
Llanharry Community Council

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 has complied with the requirements in terms of independence from the Council decision making process appointing us, at Auditing Solutions Ltd 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 7th November 2017 and will be further updated following our final visit.

Internal Audit Approach

In commencing our review for 2017-18, we have as previously 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 has been designed to afford appropriate assurance that the Council's financial systems remain robust and 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' in the Council's Annual Return, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

We have concluded that, based on the generally satisfactory conclusions drawn from work completed to date in accordance with our annual programme of work, the Council continues to maintain adequate and effective internal control arrangements with only a few minor issues identified at this stage of our review process; detail of which is set out in the body of the attached report with resultant recommendations further summarised in the appended Action Plan. 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 date to address them.

We are pleased to acknowledge the continued high quality of records maintained by the Clerk and thank her 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 note that the Council uses Microsoft Excel software to maintain the accounting records, also noting the existence of two bank accounts with Lloyds Bank plc (Treasury and Business). 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 spreadsheet cashbooks remain “in balance” as at 31st October 2017;
- Ensured that the spreadsheet analysis structure is appropriate for purpose;
- Checked detail of all transactions in the Lloyds current and treasury account cashbooks to the supporting bank statements for the year to 31st October 2017;
- Checked and agreed detail on all bank reconciliations on the Lloyds current and treasury accounts for the year to 31st October 2017; and
- Considered the appropriateness and security of the controls over software systems back-up.

Conclusions and recommendations

We are pleased to record that no significant issues arise from our work in this area to date. We are also pleased to note that the Council received an unqualified external audit report for 2016-17 and that the Council has adopted all but one of the recommendations for improvement we made in the previous year’s report: we shall extend our review process 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 here 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) and Financial Regulations (FRs) are subject to annual review and update, the most recent review occurring on 26th April 2017 applying the model documents from One Voice Wales.
- 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 only one issue arising.

Conclusions and recommendation

We remind the clerk and members of the terms for approving grants and donations under S137 and S139 powers. Minute 13 of the 12th April minutes of the Full Council records the award of a grant of £100 to an individual: S137 and S139 powers may only be used to award grants and donations to projects which benefit a proportion of the community and do not, under any circumstances, permit grants and donations to be given to an individual for their personal benefit.

R1. The 1972 Local Government Act 1972 S137 or S139 powers do not give council's lawful authority to give grants or donations to an individual. The powers extend ONLY to grants and donations which are for the benefit of a proportion of the community.

Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Payments are supported by suitable 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;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct heading codes have been applied to invoices when processed; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have reviewed the procedures in place for processing payments and are pleased to note that, following last year's recommendation, members are now initialling invoices routinely as evidence of their review. We have examined all payments processed in the financial year to 31st October 2017 for compliance with the above criteria with no issues arising.

We are again pleased to note that VAT returns continue to be prepared and submitted to HMRC quarterly. We have reviewed and agreed the first two reclaims prepared and submitted to date in 2017-18 to the underlying spreadsheet cashbook accounting records.

Conclusions

We are pleased to record that no issues exist in this area currently that warrant formal comment or recommendation. We shall examine further transactions covering the remainder of the year at our final visit, also verifying the content of the final two quarters' VAT reclaims and ensuring accurate disclosure of the year-end VAT debtor.

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.

Whilst acknowledging the appropriateness of the financial risk assessment, which is reviewed, updated where necessary and re-adopted annually, we note that members resolved not to purchase the Local Council Risk System (LCRS), which we recommended in our previous report and continue to maintain the register in spreadsheet format. We also note that the risk register was reviewed during March and formally approved by the Council at the April 2017 meeting of the Full Council.

The Council has changed its insurance supplier from Aviva to Hiscox achieving a substantial saving. The new Hiscox policy schedule identifies Employers' and Public Liability cover as £10 million; Officials & Trustees Indemnity as £500,000; together with Business Interruption (Loss of Revenue) cover in place at £10,000. We consider these levels appropriate for the Council's present requirements.

We also have examined the Council's arrangements for the regular inspection of playgrounds and play areas noting that the Council has a play area at Llanharry, which contains a playground, team shelter and Multi Use Games Area (MUGA). We note that the Council does not currently have a playground management policy in place and that weekly visual inspections of the playground are currently undertaken by the Clerk who has not received the appropriate training or achieved a suitable qualification to undertake the review. We also note that the Council has retained the services of Urban Recreation Ltd to conduct comprehensive quarterly inspections of the playground.

Conclusions and recommendations

It is incumbent for all organisations responsible for managing playgrounds to have a reasonable and proportionate playground management policy in place: consequently, we have made various recommendations in this regard, as discussed with the Clerk.

We also take this opportunity to remind members that the Financial and Health & Safety Risk Assessments must be formally reviewed and adopted in each financial year and we shall continue to monitor the Council's approach to risk management at future visits.

- R2. *A Playground Management Policy should be developed by the Council, which identifies the legal requirements associated with running a playground; gives a statement balancing the Risks and Benefits of the playground; defines the Playground Inspection Methodology; inspection routines, the Council's approach to assessing the Level of Risk and establishes the Risk Rating; associated actions and a statement about how this feeds into the Council's overarching Health & Safety Risk assessment.*
- R3. *All personnel conducting playground inspections must attend a RoSPA Playground Inspector (RPI) certificated course or equivalent, which is certificated to national standards, with subsequent refresher courses, which are usually held every two years or so.*
- R4. *Weekly inspection forms and annual inspection reports must be kept for a minimum period of 21 years as the Statute of Limitations allows a person sustaining an injury in a playground to make a claim for compensation up to 21 years of age. (Records may be stored electronically).*

R5. *Signage on Playgrounds and Recreation Areas should be updated, as soon as it is reasonably possible to do so, stating that “All accidents must be reported to the Clerk at (telephone), (e-mail)”*. It is also a good idea to place a notice on Council Notice Boards encouraging people to report any damage or other issues with Playgrounds and Recreation Areas.

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 monthly reports identifying the budget position throughout the year, the accuracy of these are also reviewed at the quarterly Audit Committee meeting.
- The Council has formally approved the establishment of specific reserves; and
- The utilisation of reserves and the return of unused balances to the General Fund are reported to the Council on a monthly basis.

The Council was in the process of undertaking the Budget determination and Precept setting process at the time of this interim visit: consequently, we shall review the outcome of members’ deliberations at our final review visit.

We are pleased to note that members are provided with regular budget performance reports generated from the account’s spreadsheet detail at each meeting where the Clerk / RFO gives a verbal explanation of the budget to date and any variances that may have arisen. We also note that the budget reports are subjected to more detailed scrutiny during the quarterly Audit Committee meetings and have reviewed the latest available report with no significant or unanticipated variances existing requiring further examination.

We note the addition of a new Earmarked Reserve (EMR), in respect of the War Memorial project in addition to the two existing EMRs for the “Cemetery Extension” and “Tylagarw Play Area”. We will review the movement and the retained reserves on these EMRs during our year-end visit.

Conclusions

We are pleased to record that no issues arise in this area currently. We shall undertake further work at our final visit, including reviewing the final year-end budget outturn and ensuring the formal approval and adoption of the 2018-19 budget and precept: we shall also consider the ongoing appropriateness of the level of retained reserves to finance ongoing revenue spending and any development aspirations.

Review of Income

In this area of our review, 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. We are pleased to note that the Council reviewed its fees and charges and resolved to approve these at the Annual Meeting in May 2017.

We have reviewed the procedures in place in relation to the collection and banking of fees received in relation to Burials and Cremations noting that eleven interments had taken place in the year to 31st October 2017: we have confirmed that, in each case, all supporting documentation was available, the appropriate fees had been charged, collected, received, banked and accurately recorded.

We have also examined the procedures in place in relation to the collection and banking of fees received from allotments, checking the detail for the year to the 31st October 2017 from the underlying records prepared by the organisers through to the cashbook and, as detailed above, their consequent banking.

Finally, in this area, we have examined the detailed 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. We note and appreciate that banking does not always take place on the day on which funds are received due to the relatively low value of transactions which does not make it financially viable to travel daily to the nearest bank to make a deposit. Consequently, we consider that banking is undertaken within a reasonable time-frame, when sufficient funds have been accumulated to warrant the expense of travelling to the bank.

Conclusions and recommendation

We are pleased to record that no significant issues arise in this area currently, although we consider that the review of recoverable fees and implementation of any increase should ideally be linked to the budget review process. We shall undertake further work in this area at our final visit.

R6. Members should consider reviewing the Council's fees and charges during the annual Budget setting and Precept determination process, with any increase in fees implemented from 1st April in the next financial year. This will facilitate more accurate forecasts of annual income.

Petty Cash Account

Whilst the amount of petty cash expenditure annually is very limited, we are required, as part of our review process and certification 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 August 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 £20 imprest holding;
- 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 Council's petty cash holding at the time of this interim visit.

Conclusions

We are pleased to record that no issues arise in this area this year.

Review of Staff 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 HMRC legislation as regards the deduction and payment over of income tax and NI contributions. To meet that objective, we have:

- Agreed the amounts paid to the Clerk, being the sole employee, in August 2017 by reference to the Council's approved pay scale on the NJC annual schedule of rates payable, noting formal approval for implementation of the 2017-18 national pay award dating from 1st April 2017;
- Ensured that tax and NI deductions have been made applying the appropriate tax code and NI Table by reference to the HMRC website Basic PAYE Tools tables; and
- Ensured that the clerk's net pay and payments to HMRC 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 Reserve account with Lloyds bank.

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 Corporate Governance		
R1	The 1972 Local Government Act 1972 S137 or S139 powers do not give council's lawful authority to give grants or donations to an individual. The powers extend ONLY to grants and donations which are for the benefit of a proportion of the community.	
Review of Assessment and Management of Risk		
R2	A Playground Management Policy should be developed by the Council, which identifies the legal requirements associated with running a playground; gives a statement balancing the Risks and Benefits of the playground; defines the Playground Inspection Methodology; inspection routines, the Council's approach to assessing the Level of Risk and establishes the Risk Rating; associated actions and a statement about how this feeds into the Council's overarching Health & Safety Risk assessment.	
R3	All personnel conducting playground inspections must attend a RoSPA Playground Inspector (RPI) certificated course or equivalent, which is certificated to national standards, with subsequent refresher courses, which are usually held every two years or so.	
R4	Weekly inspection forms and annual inspection reports must be kept for a minimum period of 21 years as the Statute of Limitations allows a person sustaining an injury in a playground to make a claim for compensation up to 21 years of age. (Records may be stored electronically).	
R5	Signage on Playgrounds and Recreation Areas should be updated, as soon as it is reasonably possible to do so, stating that "All accidents must be reported to the Clerk at (telephone), (e-mail)". It is also a good idea to place a notice on Council Notice Boards encouraging people to report any damage or other issues with Playgrounds and Recreation Areas.	
Review of Income		
R6	Members should consider reviewing the Council's fees and charges during the annual Budget setting and Precept determination process, with any increase in fees implemented from 1 st April in the next financial year. This will facilitate more accurate forecasts of annual income.	