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Internal Audit for Llangan Community Council

Year Ending 31st March 2019

I would like to thank members for appointing me as Internal Auditor for 2018/19. I note from the Minutes, and from conversations with Cllr Brookes and the Clerk, Mr Kevin Protheroe, that it has been an eventful year with the initial Clerk, Mrs Jo Howell, resigning; the appointment of Mr Protheroe as the new Clerk; his subsequent illness; the interim Clerk's role undertaken by Cllr Louise Brookes and, thankfully, the recovery and return to work of Mr Protheroe. This turbulence was bound to impact upon the comprehensive nature of the record keeping that I have experienced over the last two years as your Internal Auditor. Nevertheless, I am grateful to the combined efforts of all those involved in attempting to facilitate my task.

This Council, like most small Councils, has the issue of a segregation of duties. However, the Clerks have maintained detailed records and it is evident from the records presented to me that the Council is made aware of the financial situation at each meeting and that this is recorded in both the Minutes and the Clerk's report. I am therefore satisfied that there are enough controls in place to mitigate the risk. In addition, there were only 44 payments made for the entire year representing less than 4 each month, which allows for more careful and closer scrutiny.

In conclusion, I have performed the Internal Audit for the year ending 31st March 2019 and I agree compliance with all of the tests for internal audit within the Annual Return.

I have outlined below the work that I have performed for each test and my conclusion:

1 Appropriate books of account have been properly kept throughout the year.

The Clerks have kept comprehensive books of account by way of a Microsoft Excel spreadsheet. These spreadsheets are, in the main, supported by hard copy invoices in respect of payments made; although only the first three hard copy receipts, which support payments received during the year, were present. It is not surprising, given the turmoil surrounding the availability of a Clerk during the year, that some invoices were missing. There was a total of eight hard invoices missing, including one for £15,304.50p, although there was evidence to support the payments in the cheque stubs, the bank statements and the Minutes. One of the payments, a grant made in December 2018, remained uncashed at the end of the year and so also did not have the support of the bank statements. Nevertheless, I would expect the Clerk, now recovered from his illness, to ensure this does not reoccur. There was no paperwork for receipts after the first three of the financial year. This suggests an oversight or ignorance of correct procedures on behalf of the temporary Clerk.

Nevertheless, the Clerks reported all payments and receipts on a monthly basis to Council through the Clerk's report and these details are reflected in the subsequent Minutes.

I am satisfied that the appropriate books exist and have been kept properly throughout the year. The lack of most of the hard copy receipts and certain hard copy payments invoices, I regard as an unfortunate consequence of the resignation of one Clerk, the sudden incapacitation of her successor and the confusion this has caused.

2 Financial Regulations have been met, payments were supported by invoices, expenditure was approved and VAT was appropriately accounted for

The Council considered revisions to the Financial Regulations during their Annual General Meeting on Tuesday 1st May 2018. The council resolved to slightly amend the Financial Regulations as they stood, introducing the necessity for two quotes for projects costing less than £500 and three quotes for projects costing from £500 - £3,000.

In my internal audit of 2018, I suggested the use of electronic bank payments be considered annually, although Council had, up till then, taken the view that the dearth of transactions, during the course of a year, made this change unnecessary. I see no reference to this, in the Minutes of the AGM, as to whether this was discussed and recommend this matter be given consideration during the AGM and the decision of the Council be minuted. In addition, I note that the use of electronic banking would have been appropriate with the last payment made during the Financial Year where a sizeable cheque, for £10,735.96 was lost in the post necessitating the issuing of a duplicate cheque. Incidentally I also note that the VAT on this item, amounting to £1,789.33p. according to the invoice, has not been included within the Cash Book or been the subject of a claim to HMRC. This could be because of match funding issues and I recommend that the Clerk looks into this soonest.

With regards to payments made I am satisfied that the invoices properly supported the majority of payments. These payments were made by cheque and it is pleasing to note that the two Councillors who signed the cheques never failed to initial the cheque stubs as well. With regard to the Clerk's salary, the record of hours and expenses is signed by both the Clerk and the Chairman. Furthermore the cheques signed for the Clerk's salary and expenses demonstrate the additional control by way of the two cheque signatories on the cheque.

VAT is shown in the cashbook both within the payments section and the receipts and these suggest an imbalance over the year with £445.26p being paid out against £135.82 being claimed. The only claim was made in August 2018 and the VAT paid prior to this date only amounted to £122.42. Unfortunately, there was no copy of the relevant VAT 126 claim form with the papers. Once again I attribute this uncharacteristic lapse to the disorder caused by Clerk's absence owing to illness.

Other than the preceding points, I am satisfied that the Council has met this requirement.

3 The body assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.

A Risk Register is in place having been formally adopted at the 2016 AGM. It is evident, from the Minutes of the 2018 AGM, that the Risk Register was reviewed by Council, along with standing orders, financial regulations (see paragraph 2 ante), code of conduct, privacy documents, complaints procedure, expense policy, local resolution protocol, social media policy, Welsh language scheme and Freedom of Information Act model publication scheme. Other than the amendment to the Financial Regulations they were all approved as they stand.

I am satisfied that the Council has met this requirement.

4 The annual precept/levy/resource demand requirement resulted from an adequate budgetary process, progress against the budget was regularly monitored, and reserves were appropriate.

The precept for 2018/19 remained the same as for the previous three financial years, at £10,260. It is noted from the December 2018 Minutes that the proposed budget circulated prior to the meeting was reviewed and discussed and it was resolved to accept the budget proposed for 2019/20, as remaining at £10,260.

I note that in, both, my 2017 and 2018 Internal Audit I commented on the reserves increasing, indicating that anticipated expenditure had not occurred or had been delayed and suggested it would be preferable to specify dedicated reserves, rather than allow the general fund to increase. I suggested Council should consider the level of reserves as part of their discussions for the budgetary requirements for 2018/19 and I was pleased to note that this was done and reported upon in the Minutes of the meeting held on 9th January 2018. However, the meeting of December 2018 made no reference to the reserves. The year-end figures suggest that the reserves have leapt from £15,767 at 31st March 2018 to £35,757 on 31st March 2019. However the Clerk has advised me that about £25,000 of the total balance at 31st March 2019 should have been specifically reserved for the Llangan Community Broadband project and Llangan Community Hall extension. This would reduce the balance at the year end to about £10,000 which would bring it line within the Wales Audit Office recommendation of between 25 – 100% of the annual expenditure to be held in unspecified reserves. I would recommend that the Council makes clear, within the quarterly budget review, what reserves exist for specific projects.

I am happy that the Council has satisfactorily met this test

5. Expected income was fully received, based on correct prices, properly recorded and promptly banked, and VAT was appropriately accounted for.

The Council's income for 2017/18 came from four sources. The precept accounted for just 17.5% (59% in 2017/18), grants for 82% (38% in 2017/18) and VAT refunds and a donation accounted for the remaining 0.5% (3% in 2017/18). Only the first three receipts were supported by hard copy documentation, as previously reported, and were mostly paid by bank

transfer directly into the council's Bank Account, although a few were paid in by cheque or cash.

There were only 13 receipts received during the year, 3 of which were the precept, 8 from grants, 1 donation and 1 VAT repayment. There was no VAT on income.

I recommend that the Clerk ensures that all income is accompanied by appropriate paperwork and, despite this lapse, I am happy that the Council has satisfactorily met this test

6. Petty cash payments were properly supported by receipts, expenditure was approved and VAT appropriately accounted for.

The Council does not use petty cash and therefore this test does not apply.

7. Salaries to employees and allowances to members were paid in accordance with minuted approvals, and PAYE and NI requirements were properly applied.

The Clerk is normally paid an hourly rate and the number of hours worked each month varies. It has been impossible to generalise this year on the Clerk's hours as the disruption to the Council, caused by the absence of a Clerk, has impacted heavily on this analysis.

It was noted, from the 2018 AGM, that Council decided to increase the Clerks hourly rate to SCP 29, although the new Clerk's hourly rate according to his contract, has been set at SCP??. The new Clerk has continued the methodology adopted by his predecessor insofar as he submits a signed claim form that is authorised by the Chair. This is paid by cheque which requires authorisation by two Councillors. The details of the amounts paid are included in the Clerk's Report, made each month to the Council, as well as a reference in the corresponding Minutes.

Staff Costs for the year to 31 March 2019 rose by 5.5% although the new Clerks lower rate will negate this increase over the current financial year.

I am satisfied that the Clerk's salary was paid in accordance with minuted Council approval.

8. Asset and investment registers were complete, accurate and properly maintained.

The asset register records one addition during the year, a Noticeboard for Treoes. The addition only represents a 0.25% increase in the assets register.

I am satisfied that the asset register is complete, accurate and properly maintained.

9. Periodic and year-end bank account reconciliations were properly carried out

The Clerk normally prepares quarterly bank reconciliations in Excel and these were included with the spreadsheet. Last year hard copies were signed by an appointed Councillor and included with the Bank Statements. Unfortunately, the chaos caused by the Clerk's incapacitation meant that this did not happen this year although all Bank Statements have

been initialled as being checked. The Clerk informs the Council every month of the Bank Balance in the Clerk's Report and on a quarterly basis should advise Council that a Councillor has been sent the bank reconciliation, as well as a review of the quarterly budget analysis. The Minutes for the July 2018 meeting record that this occurred, although the Minutes for October 2018 & January 2019 meeting do not show this reoccurred.

Once again I feel that the confusion, as to the proper procedures, prevented the normal protocols being carried out. However, I am satisfied that bank account reconciliations were carried out.

10. Accounting statements prepared during the year were prepared on the correct accounting basis, agreed with the cashbook, were supported by an adequate audit trails from underlying records, and where appropriate, debtors and creditors were properly recorded.

The Council prepares their Accounting statements on a receipts and payments basis which is appropriate for the size of the Council. There was an audit trail supporting most of the amounts in the Cashbook.

Debtors and creditors were not recorded, as they are not required when the receipts and payments method is used.

I am satisfied that this test has been met.

11. Trust funds

Not applicable

Conclusion

This Internal Audit has highlighted how much a Community Council relies on their Clerk and the absence of the Clerk for a large proportion of the year owing to illness, resulted in records being lost, compromised or not produced. I am sure that this occurred because of ignorance of correct procedures and that there are no untoward interpretations to be drawn. I am also equally sure that with the Clerk now recovered and back in harness, the errors of this year will not be repeated. As a consequence, I am able to confirm all of the requirements in the Annual Return for Internal Audit have been met and have signed off the relevant section as evidence of this conclusion.

H A Davies