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**Llantrisant Community Council**  
**Cyngor Cymuned Llantrisant**

*Internal Audit Report (Interim) 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.

This report sets out the work undertaken in relation to the interim Internal Audit for the 2018-19 financial year, which took place on the 10<sup>th</sup> December 2018.

## **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 Conclusions**

We have followed up the recommendations made in our 2017-18 reports and acknowledge that the members have noted and considered these in their deliberations, enacted the majority of recommendations and that the council continues to make great progress in improving its business processes and performance. We also report that, on the basis of the work undertaken to date in the current year, the Council continues to operate generally adequate and effective internal controls in all areas examined to date. Accordingly, we have made only two minor recommendations for consideration by the Clerk, RFO and Members, as detailed in the main body of this report and in the appended Action Plan.

We commend the RFO and Clerk for their continued professional management and administration of the Council's finance and governance functions. The method by which this information is stored and presented both for the purposes of the day to day running of the council, and for external scrutiny is exemplary and has made the interim Internal Audit review process straightforward.

We ask that members consider the content of this report and acknowledge that the report has been formally reviewed and adopted by Council.

## 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 three bank accounts, two with Unity Trust Bank (Current and Reserve), together with a Lloyds account for the Youth Club. 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 25<sup>th</sup> 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 and October 2018, together with all inter-account transactions between accounts;
- Checked and agreed detail on the bank reconciliations as at 30<sup>th</sup> June, 31<sup>st</sup> August and the 30<sup>th</sup> November 2018 on the current account and to 30<sup>th</sup> November 2018 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: We shall extend our testing in this area during our final review of the year, 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 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.***

## **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 15<sup>th</sup> other payment, as recorded in the current account cashbook. Our test sample includes 49 individual payments, totalling, £57,593 and equating to 57% 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 now submitted directly from the Rialtas Software. We have reviewed the first two quarter returns for the 2018-19 financial year to 30<sup>th</sup> September 2018 have been settled accordingly and we have verified the value of each to the underlying Omega control account detail.

### ***Conclusions***

***There are no issues arising in this area of our review warranting formal comment or recommendation: We shall extend our test sample, applying the same criteria, for the remainder of the financial year during our final review of the year, 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 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: 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; and,
- 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 process was in progress during the Interim Audit. This includes a formal review of the Council's fees and charges.

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 no significant or unanticipated variances existing requiring further examination.

### *Conclusions and recommendation*

*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.*

## **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: We shall examine further income streams during our final review, 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:

- 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 30<sup>th</sup> November 2018 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; and,
- Checked and agreed the physical cash holding at the time of this interim visit.

### ***Conclusions and recommendation***

*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.*

## **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 1<sup>st</sup> 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***

***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.*

## **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***

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

Rec. No.	Recommendation	Response
<b>Review of Income</b>		
R1	The RFO should correct the budget to ensure that total budgeted expenditure is recorded in Rialtas.	
<b>Review of Petty Cash</b>		
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.	
<b>Review of Petty Cash</b>		
R3	Members allowances should, in future years, be paid via the Council's payroll.	