

Llantrisant Community Council
Cyngor Cymuned Llantrisant

Internal Audit Report (Final Update) 2018-19

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For and on behalf of
Auditing Solutions Ltd

Background

Statute requires all town and parish councils to arrange for an independent internal audit examination of their accounting records and system of internal control and for the conclusions to be reported each year in the Annual Return.

his report sets out the work undertaken in relation to the Internal Audit for the 2018-19 financial year: The interim audit took place on the 10th December 2018 and the Final audit took place on the 29th April 2019.

Internal Audit Approach

In commencing our review for the year, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts / Annual Return. Our programme of cover is designed to afford appropriate assurance that the Council has appropriate and robust financial systems in place that operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Internal Audit Report' as part of the Council's Annual Return process, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

We are pleased to report that, in the areas examined this year, the Councils' officers continue to operate effective financial control systems with no significant areas of concern identified. We noted a small number of issues during the course of our 2017-18 review visits, as reported in our final report for that year, have reviewed the current position and are pleased to acknowledge the positive actions taken to address the issues raised.

During our Interim Audit visit for 2018-19 we made three minor recommendations and are pleased to note that the Council has already taken positive action to address this, as detailed in the body of the appended Action Plan, no further recommendations were made during the Year End update review.

On the basis of the overall satisfactory conclusion of our review process for the year, we have duly signed off the Internal Audit Report in the year's Annual Return assigning positive assurances in each relevant area.

In conclusion, we are pleased, once again, to acknowledge the continued high quality of records maintained by the Clerk and RFO which we categorise as exemplary. We would like to take this opportunity to thank the Clerk and the RFO for their assistance, which has ensured the smooth progress of our annual review process. We ask that the report be presented to the Council and that its receipt is acknowledged.

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 Rialtas accounting software, also noting the existence of two bank accounts, with the Unity Trust Bank (Current and Reserve), the Lloyds Bank account for the Youth Club was closed on the 28th March 2019 and the residual balance of £927.15 was transferred to the Unity Trust Current Account. The Council invests its surplus funds in the CCLA Public Sector Deposit Fund and both the Clerk & RFO have access to Barclays Bank Credit Cards with a combined limit of £3,000. We have: -

- Noted the receipt of the External Auditor's Certificate & Report, and confirm that the Asset Register update had been properly concluded, as stated, prior to the Final Update Internal Audit. Additionally, concurring with the opinion of the RFO, it is this auditor's opinion that plants/bulbs/hanging baskets and planters should not be included on a Council's Asset Register as these items are replaced annually;
- Noted that the Clerk, RFO and Members have taken reasonable steps to ensure the Council's immediate and continued compliance with the General Data Protection Legislation which came into force on the 25th May 2018;
- Ensured that the opening trial balance detail for 2018-19 agrees with that in the 2017-18 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 the transactions in the current and other account cashbooks to the supporting bank statements for May & October 2018, and March 2019 together with all inter-account transactions between accounts;
- Checked and agreed detail on the bank reconciliations as at 30th June, 31st August & the 30th November 2018, and the 31st March 2019 on the current account and to 31st March 2019 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 and a Cloud drive facility; and,
- Considered the controls over the raising and validation of journals, noting that they are raised by the RFO.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation

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 2018;
- Noted that the Financial Regulations (FRs) were also re-examined and formally re-adopted at the Annual Meeting of the Full Council in May 2018;
- Noted that the RFO has successfully concluded the CiLCA training and has achieved the qualification. We also note that the Clerk is continuing her CiLCA studies at this time 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

There are no issues arising in this area of our review warranting formal comment or recommendation. However, it is worthy of note that Llantrisant Community Council was awarded the One Voice Wales 'Best Devolution of Services or Asset Project' for the Beddau and Tynant Community Library project which is an example of this Council's active, and well managed, community programmes.

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 64 individual payments, totalling, £79,779.37 and equating to 53% 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,

(December 2018, January & February 2019) 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 now submitted directly from the Rialtas Software. We have reviewed the three submitted quarterly returns for the 2018-19 financial year, which have been settled accordingly and we have verified the value of each to the underlying Omega control account detail. We have also reviewed the pending Q4 VAT return, which is in the process of being submitted, with no issues arising.

Conclusions

There are no issues arising in this area of our review warranting formal comment or recommendation.

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 2018 and that the Local Council Risk System is in use for part of the Council's Risk Management requirements whilst the Risk Analysis Tables in MS Word are used for specific of the Council's activities.

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 Officers Liability at £500,000 and 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

There are no issues arising in this area of our review warranting formal comment or recommendation.

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; and,
- Year-end reserves and General Fund balances are reviewed to ensure that they are both appropriate and are likely to be utilised.

We note that the council, once again, has undertaken a robust Budget setting and Precept determination process which resulted in the precept for a Council Tax Band D Property being set at £41.00 per annum to generate an income of £218,997. The Precept was adopted in the December meeting of the Full Council and a request submitted to Rhondda Cynon Taff, in the amount of £218,997, thereafter.

Finally, in this review area, we have considered the level of funds retained by the Council as at the 31st March 2019: The total reserves stand at £107,564, with Earmarked Reserves in the amount of £25,425 (£24,002 in the prior year) giving a General Reserve balance of £70,338. The General Reserve balance has reduced from approximately three-and-a-half months' revenue expenditure as at 31st March 2017-18 to approximately 3.2 months' revenue expenditure. Once again, although this is at the lower end of the scale, it is in line with the generally recognised CiPFA guideline of between three and six months such spending.

We are also pleased to note that members are provided with regular monthly budget performance reports generated by the Rialtas accounting software during the year. We have reviewed the latest report, noting that minor corrections are needed, as discussed with the RFO during the review.

There are a number of significant variances for which the Responsible Officer has provided appropriate explanations in the detailed Variance Report and subsequently require no further investigation.

Conclusions and recommendation made in the interim Internal Audit

We note, in discussion with the RFO, that the budget information held in Rialtas has been incorrectly entered in that only the new fund allocation from the FY 2018-19 budget has been entered rather than that for the total budgeted expenditure for that period: 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. The RFO should correct the budget to ensure that total budgeted expenditure is recorded in Rialtas. Response: Implemented

There are no issues arising from our Year End update review warranting formal comment or recommendation.

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.

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

There are no issues arising in this area of our review warranting formal comment or recommendation.

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:

- Noted that the Petty Cash Account, due to the extremely low usage, is now run on an informal rather than an imprest basis;
- Reviewed payments made in the financial year to 31st March 2019 agreeing detail to supporting till receipts, invoices and miscellaneous payment documents;
- 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 level;
- Checked to ensure that VAT on relevant purchases is being identified appropriately for recovery with the quarterly reclaims submitted to HMRC;
- Checked and agreed the physical cash holding at the time of the interim visit; and,
- Checked the Year End Petty Cash Reconciliation to underlying Rialtas Data and the physical receipts as at the 31st March 2019 with no issues arising.

Conclusions and recommendation made at the Interim Internal Audit

We have noted that, due to the paucity of banking facilities, the RFO has been transferring funds via the Lloyds bank account (Youth Club) to replenish the Petty Cash. This is an incorrect procedure and must not be used in further months.

As the Petty Cash system is now run on an informal basis, rather than as an imprest account it is only necessary to top-up the account periodically, on an as and when basis. Due to the extremely low level of Petty Cash usage, this would probably be an annual

activity. The monthly reconciliation of the Petty Cash account and the proper maintenance of the Petty Cash cashbook continues to be required.

- R2. *The Lloyds bank account must not be used to top-up the Petty Cash in future. As the Council's Petty Cash System is no longer run on an imprest basis, and is the subject of extremely low usage, it may be topped-up on a periodic basis, as required. Response: Implemented.*

There are no issues arising from our Year End update review 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 five employees in October 2018 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 and recommendation

We are pleased to record that no issues arise in this area warranting formal comment or recommendation. However, we have noted that the members allowances were paid as gross amounts directly to Members and take this opportunity to remind members that they are required to declare these payments to the HMRC to ensure their tax assessments are correct for the 2018-19 tax year.

- R3. *Members allowances should, in future years, be paid via the Council's payroll. Response: Implemented.*

There are no issues arising from our Year End update review warranting formal comment or recommendation.

Asset Registers

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. Once again, the RFO has undertaken a major review of all the Council's assets during the year; checking each asset appearing on the Council's register and verifying its correct value. Additionally, the RFO has developed a completely new and comprehensive Asset Register which, in addition to the mandatory detail; (acquisition date, asset, description and purchase cost), also maintains enriched data relating to insurance valuation, geographic location, predicted replacement date and each asset is cross-referenced, by ID, to a photographic Library. Acquisitions and disposals are now recorded in linked spreadsheets which makes the Asset Register easy to use, understand, audit and validate.

Once again we have conducted an extensive review of the Fixed Asset Register, now in its second year of use, with the RFO, checking the total asset value recorded in the 2018-19 Annual Return against the value of all assets recorded in the new register, less disposals, plus additions and have agreed the declared Fixed Asset Register value of £916,845 as at the 31st March 2019 accordingly.

Conclusions

here are no issues arising in this area of our review warranting formal comment or recommendation.

Investments and Loans

The Council has no funds invested, other than by way of the Reserve account with Unity Bank and a £50,000 "investment" in the CCLA Deposit Fund, which receives interest payments ever month. 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

There are no issues arising from this area of our review warranting formal comment or recommendation.

Statement of Accounts and Annual Return

The Council's accounting system generates automatically at the year-end a Balance Sheet and Income and Expenditure Account, detail of which we have examined and consider reflects accurately the year's transactions as recorded in the software. The software also generates the detail for inclusion in the year's Annual Return, which we have also verified as being consistent with the accounting and other relevant supporting records.

We have also reviewed the procedures in place for identifying year-end debtors, creditors and accruals and agreed the detailed values recorded in the year-end Balance Sheet to the underlying records with no long-standing unpaid accounts or other issues arising.

Conclusions

We are pleased to record that no additional issues arise in this area and, on the basis of the work undertaken during the course of our review for the year, we have “signed off” the Internal Audit Certificate in the Annual Return assigning positive assurances in all relevant areas.

Rec. No.	Recommendation	Response
Review of Income		
R1	The RFO should correct the budget to ensure that total budgeted expenditure is recorded in Rialtas.	<i>Response: Implemented.</i>
Review of Petty Cash		
R2	The Lloyds bank account must not be used to top-up the Petty Cash in future. As the Council's Petty Cash System is no longer run on an imprest basis, and is the subject of extremely low usage, it may be topped-up on a periodic basis, as required.	<i>Response: Implemented.</i>
Review of Petty Cash		
R3	Members allowances should, in future years, be paid via the Council's payroll.	<i>Response: Implemented.</i>