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**Internal Audit for Llangan Community Council**

**Year Ending 31st March 2020**

I would like to thank members for appointing me as Internal Auditor for 2019/20. I note from the Minutes, and from conversations with the Clerk, Mr Kevin Protheroe, that it has, thankfully, not been as an eventful year as the previous year. Nevertheless, this financial year has ended with its own complications, in the form of the Corona virus, and the subsequent lockdown of businesses and organisations; as well as curbing the freedom of movement of the majority of the Country. This has manifested itself in the postponement or cancellation of Council meetings and will clearly impact on the current financial year 1920/21. Despite all this, it is pleasing to note that a more comprehensive nature of the record keeping was kept than the previous year and this has helped my task.

This Council, like most small Councils, has the issue of a segregation of duties. However, the Clerk has 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. There were 64 entries in the payments column of the cash book this year of which seven were cancelled cheques and 11 were £3 debit payments to HSBC Bank for Statement frequency. Deducting these items, left 46 actual payments made, an increase of only 2 on last year, and representing less than 4 each month. This allows for more careful and closer scrutiny.

In conclusion, I have performed the Internal Audit for the year ending 31st March 2020 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 Clerk has 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. In fact, the supporting paperwork was, in some cases, superfluous to needs, whereas in respect of the receipts there was a dearth of supporting paperwork.

However, the Clerk 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.

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

At the Council AGM held on 11th June 2019, the Council reviewed and adopted the existing Standing Orders, Councillors’ Expenses Policy, Code of Conduct, Risk Management Policy, Welsh Language Policy, Use of Social Media Policy, Concerns and Complaints Policy and Financial Regulations.

The Council implemented the amendment to the Financial Regulations agreed at the 2019 AGM, requiring two quotes for projects costing less than £500 and three quotes for projects costing from £500 - £3,000.

In my previous internal audits, I have recommended that Council consider, at the very least annually, the introduction of electronic bank payments. Council has, in the past, taken the view that the dearth of transactions, during the course of a year, made this change unnecessary. I saw no reference to this recommendation in either the Minutes of the 2018 or the 2019 AGMs, as to whether this was discussed. This was despite the Council Minute in the 2019 AGM of the acceptance the internal audit and, presumably, the recommendations contained therein. This matter should be considered annually and as the use of cheques diminish and the Banks continue to close local branches, this may be forced on Council sooner rather than later. I repeat my recommendation that this is given serious annual consideration at the AGM and any resolution Minuted.

With regards to payments made I am satisfied that the invoices properly supported the 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 amounts to £7,975.92, from 11 transactions. The receipts show three claims made amounting to

£10,262.09p suggesting an imbalance over the year; with £2,286.17p more, being received from VAT claims, than was paid out in the first place. I did note, in last year’s internal audit; an imbalance the other way, and upon checking the previous year’s cash-book I can see that the apparent imbalance relates to VAT paid in the previous financial year; although not reclaimed until 2019/20.

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 2019 AGM, that the Risk Register was reviewed by Council, along with other Council policies (see paragraph 2 ante). 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 2019/20 remained the same as for the previous four financial years, at £10,260. It is noted from the February 2020 Minutes that the proposed budget circulated prior to the meeting was reviewed and discussed and it was proposed to increase the budget for 2020/21 by 5% to £10,773.

I have previously commented on the reserves, concluding that the balance at the year-end of some £10,000 brought it line within the Wales Audit Office recommendation of between 25 – 100% of the annual expenditure to be held in unspecified reserves. I note that the balance at the end of year has reduced from the 2019 balance by over £12,000 and it is pleasing that unspecified reserves continue to be within the guidelines. I would recommend that the Council continues to make 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 2019/20 came from four sources. The precept accounted for just 15.7% (17.5% in 2018/19 & 59% in 2017/18), grants for 63.5% (82% in 2018/19 & 38% in 2017/18) and VAT refunds (15.7%), Wind Turbine Community Grant (3.8%) and a Creative Rural Communities Grant (1.3%). The receipts were unsupported by hard copy documentation, although all appeared to be paid by bank transfer directly into the Council's Bank Account.

There were only 16 receipts received during the year, 3 of which were the precept, 7 from grants in respect of the extension to Llangan Village Hall, 1 grant in respect of a Wind Turbine, 1 grant from Creative Rural Communities, 1 refund of an overpayment and 3 VAT repayments. There was no VAT on income.

I recommend that the Clerk ensures that all income is accompanied by appropriate paperwork and, despite this omission, 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. He receives his salary every quarter.

It was noted, from the 2019 AGM, that Council decided to increase the Clerks hourly rate, to Scale 11. The Clerk submits a signed salary claim form, which is authorised by the Chair. The salary claim 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 12%, although the Clerks salary accounted for only 44% of these costs.

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 has had no additions during the year.

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 prepared quarterly bank reconciliations in Excel and a final end of year Bank Reconciliation. There was evidence of hard copies, signed by an appointed Councillor. The Clerk informs the Council every month of the Bank Balance in the Clerk’s Report and on a quarterly basis advises Council that a Councillor has been sent the bank reconciliation, as well as a review of the quarterly budget analysis.

I am satisfied that periodic and year-end reconciliations were properly 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 all of the payments and receipts in the Cashbook, as well as references within the Minutes and on the Bank Statements.

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 fully.

**11. Trust funds**

Not applicable

**Recommendations & Conclusion**

This Internal Audit has seen improvements in some areas over the previous year which was blighted by the absence of the Clerk for a large proportion of the year owing to illness.

I am satisfied that the transactions carried out were properly recorded in the Minutes and, as far as payments were concerned, also had supporting documentation. 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**