
Pontyclun Community Council

Internal Audit Report 2016-17

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For and on behalf of Auditing Solutions

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Background and Scope

The Accounts and Audit Regulations introduced from 1st April 2001 require all Town, Parish and Community 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. We, at Auditing Solutions Ltd, have been appointed to provide the function to the Council for 2016-17 and beyond. This report sets out those areas examined during the course of our visit to the Council for 2016-17, which took place on Wednesday 3rd May 2017.

Internal Audit Approach

In conducting our review for 2016-17, 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 are pleased to report that, in the areas examined this year, the Council's officers operate effective financial control systems with no significant areas of concern identified. We have, however, identified a few areas where we considered that further improvements could be made to the existing controls to ensure that councillors have effectively met and demonstrated compliance with their fiduciary responsibilities: detail of such issues are set out in the body of the report with any resultant recommendations further summarised in the appended Action Plan. We wish to commend the outgoing Clerk and her Assistant on the quality of records maintained and look forward to working with the new incumbent in future years.

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.

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 Alpha accounting software, noting the existence of four bank accounts at the outset of the financial year, each with a separate cashbook in the accounting software. We have: -

- Ensured that the opening trial balance detail for 2016-17 agrees with that in the 2015-16 Statement of Accounts and certified Annual Return;
- Verified that the financial ledger remains “in balance” at the financial year-end;
- Ensured that the cost and expenditure coding structure is appropriate for purpose;
- Checked detail of cashbook transactions on each account to the supporting bank statements for the full financial year, together with all inter-account transactions between the accounts;
- Checked and agreed detail on the bank reconciliations on all accounts as at 31st March 2017;
- Reviewed the procedures in place for security of electronic data noting that it is backed-up on-site onto the network, onto two USB drives which are kept in a locked cabinet onsite and also to a secure ‘cloud’ backup facility; and
- Considered the controls over the raising and validation of journals, noting that they are raised by both the Clerk and Assistant.

We note that the Council has reduced the four accounts in use at the start of the financial year to two, also noting that the Wages account will be closed after the next payment cycle has been closed. This will streamline the accounting process, strengthen security and reduce cost.

Conclusions and recommendations

Whilst no significant issues have been identified in this area from the work undertaken, there appears to have been a little confusion concerning data entry which occurred during the recent RBS Rialtas Alpha training. It is considered Best Practice to enter invoices at the date of payment identified on the cheque, with any standing orders or direct debits entered on the date they appear on bank statements.

Likewise, any journals made to reverse errors should have ‘XXX’ placed before the description: similarly, split payments should have ‘PP’ placed before the description to assist ease of identification in reports.

R1. Payments should be entered on the accounting software on the date that cheques are drawn, whilst standing orders and direct debits should be entered with the date the transaction appears on bank statements.

R2. As indicated in the body of the report, correcting journals and split payments should be annotated appropriately to indicate their nature and to assist ease of identification in reports.

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, them being brought into line with the NALC model document and re-adopted in May 2016;
- Noted that the Council resolved to readopt the Financial Regulations (FRs) in May 2015, until One Voice Wales published the new model orders. The new Clerk is currently redrafting the Financial Regulations for presentation to members at a future meeting for formal adoption;
- Noted that a new clerk is now in place and undertaking a handover process from the outgoing Clerk at the time of our audit visit.
- Examined the Council minutes for the year to determine whether or not 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

We are pleased to report that no issues arise in this area of our review process 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; 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 and their subsequent approval for payment and consider them generally appropriate for the Council's requirements, although we are somewhat concerned to note that paid invoices contain no evidence of review by members.

In order to ensure compliance with the above criteria, we have examined all non-pay related payments in the financial year 2016-17 and noted that although the Clerk initials the invoices to authenticate them and check the detail, that the members only sign a schedule of payments prepared by the Clerk and do not initial the original invoices.

In examining the files of payments, we noted that only one single data entry error had been made in respect of a 40p overpayment which had been recovered upon the next payment to that supplier.

We consider it essential that, in order that members may fully demonstrate the satisfactory discharge of their fiduciary responsibilities whilst approving payments for release, they should, as a minimum, initial invoices to confirm their examination and the appropriateness of the payments for release. We consider this an essential control in the light of relatively recent fraudulent activity by the clerk at a council in Hampshire, where members had failed to review all relevant documentation and the same invoices were resubmitted for payment, cheques being written in removable ink and being amended in favour of the clerk subsequent to signing by members.

In order to achieve the above, we have suggested to the Clerk that a suitable rubber authorisation stamp be acquired to be placed on each and every invoice, ideally containing the following information: -

- Initials of Clerk / Assistant confirming delivery of goods / services
- Initials of Clerk / Assistant confirming arithmetic accuracy of invoice and appropriateness for payment
- Cheque or other unique payment reference number
- Payment date
- Alpha cost centre and nominal account code
- Initials of two members approving payment for release

We note that the VAT reclaims are prepared in Rialtas Alpha and submitted: the first two covering the periods from April to September 2016 and October 2016 to January 2017 have been settled accordingly and we have verified the value of each to the underlying Alpha control account detail, together with that for the year ended 31st March 2017.

Conclusions and recommendations

As indicated above, we consider that members should provide appropriate evidence of their review of invoices submitted for payment approval, ideally by use of a rubber certification stamp to be affixed to each and every approved payment invoice / document.

R3. In order to provide appropriate evidence of members' effective discharge of their fiduciary responsibilities and further protect the Clerk and the Clerk's Assistant, members should evidence their approval of each and every payment as appropriate for release initialling the invoices accordingly: ideally, a rubber stamp containing the information, as set out in the body of the report, should be acquired and be affixed to each and every invoice.

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 in order to minimise the opportunity for their coming to fruition.

Whilst acknowledging the appropriateness of the financial risk assessment, adopted annually, and other more specific “area oriented” assessments, we consider that further more detailed assessments may be appropriate in certain areas. Specific software has been developed to assist councils in this respect (the Local Council Risk System (LCRS) available over the internet from DMH Solutions at a cost of around £100 plus VAT) and commend this as a suitable tool to assist in the more detailed assessment of risks by the Council. The software is used by many of our clients and provides a more detailed assessment of potentially some 500 individual risks over 50 areas. Obviously, not all would be relevant to the Council, but we believe that the software provides a more comprehensive register of risks than is in place currently and may be of benefit to the Council.

We have also examined the Council’s insurance policy schedule with Hiscox noting that Employers’ and Public Liability cover both stand at £10 million, together with Fidelity Guarantee cover at £500,000 and appropriate Business Insurance – “Business Interruption” cover in place at £10,000. We consider these levels appropriate for the Council’s present requirements.

Conclusions and recommendation

We are pleased to record that no significant issues arise in this area, although, as indicated above, we have suggested that consideration be given to acquiring the LCRS risk management software to further strengthen the existing process.

R4. The Council should consider acquiring the LCRS risk management software to further enhance existing registers.

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 exercise has been undertaken, with the Council formally approving and adopting the 2016-17 budget and precept at its meeting in February 2017 with the value of the precept formally minuted.

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

Finally, in this area, we have examined the level of retained reserves at the financial year-end noting that they total £54,239 including £20,131 in funds earmarked for specific purposes / projects. The residual General Fund balance of £34,108 equates to approximately 3 months' revenue spending at the 2016-17 level and is in line with the CiPFA guideline of 3 to 6 months such spending.

Conclusions

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

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.

The council's main income arises from the annual Precept, VAT reclaims, Community Council Grants, A Footpath Grant, rental income from Café 50 and donations from members of the public in relation to Café 50. We are pleased to record that the income received, is properly recorded and banked intact.

Finally, in this area, we have examined the detailed nominal ledger income reports for the year 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 report that no issues arise in this area of our review process warranting formal comment or recommendation.

Petty Cash Account

The Council does not operate a Petty Cash system, any out-of-pocket expenses being reclaimed by the clerk periodically.

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 further amended with effect from 1st April 2016 in terms of employee contribution percentages. To meet that objective, we have: -

- Agreed the amounts paid to individuals in January 2017 by reference to the Council's approved pay scale on the NJC annual schedule of rates payable;
- Examined the Clerk's employment contract, which we consider appropriate for purpose;

- 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;
- 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 report that no issues arise in this area of our review process warranting formal comment or recommendation.

Asset Registers

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. We are pleased to note that a very comprehensive register is in existence incorporating detail of acquisition date (where known), asset and description, location, purchase cost and any further relevant notes. We are also pleased to acknowledge the Council's compliance this year with extant Annual Return reporting requirements with the total asset value recorded at cost updated from the prior year to reflect new acquisitions and disposals.

A number of our clients have also developed photographic registers of their assets, which has proved of assistance in progressing any insurance claims where assets have either been stolen or vandalised. We consider this a further example of best practice and commend it to the Council for future consideration. Whilst we note the existence of such a register, we understand that it has not been updated since 2014 and suggest that a further review and, if appropriate update should be undertaken in due course.

Conclusions and recommendation

R5. Consideration should be given to the review and, if appropriate, periodic update of the Council's photographic register of its asset stock.

Investments and Loans

The Council has no funds invested: similarly, the Council has no loans either repayable by or to it.

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 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 Report in the year's Return assigning positive assurances in all areas.

Rec. No.	Recommendation	Response
Review of Accounting Arrangements and Bank Reconciliations		
R1	Payments should be entered on the accounting software on the date that cheques are drawn, whilst standing orders and direct debits should be entered with the date the transaction appears on bank statements.	
R2	As indicated in the body of the report, correcting journals and split payments should be annotated appropriately to indicate their nature and to assist ease of identification in reports.	
Review of Expenditure and VAT		
R3	In order to provide appropriate evidence of members' effective discharge of their fiduciary responsibilities and further protect the Clerk and the Clerk's Assistant, members should evidence their approval of each and every payment as appropriate for release initialling the invoices accordingly: ideally, a rubber stamp containing the information, as set out in the body of the report, should be acquired and be affixed to each and every invoice.	
Assessment and Management of Risk		
R4	The Council should consider acquiring the LCRS risk management software to further enhance existing registers.	
Asset Registers		
R5	Consideration should be given to the review and, if appropriate, periodic update of the Council's photographic register of its asset stock.	