arrangements at the meeting on 21st June 2022.
- 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.
- The Council appears to have limited sources of income (currently only the precept and limited bank interest) 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.
- I have noted that all “Opt Out” Councillor Allowance Forms are on file.

Conclusion:

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

Recommendation(s):

- 2.1. *Standing Orders and Financial Regulations be reviewed at the earliest opportunity.***

3. 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. There is no copy of the Bank Mandate for 2021/2022 back pay on file and the payment does not appear to have been reported to Council. There is an unsigned copy of the Bank Mandate for back pay and change of salary in December 2022 on file.
- All payments, other than grant payments are supported by appropriate invoices.
- Grant payments have been evidenced by a letter acknowledging receipt, with the exception of the payment to Tabernacle Church and St Dubritius Church.
- All payments have been accurately reported in the minutes of Council.
- All payments made within the Financial Year comply with Financial Regulations in respect of the issue of official orders/email confirmation of works.
- With regard to income I note that income sources during the year were the precept 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 the previous year, 2021/2022, totalling £350.84 remains unclaimed/not refunded 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. *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. Changes to the Bank Mandate should be evidenced by a signed copy of the Mandate on file.***
- 3.2. *Tabernacle Church and St Dubritius Church should be pursued for receipts in respect of their grant payments for £100. Council may also wish to consider making the annual grant payments to the four Churches earlier in the financial year thereby allowing more time for the grant cheques to be presented and acknowledged prior to the year end.***
- 3.3. *Ensure timely submission for VAT refund claims.***

4. 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 did not review its Risk Assessment in 2022/2023, however, the Risk Assessment reviewed in May 2021 is appropriate to the scale of its activity identifying both the consequence and likelihood of risks.
- Arrangements were in place for both an annual playground inspection by qualified contractors and for fortnightly inspections by Councillors.
- Arrangements for Financial Controls indicate that two Councillor signatories will sign cheques and cheque stubs. This has been reintroduced following easing of covid restrictions.
- The only provision for loss of the Council's only employee is immediate advertising of the vacancy. A number of small community councils have experienced difficulty in recruiting clerks in recent times and thus further measures should be considered.

- Insurance levels are both appropriate and adequate in respect of Employers Liability £10m; Public Liability £10m; Fidelity Guarantee £500,000 and larger assets. However, the current years policy includes endorsements removing cover for cyber-crime and hacking.
- The Risk Assessment indicates that an Internal Data Audit is carried out annually to determine the type of information that the community council holds.

Conclusion:

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

Recommendation(s):

- 4.1. *The Risk Assessment be reviewed at the earliest opportunity.***
- 4.2. *Council consider preparing detailed procedural documentation for all financial procedures to provide a start point for new appointees or in the event of long term absence of the clerk.***
- 4.3. *The annual Internal Data Audit be reported to Council.***

5. 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 15th November 2022 evidence that the budget for 2023/2024 has been considered in detail and agreed by full Council.
- There is no copy of the Community Council's precept request on file.
- Quarterly Budget Monitoring Reports were made to Council on 27th September 2022, 15th November 2022 and 17th January 2023, however, only the first Quarters report is on file.
- Whilst the Council's General Fund balance appears to stand at £5,656.80,

£1,375.37 of this relates to the monies being held in respect of LRSG. The actual Year End Balance of the Community Council is therefore only £4,281.43, approximately four months expenditure. General guidance suggests that the General Fund balance should equate to between three and six months revenue spending, a higher balance or Earmarked Reserve is appropriate for smaller community councils where there is a risk of significant unscheduled expenditure on playground equipment/grounds maintenance/staff absence/ etc.

Conclusion:

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

Recommendation(s):

- 5.1. A copy of the Community Council's precept request should be placed on file.**
- 5.2. All Budget Monitoring Reports reported to Council should be recorded in the minutes and a copy placed on file.**
- 5.3. The General Fund balance should be carefully monitored and reviewed. Council may wish to consider establishing an Earmarked Reserve to cover the potential risk of significant unscheduled expenditure on playground equipment/grounds maintenance/staff absence/ etc.**

6. 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 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 note that the Clerk's salary was reviewed on 25th November 2022 and an increase agreed in line with the National Agreement.
- I note that salary levels are below the threshold for NI deductions.
- I have considered the essential guidance in respect of pension auto enrolment.

- I am pleased to note that the Clerk has adopted HMRC official documentation for recording salary payments.

Conclusion:

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

7. 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 **2022/23**.

- I note that the Asset Register was not reviewed by Council during the year.
- 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):

7.1. The Asset Register be reviewed by Council annually.

8. 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. **The cash book is the equivalent of a day book/diary and as such the dates entered should be the dates cheques are actually written.**
Noted the cheques were dated on the day written not on the day of the meeting.
- 2.1. **Standing Orders and Financial Regulations be reviewed at the earliest opportunity.**
New Standing Orders received and will be reviewed asap with the Financial Regulations.
- 3.1. **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. Changes to the Bank Mandate should be evidenced by a signed copy of the Mandate on file.**
Unsigned copy of the letter to the bank amending the standing order is held. I will ensure that any future amendments will be evidence with a signed copy on file.
- 3.2. **Tabernacle Church and St Dubritius Church should be pursued for receipts in respect of their grant payments for £100. Council may also wish to consider making the annual grant payments to the four Churches earlier in the financial year thereby allowing more time for the grant cheques to be presented and acknowledged prior to the year end.**
Noted suggest that these payments are paid in November.
- 3.3. **Ensure timely submission for VAT refund claims.**
2021/22 and 2022/23 have been submitted.
- 4.1. **The Risk Assessment be reviewed at the earliest opportunity.**
Noted.
- 4.2. **Council should consider preparing detailed procedural documentation for all financial procedures to provide a start point for new appointees or in the event of long term absence of the clerk.**
Noted.
- 4.3. **The annual Internal Data Audit should be reported to Council.**
This is the annual Internal Audit Report which is reported to Council.
- 5.1. **A copy of the Community Council's precept request be placed on file.**
Held electronically but now on file.
- 5.2. **All Budget Monitoring Reports reported to Council should be recorded in the minutes and a copy placed on file.**
Held electronically but now on file.
- 5.3. **The General Fund balance should be carefully monitored and reviewed. Council may wish to consider establishing an Earmarked Reserve to cover the potential risk of significant unscheduled expenditure on playground equipment/grounds maintenance/staff absence/ etc.**
Noted.
- 7.1. **The Asset Register be reviewed by Council annually.**
Noted.