
Llantrisant Community Council
Cyngor Cymuned Llantrisant

Internal Audit Report (Interim) 2017-18

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Background and Scope

Statute requires all Town and Parish Councils to implement an independent internal audit examination of their Accounts and accounting processes annually. The Council complied with the requirements in terms of independence from the Council decision making process appointing a local contractor from the outset: due to ill health, they resigned and we, at Auditing Solutions Ltd were appointed to provide the function to the Council for 2016-17 and beyond. This report sets out those areas examined during our interim visit to the Council for 2017-18, which took place on the 8th November 2017.

Internal Audit Approach

In commencing our review for 2017-18, we have paid due regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts.

As the Council's Internal Auditor and under the revised audit arrangements, we have a duty to complete the internal audit report in the Council's Annual Return, which covers the basic financial systems and requires assurances in ten separate areas.

Overall Conclusion

We have concluded that, on the basis of the generally satisfactory conclusions drawn from work completed to date based on our annual programme of work, the Council continues to maintain adequate and effective internal control arrangements with no issues of concern identified at this stage of our review process. We have also followed up progress on the implementation of issues raised in prior reports and are pleased to acknowledge the positive action taken to address them.

We are also pleased to acknowledge the continued high quality of records maintained by the Clerk and RFO and thank the RFO for her assistance, which has ensured the smooth progress of our review process. We ask that the report be presented to the Council and that responses are provided to the recommendations arising in advance of our final visit.

Maintenance 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 are pleased to note that the Council uses the Omega accounting software, also noting the existence of three bank accounts, two with Unity Trust Bank (Current and Reserve), together with a Lloyds account for the Youth Club. We have: -

- Ensured that the opening trial balance detail for 2017-18 agrees with that in the 2016-17 Statement of Accounts and certified Annual Return;
- Verified that the financial ledger remains “in balance” at the present date;
- Ensured that the cost and expenditure coding structure is appropriate for purpose;
- Checked detail of 100% of the transactions in the current and other account cashbooks to the supporting bank statements for the year to 31st October 2017, together with all inter-account transactions between accounts;
- Checked and agreed detail on the bank reconciliations as at 30th April, June and September 2017 on the current account and to 30th September 2017 on the other accounts;
- Reviewed the procedures in place for security of electronic data noting that it is backed-up both on-site to an external hard drive which is kept in a fire proof safe at the Council’s offices and also to a Cloud drive facility; and
- Considered the controls over the raising and validation of journals, noting that they are raised by the RFO.

Conclusions

No significant issues have been identified in this area to date: we are pleased to note that subsequent to our previous recommendation, bank reconciliations and journals raised are now subjected to independent scrutiny and authorisation. We shall extend our coverage in this area at our final visit, including verification of the accuracy of the year-end bank reconciliations on each account and ensuring the accurate disclosure of the combined cash and bank balances in the year’s Annual Return.

Review of Corporate Governance

Our objective 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’s Standing Orders (SOs) are subject to periodic review and update and are based on the one Voice Wales model documents, also noting that they were re-adopted at the Annual Meeting of the Full Council in May 2017;
- Noted that the Financial Regulations (FRs) were also re-examined and formally re-adopted at the Annual Meeting of the Full Council in May 2017;
- Noted that the both the Clerk and the RFO are currently undertaking CiLCA studies in order that the Council may, once formally promulgated in Wales, apply the

General Power of Competence, rather than rely on the Power of Wellbeing currently in use and cash limited, as was the former “Free Resource - Section 137”; and

- Commenced our review of Council and Standing Committee minutes for the year 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.

Conclusions

No issues arise in this area currently warranting formal comment or recommendation. We shall continue to assess the Council’s approach to governance at future visits.

Review of Expenditure and VAT

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council’s approved procedures and approved budgets;
- Payments are supported by appropriate 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;
- The correct expense codes have been applied to invoices when processed, with one exception as mentioned below; and
- VAT has otherwise been appropriately identified and coded to the control account for periodic recovery.

We have examined the processes for incurring expenditure; reviewing resultant trader invoices, payment documents and receipts, and their subsequent approval for payment and consider them appropriate for the Council’s requirements. We are pleased to note that the RFO and members are now evidencing their review of payment documentation in the space designated by the certification stamp affixed to each.

To ensure compliance with the above criteria, we have examined a sample of non-pay related payments in the financial year to date including all those individually in excess of £500 plus every 15th other payment, as recorded in the current account cashbook. Our test sample includes 32 individual payments, totalling, £34,350 and equating to 33% of all non-pay related payments made in the Financial Year to the above date. We have also examined a sample of three months’ credit card transactions on the Barclays Bank Credit Card account, ensuring that each also complied with the above criteria and that items using the credit card were of the type we would expect to see procured by the Council.

We note that quarterly VAT reclaims are prepared and submitted: the first two for the financial year to 30th September 2017 have been settled accordingly and we have verified the value of each to the underlying Omega control account detail.

Conclusions

We were pleased to note during our interim visit that members had implemented all the recommendations given in our previous year's report and have identified no issues in this area currently warranting formal comment or recommendation: We shall extend our test sample applying the same criteria for the remainder of the financial year at our final visit, also verifying the accuracy of the year-end VAT debtor and its disclosure in the Accounts and Annual Return.

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 are pleased to note that members formally reviewed the Finance and Health & Safety Risk Registers in its Annual Meeting in May 2017 and that moving forward, members have acquired the software for and resolved to use the Local Council Risk System for its Risk Management requirements.

We have also examined the Council's insurance policy schedule, now placed with Hiscox due to the cost savings achieved, noting that Employers', Products and Public Liability cover all stand at £10 million, together with Fidelity Guarantee cover at £500,000 and appropriate Business Insurance – "Loss of Revenue" cover in place at £10,000. We consider these levels appropriate for the Council's present requirements.

We note that the Council is not responsible for the management of any playground, recreation area or facility.

Conclusions

No issues arise in this area currently warranting formal comment or recommendation. We shall continue to assess the Council's approach to management of risk at future visits.

Precept Determination and 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 regular reports identifying the budget position throughout the year.
- The Council has formally approved the establishment of specific reserves.
- The utilisation of reserves and the return of unused balances to the General Fund are reported to the Council at regular intervals.
- Year-end reserves and General Fund balances are reviewed to ensure that they are both appropriate and are likely to be utilised.

We are pleased to note that an appropriate Budget setting and Precept determination exercise is in hand currently. This includes a formal review of the Council's fees and charges: however, we suggest that rather than any change in fees coming into effect immediately, they are scheduled to come into effect from the 1st April in the next Financial Year, which would allow the Council to better forecast its annual income.

We are also pleased to note that members are provided with regular monthly budget performance reports generated by the Omega accounting software during the year. We have reviewed the latest report with no significant or unanticipated variances existing requiring further examination.

Conclusions and recommendation

We are pleased to record that no issues arise in this area at present, however, we have made one recommendation to assist the Council with its income forecasting process. We shall undertake further work in this area at our final visit, including updating our year-on-year analysis of income across the various headings, detail of which will be fed into the planning of the following year's review programme.

R1. Members should ideally consider conducting the Council's fee review during its annual Budget setting and Precept determination process, with any increase in fees becoming effective from the 1st of April in the next financial year. This will ensure that the Clerk / RFO and members are able to make more accurate forecasts of income during that process.

Review of Income

In this review area, 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.

As above, we note that Fees and Charges are subjected to periodic review and approval during the Council's Annual Budget setting and Precept determination process.

We have, at this visit, examined the booking diary maintained for both of the Council's halls, checking and ensuring that signed Hire Agreement forms are held for each hirer; that an appropriately priced and timely invoice has been raised and that fees due are being repaid in a timely manner.

We have also examined the procedures in place in relation to the collection and banking of fees received from the Youth Club, checking detail from the underlying records prepared by the organisers through to the Omega cashbook and, as detailed above, their consequent banking noting that income continues to be banked intact and the £50 petty cash float has proved adequate for all ad hoc purchases required by the Youth Club.

Finally, in this area, we have examined the detailed nominal ledger income reports for the year to date ensuring that, as far as we are able to reasonably ascertain, all income due to the Council has been received and recorded appropriately.

Conclusions

We are pleased to record that no issues arise in this area at this time: We shall examine further income streams during our final visit, again reviewing the Omega nominal income codes to ensure, that as far as we may be reasonably expected to ascertain, all income due to the Council has been received in a timely manner and been appropriately brought to account.

Petty Cash Account

Whilst the amount of petty cash expenditure annually is very limited, we are required, as part of the annual Internal Audit Report process 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:

- Reviewed payments made in the financial year to 31st October 2017 agreeing detail to supporting till receipts, invoices, etc.;
- Verified that reimbursements from the current bank account were correctly posted to the petty cash account for the same period bringing the account back to the £150 imprest level;
- Checked to ensure that VAT on relevant purchases is being identified appropriately for recovery with the quarterly reclaims submitted to HMRC; and
- Checked and agreed the physical cash holding at the time of this interim visit.

We also note the existence of a Lloyds debit card for use by the Youth Club organisers for ad hoc purchases and have checked and agreed the year to date transactions to underlying documentation for compliance with the same criteria as under the previous "Review of Expenditure" section of this report, with no issue arising.

Conclusions

We are pleased to report that no issues arise in this area of our review process warranting formal comment or recommendation.

Review of 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 HM Revenues and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme, as last amended with effect from 1st April 2017 in terms of employee contribution percentages. To meet that objective, we have:

- Agreed the amounts paid to the Council's nine employees in August 2017 by reference to the Council's approved pay scale on the NJC annual schedule of rates payable;

- Examined the Clerk's and RFO's employment contracts, which we consider appropriate for purpose;
- Ensured that tax and NI deductions have been made applying the appropriate tax code and NI Table using MoneySoft Software's Payroll package;
- Ensured that the appropriate employee contributions to the pension scheme have been determined and paid over to the Pension Fund Administrators in accordance with the latest percentage rates applicable;
- Ensured that, where additional hours are worked, appropriate documentation supporting the hours claimed, is in existence and certified accordingly; and
- Ensured that individual staff net pay and payments to the relevant agencies (HMRC, pension fund and unions) have been processed accurately and in a timely manner.

Conclusions

We are pleased to record that no issues arise in this area warranting formal comment or recommendation.

Investments and Loans

The Council has no funds invested, other than by way of the Capital Reserve account with NatWest, on which monthly interest is received: as indicated earlier in this report, we have verified the appropriate receipt of that interest and its recording in the relevant cashbook.

The Council has no loans either repayable by or to it.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Rec. No.	Recommendation	Response
Review of Income		
R1	Members should ideally consider conducting the Council's fee review during its annual Budget setting and Precept determination process, with any increase in fees becoming effective from the 1 st of April in the next financial year. This will ensure that the Clerk / RFO and members are able to make more accurate forecasts of income during that process.	