
Magor with Undy Community Council

Cyngor Cymuned Magwr A Gwyndy

Internal Audit Report: 2019-20

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Consultant Auditor

*For and on behalf of
Auditing Solutions Ltd*

Background

All town, parish & community councils are required by statute 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 Governance & Accountability Return (AGAR). Auditing Solutions Ltd has been appointed to provide this service effective from the 2018-19 financial year.

This report sets out the work undertaken in relation to that financial year, both in advance of and during our visit on 27th November 2019, together with the matters arising and recommendations for action, where appropriate.

Internal Audit Approach

In undertaking our review, we have had regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts/AGAR. We have employed a combination of selective sampling techniques (where appropriate) and 100% detailed checks in other key areas.

Our programme of cover is designed to afford appropriate assurance that the Council's financial systems are 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 statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Annual 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, on the basis of the programme of work we have undertaken, the Council has maintained generally adequate and effective internal control arrangements.

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

We are able to record that, in the areas examined, no major issues or concerns have been identified and that we consider the Council continue to operate generally effective control procedures in each relevant area: we also wish to commend the Clerk and her Assistant for the clear and professional manner in which the accounts and other documentation was presented for our examination.

We note that the Council is currently under investigation by the Welsh office, which has now conducted two on-site audits pertaining to alleged non-conformity issues between the Councils Financial Regulations, Standing Orders and its procedures. Resultantly, the External Auditor's reports and certificates for the 2017-18 and 2018-19 financial years were still outstanding as of the 30th November 2019. The Clerk is monitoring the position with the Welsh Office and is providing assistance as required. We shall review this situation during the final review at the Year End Audit.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

Our objective here is to ensure that the accounting records are being maintained accurately and currently and no anomalous entries appear in the financial ledgers. Although the Rialtas Alpha Accounts Software has been acquired and implemented, the Clerk continues to maintain the 2019-20 accounting records in spreadsheet format.

We have advised the Clerk and her assistant that all records must now be entered onto Rialtas Alpha in order to ensure that the production of cashbooks, bank reconciliations, budget reports and year-end data for the automatic production of the Annual Return is available to the Council.

We note that the Council now operates only 2 bank accounts with Barclays, a Current and Reserve account. The seven ancillary accounts were closed in July 2019, confirmed by Minutes and original documentation, and surplus funds returned to the General Reserve (Current Account).

In order to ensure the appropriateness of financial data recording and validate the values to be reported in the 2019-20 Annual Return, we have: -

- Noted that the External Auditor has yet to sign off the 2017-18, and 2018-19 Annual Returns and that the Welsh Office has conducted two on-site investigations;
- Verified the accuracy of the opening trial balances for 2019-20 with detail recorded in the 2018-19 combined year-end bank reconciliation;
- Noted that periodic manual bank reconciliations continue to be undertaken which are subject to the scrutiny of Members;
- Verified the accounting transactions recorded in the spreadsheet cashbook by reference to supporting bank statements for the full financial year to the 27th November 2019;
- Ensured that an appropriate analysis of receipts and payments is maintained by the clerk to facilitate monitoring of performance against the approved budget; and,
- Noted that the Council has appropriate software back-up arrangements in place through Microshade and secure Cloud based storage.

Conclusions and recommendations

There are no significant matters arising in this area of our review, however, we make two recommendations in relation to the use of RBS Rialtas Alpha accounting software as noted above.

R1. It is imperative that the Council moves from the spreadsheet based records system to Rialtas Alpha with immediate effect to ensure that it gains maximum advantage from its investment in the product, both in terms of time and cost savings, and also to provide a fully automated and auditable process of generating the Annual Return accounting information.

R2. Additional hours should be set aside to the Administration Assistant or other suitable person to upload the Council's Supplier and financial data, ensuring that each month is entered accurately, with Bank Reconciliations, Trial Balance and Cashbooks produced for each month. It is estimated that this work should take no more than three working days.

Review of Corporate Governance

Our objective here is to ensure that the Council has a robust series of corporate governance documentation 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.

We note that the Council has again reviewed and most recently readopted its Standing Orders (SOs) and Financial Regulations (FRs) at the Annual Meeting of the Community Council in May 2019. We note that, as per our prior year recommendation, the model documents have been revised to comply with the prevailing EU / Public Contracts legislation which requires the tender process to be triggered for all projects in excess of £25,000.

We take this opportunity to remind the Clerk and Members that the prevailing EU Legislation requires all projects in excess of £25,000 to be advertised formally on the Government's Contract Finder website and, in compliance with the Financial Regulations, that no project may be undertaken without full funding being in place prior to the Project commencing.

We note that all payment documents sampled had been properly scrutinised by members and had been duly initialled.

As mentioned in the prior year Internal Audit report, the award of Grant Aid is reliant on the statutory powers available to the Council. In reviewing minutes, we noted that the Council has approved the award of Grant Aid in the amount of £1,000 to Air Ambulance Wales. As the Air Ambulance Wales is both a National Charity with no foot-print in the constituency, a Medical Service, and according according to its accounts provided in support of its application for Grant Aid had over £2.9 million held on reserve at the time of requesting aid the award should not have been made:

The subject of awarding Grant Aid is complex because the Council is redistributing their constituents' Tax Pounds to what it considers to be causes that will benefit some or all of its constituents. It is therefore extremely important that the tax derived funding in the Council's possession is not redistributed to organisations that are already in receipt of tax funding, i.e., double taxation, organisations that some of the constituency might object to on political or theological grounds, or organisations which may have services available to constituents but do not necessarily provide these on a regular or ongoing basis and are not based in the constituency, i.e., Air Ambulance, Cancer Research, etc.,

When the Clerk and Members consider Grant Aid applications, they should first consider if the applicant organisation belongs in one of the prohibited categories listed below and then consider how the award of Grant Aid, to that applicant organisation, would benefit local taxpayers and constituents.

When reviewing grant applications, the Clerk and Members must first decide whether the applicant falls into one of the categories to which the award of Grant Aid is prohibited. These are as follows:-

- ***Grants to Individuals***
- ***Grants to General Appeals or National/Large Charities, i.e. Cancer Research, Children in Need, etc., with no local i.e. 'on-the-ground' footprint in the constituency***

- *Statutory organisations or the direct replacement of statutory funding, i.e. Government Funded NGOs*
- *Government organisations or the direct replacement of Government funding, i.e. Schools, Emergency Services, Ministry of Defence organisations, the NHS, etc.,*
- *Activities or organisations promoting political beliefs, i.e., Extinction Rebellion, Greenpeace, etc.,*
- *Activities or organisations promoting religious beliefs, i.e., Churches, Mosques, Gurdwaras, etc.,*
- *Overseas travel*
- *Arts projects with no direct constituency or charitable element*
- *Sports projects with no direct constituency or charitable element*
- *Medical research, services, equipment or treatment (except community defibrillators)*
- *Animal Welfare organisations or charities, i.e., Cats Protection League, Dogs Trust, etc.,*

Council's award Grant Aid using Statutory Powers and should only use the Local Government Act 1972 S.137 Power as the Power of last resort. If another Power is available, then the award of Grant Aid must be made using that Power. The Power under which each grant is awarded must be formally recorded in the Council's Minutes.

Finally, in this area of our review we are advised by the Clerk that in her absence, a Member was given permission to change the password on the Council's 'Survey Monkey' account. However, the now ex-Member not only changed the password, but also changed the account ownership details and e-mail contact so that the Council is locked out of this account. We are further advised by the Clerk that as her Credit Card had been used to set up this account, payments have been taken, without her permission, from her personal credit card and Survey Monkey has been requested to confirm whether the notification of such payments being taken have been sent to the ex-Member's private e-mail account or to any other e-mail account.

As the ex-Member was given permission to change the password to the account, but not any of the account details, this may be considered as unauthorised access and unauthorised modification of the Council's account.

Conclusions and recommendations

We have, as indicated above, identified an issue when awarding Grant Aid. Appropriate action should be taken to ensure compliance with the Council's approved regulatory framework, as detailed in the following recommendations.

It is deeply concerning that a software tool, which is used to run referenda on behalf of the Council is no longer in the Council's control. We advise the Council to take all necessary steps to regain control of this account with immediate effect.

- R3. *The Clerk and Council should give formal consideration to the eligibility of the Grant Aid Applicant prior to considering the Grant Aid application, ensuring that the Applicant does not fall into one of the prohibited categories listed.*
- R4. *The Clerk must advise members of which Statutory Power may be used to make the award of Grant Aid under, remembering that the Local Government Act, 1972 S.137 may only be used as the Power of last resort, where no other power is available to make the award of the Grant Aid.*

R5. *The Clerk should draft a letter for the Chair, with immediate effect, to formally request the ex-Member return control of the Council's 'Survey Monkey' account forthwith. If the ex-Member refuses to return control of the account to the Council, legal advice should be sought.*

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 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;
- Invoices are scrutinised and appropriately "signed-off" by members signing cheques or authorising payments by other means;
- The correct expenditure analysis has been applied to invoices when processed; and,
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We note that the majority of payments continue to be processed by cheque signed by two authorised members, together with a few regular direct debits and monthly salaries paid by on-line transfer.

We have reviewed all payments processed during the financial year from the 1st April to the 31st October 2019 ensuring compliance with the above criteria. We note that cheque signatories, are now initialling payment documents routinely.

We note that two VAT returns have been submitted to the HMRC in the current financial year. The first for the 2018-19 financial year, submitted on the 25th September 2019 in the amount of £4,508.69 and the second for the period of the 1st April 2019 to the 30th September 201 in the amount of £1,767.88 submitted on the 18th November 2019.

The implementation of the RBS Alpha software will simplify the process and help ensure compliance with HMRC on-line submission requirements, enabling returns to be submitted at regular quarterly intervals to ensure further maximisation of the Council's interest earning opportunities.

Conclusions

There are no matters arising in this area of our review warranting formal comment. However, as discussed with the Clerk/RFO, we have been made aware of a special Council's Barclay Card scheme which has been negotiated by the Welsh Assembly. This allows a Council to obtain a Barclaycard with no Annual charges or processing fees and upon which the Council may receive cash rebates for payments made using the card. We suggest that the Council avails itself of this service, which would deliver better value for money when making internet or ad-hoc purchases. Details of the scheme can be obtained from Janet Reed, Barclaycard Commercial Payments, Senior Account Development Manager Telephone 07468 714862, Email: Janet.Reed@barclaycard.co.uk

We shall undertake further work in this area during our final review of the year. including checking at least one further month's transactions and verifying the accuracy of the year-end bank reconciliations and ensuring the accurate disclosure of the year-end combined cash and bank balances in the year's Annual Return.

However, we take this opportunity to make two recommendations:

- R6. *To ensure that neither the Clerk, nor Members need to utilise their own Credit Cards to make purchases on behalf of the Council and submit these as expense claims for repayment, we recommend that the Council avail itself of the new Council's credit card with Barclays Bank, which has been negotiated by the Welsh Assembly. The card has no annual fee, and a percentage of all purchase is repaid to the Council annually thus reducing the cost of purchase.*
- R7. *The Council should consider moving towards making all payments electronically, both as a security and a cost saving measure.*

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 have: -

- Noted that the Council used the services of One Voice Wales to assist in the risk management process during 2018-19;
- Noted the existence of a comprehensive assessment of the potential financial and political risks facing the Council, which is currently under review, although we note that the Council's Risk Assessments were presented to the Full Council at the Annual Meeting on the 20th May 2019, under Minute Reference 9.4, however Members deferred the issue. Members are reminded that they are required to formally readopt the Council's Risk Register(s) at least once, annually, and the Resolution for readoption to be recorded in the Council's Minutes;
- Noted that regular monthly inspections of the Council's play areas are undertaken by the parent Council together with an annual RoSPA based review: the resultant reports are duly filed and acted on appropriately; and
- Examined the Council's extant insurance policy with Zurich Insurance to ensure that appropriate cover is in place, noting that Employer's and Public Liability cover are in place at £10 million and £12 million respectively, together with Fidelity Guarantee cover at £250,000, all of which we consider appropriate for the Council's current requirements.

Conclusions and recommendation

There are no matters arising in this area of our review warranting formal comment, however, we take this opportunity to remind the Clerk and Members that both the Governance and Accountability Manual – The Practitioner's Guide and the Annual Return require that Councils' review and formally readopt their Risk Assessments "at least once annually" and for that readoption to be formally recorded in the Council's minutes.

R8. Risk registers should be subject to annual review, update (where appropriate) and formal re-adoption by the Council at least once annually.

Budgetary Control and Reserves

In this area of review, we are seeking to confirm that the Council has determined its annual budget based on sound assumptions of intended spending, that sufficient funds are available to meet future spending plans and that members are kept aware of actual budgetary performance during the course of the financial year. We also seek to assess the adequacy of retained reserves, be they in respect of specific earmarked funds or the General Fund and note that: -.

- The Budget setting and Precept determination process is currently ongoing with the expectation that the Budget and Precept will be Approved and Adopted at the January meeting of the Full Community Council. (The Budget and Precept for the 2019-20 financial year were Approved at the January 2019 meeting of the Community Council, with the latter set at £200,540);
- The Council continues to receive regular management reports updating them on the financial position throughout the year; and,
- As indicated earlier in this report, specific funds are set aside in specific earmarked reserves.

Conclusion

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

Review of Income

Our objective here is to ensure that appropriate records are maintained to ensure that all income due to the Council is identified, invoiced accordingly, and recovered within an appropriate time scale. In addition to the Precept the Council receives supplementary income from very limited areas, including allotment rents, wayleaves and occasional hire of the tennis courts, together with bank interest and recoverable VAT.

We understand that a formal review of rents, fees, etc., is taking place as part of the Budget setting and precept determination process.

We note that Allotment rents fall due on 1st August annually and that all outstanding rents have been collected. A blank copy of the Allotment tenancy agreement has been reviewed and deemed suitable for the Council's needs.

We noted in our prior year report that the tennis courts are generally available for free use by the public, although use of floodlights requires the purchase of tokens to switch them on. We advised the clerk that such casual usage should strictly be considered a vatable service and suggested that, in view of the minimal income arising, HMRC may waive the VAT requirement and suggested that she should seek **formal** agreement from HMRC that no VAT is required to be charged in view of the level of income. We note that no agreement has been sought.

We are also advised that there is no formal licence agreement in place with the local Tennis Club for the use of the Tennis Courts.

Conclusions

We recommend, as in our prior year report a formal agreement be obtained from HMRC that, in view of the low volume of income received, VAT charges may be waived. Further, the Clerk should arrange for a formal licence agreement to be drafted in relation to the use of the tennis courts by the local Tennis Club.

R9. The Clerk should arrange for a formal licence agreement to be drafted in relation to the use of the tennis courts by the local Tennis Club.

Petty Cash Account

The Council does not operate a petty cash account, any casual expenses incurred by officers being reimbursed periodically through the usual invoicing process on production of supporting invoices, etc.

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 HM Revenue 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 most recently further revised effective from 1st April 2017.

To meet the above objectives, we have: -

- Acquired detail of the five staff members in post during 2019-20 and ensured that the gross salaries payable in April 2019 were in accord with those details;
- Noted that the payroll has been outsourced to Chepstow Accounting Services (CAS);
- Noted that the Administration Assistant has now been provided with a contract of employment;
- Verified the accurate calculation and deduction of income tax, NI deductions and contributions, together with pension deductions and contributions for this staff contributing to the LG pension scheme; and,
- Verified the accurate payment over of staff salary costs routinely throughout the year to HMRC and the pension fund administrators.

Conclusions

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

Investments and Loans

We aim here to ensure that the Council has appropriate investment and borrowing strategies in place and that the most advantageous interest rates are being obtained.

We note that the Council's Investment Strategy was readopted for the 2019-20 financial year at the Annual Meeting of the Community Council in May, in accordance with the guidance issued by the National Assembly for Wales. No formal investments are held, surplus funds being held in a Barclays Bank deposit account.

Loans are in existence with the PWLB, repayable half-yearly: we have verified the first of two repayments made in 2019-20 by reference to the PWLB loan repayment requests.

Conclusions

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

Rec. No.	Recommendations	Response
Review of Accounting Arrangements and Bank Reconciliations.		
R1	It is imperative that the Council moves from the spreadsheet based records system to Rialtas Alpha with immediate effect to ensure that it gains maximum advantage from its investment in the product, both in terms of time and cost savings, and also to provide a fully automated and auditable process of generating the Annual Return accounting information.	
R2	Additional hours should be set aside to the Administration Assistant or other suitable person to upload the Council's Supplier and financial data, ensuring that each month is entered accurately, with Bank Reconciliations, Trial Balance and Cashbooks produced for each month. It is estimated that this work should take no more than three working days.	
Review of Corporate Governance		
R3	The Clerk and Council should give formal consideration to the eligibility of the Grant Aid Applicant prior to considering the Grant Aid application, ensuring that the Applicant does not fall into one of the prohibited categories listed.	
R4	The Clerk must advise members of which Statutory Power may be used to make the award of Grant Aid under, remembering that the Local Government Act, 1972 S.137 may only be used as the Power of last resort, where no other power is available to make the award of the Grant Aid.	
R5	The Clerk should draft a letter for the Chair, with immediate effect, to formally request the ex-Member return control of the Council's 'Survey Monkey' account forthwith. If the ex-Member refuses to return control of the account to the Council, legal advice should be sought.	
Review of Expenditure & VAT		
R6	To ensure that neither the Clerk, nor Members need to utilise their own Credit Cards to make purchases on behalf of the Council and submit these as expense claims for repayment, we recommend that the Council avail itself of the new Council's credit card with Barclays Bank, which has been negotiated by the Welsh Assembly. The card has no annual fee, and a percentage of all purchase is repaid to the Council annually thus reducing the cost of purchase.	
R7	The Council should consider moving towards making all payments electronically, both as a security and a cost saving measure.	

Assessment and Management of Risk

R8 Risk registers should be subject to annual review, update (where appropriate) and formal re-adoption by the Council at least once annually.

Review of Income

R9 The Clerk should arrange for a formal licence agreement to be drafted in relation to the use of the tennis courts by the local Tennis Club.
