
Magor with Undy Community Council

Cyngor Cymuned Magwr A Gwyndy

Internal Audit Report: 2018-19

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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 2018-19.

This report sets out the work undertaken in relation to that financial year, both in advance of and during our visit on 16th April 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 AGAR, 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 2017-18 has still to be signed off by the external auditors and have identified one inconsistency in the financial information contained therein when compared with information reported in previous years' Returns. The Clerk is pursuing the position with the external auditors and, once clarification of the position has been confirmed, will finalise the data for inclusion in the 2018-19 Return, following which we will sign off the IA Certificate in the year's Return.

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. The Clerk has maintained the records for 2018-19 in spreadsheet format, although we note that the RBS Rialtas Alpha software has been acquired and will be implemented for 2019-20. We consider this a positive step as the software will afford ease of data entry and the production of cashbooks, bank reconciliations, budget reports and year-end data for inclusion in the AGAR at the press of a few keys.

We note that the Council has 9 bank accounts in place with Barclays with the Current account the only one in day-to-day use: we understand that the others were established to retain funds set aside for specific projects. Whilst not a cause for any concern, we do not consider that any real benefit is achieved by such a diversification of the accounts and could in fact have the effect of reducing the level of interest that the Council may receive were the funds held in a single “investment / deposit” account. The RBS software will allow the establishment / identification of specific individual reserves without the need for the funds to be held in separate accounts/

As this is the first year of our appointment and in order to ensure the appropriateness of financial data recording and validate the values to be reported in the 2018-19 AGAR, we have: -

- Noted that the External Auditor has yet to sign off the 2017-18 AGAR;
- Verified the accuracy of the opening trial balances for 2018-19 with detail recorded in the 2017-18 combined year-end bank reconciliation noting the oversight of interest earned in 2017-18 on one of the earmarked reserve fund accounts: the clerk was already aware of this and has made an appropriate adjustment in the accounting records;
- Verified the accounting transactions recorded in the spreadsheet cashbook by reference to supporting bank statements for the full financial year;
- Verified the accuracy of the combined year-end bank reconciliation on all accounts, noting that the clerk completes similar reconciliations at the close of each month with detail reported regularly to members: we have seen no indication that a nominated member has undertaken and / or evidenced examination of these detailed bank reconciliations as required by the Council’s Financial Regulations (Para 2.2 refers);
- 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 the Cloud.

Conclusions and recommendations

Whilst no significant concerns arise in this area, we have identified one or two areas where controls and management arrangements could and should be improved, as detailed in the following recommendations.

- R1. The Council should nominate an independent (of the cheques signing process) member to review bank reconciliations periodically (Para 2.2 of the adopted Financial Regulations refers), that review being evidenced with the reviewer’s initials / signature and date of review.*

R2. Consideration should be given to rationalising the number of bank accounts in operation, thereby potentially generating a greater rate of interest return: the RBS software to be implemented in 2019-20 will give more than adequate scope for identification of sums set aside in specific earmarked reserves.

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 adopted Standing Orders (SOs) and Financial Regulations (FRs) in April 2014 and February 2017 respectively, with both subjected to further review, amendment and re-adoption in November 2017. We have examined the content of the documents noting that both make reference to the revised EU Regulations relating to contracts promulgated in 2014 / 2015: however, both documents imply that formal contracts should be acquired only when the cost exceeds £60,000.

The EU / Public Contracts legislation requires all tenders in excess of £25,000 to be advertised formally on the Government's Contract Finder website and we consider that, for a Council the size of Magor with Undy, that value should also be applied to all contracts and be identified accordingly in the SOs and FRs.

In examining a sample of payments processed during the year (see next section of this report) we noted that at least one contract had been "signed" by the Chairman: Para 10.4 of the FRs specifically excludes members from involvement in the placement of orders or arranging contracts and **must** be observed in all circumstances.

We have reviewed the Council and Committee minutes for the financial year noting that operation of some committees ceased part way through the year. We also note that a group of members have been holding "Personnel" meetings for which no formal minutes have been taken or "published". Whilst we appreciate the potentially confidential nature of such discussions, they must be undertaken in accordance with formally constituted Terms of Reference with appropriate formal minutes prepared and marked as "Confidential" if appropriate.

In reviewing minutes, we noted that the Council has approved the payment of various grants and donations to local bodies during the year: however, the minutes do not identify the powers relied on for approval of such grants. We also noted the payment of a £3,000 grant to a local primary school for provision of IT equipment. The Council is not a statutory education authority and consequently does not have powers to provide educational equipment: we are doubtful whether Section 137 or the Power of Well Being could be applied appropriately in this scenario.

Conclusions and recommendations

We have, as indicated above, identified a few issues where members appear to have acted unilaterally and outside the Council's adopted governance framework as set out in Standing Orders and Financial Regulations. Appropriate action should be taken to ensure compliance with the Council's approved regulatory framework, as detailed in the following recommendations.

- R3. All contracts and official orders must only be instigated and signed by officers of the Council as stipulated in Section 10 of the Council's formally adopted Financial Regulations.*
- R4. All Council and Committee meetings of the Council should be conducted in accordance with the Council's governance arrangements and approved Terms of Reference for committees, with formal minutes prepared recording the discussions and resolutions arrived at.*
- R5. The level at which formal tender action is required should be reviewed and reduced to £25,000 in line with the requirements of the Public Contracts Regulations.*
- R6. The Council should give formal consideration to the powers being relied on when approving grants and donations, only using the Section 137 or Power of Well Being when no other specific power exists. The Council should also note that it does not have powers to provide educational facilities.*

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 a sample of payments processed during the year examining all those paid in June, September and December 2018 and March 2019 and ensuring compliance with the above criteria.

We are pleased to note that cheque signatories, at least one of the two, generally initial the invoices paid by cheque, although those paid by Direct Debit or on-line are not routinely being initialled. In order to further strengthen control in this respect and to provide more formal assurance that members are meeting their fiduciary responsibilities, we suggest that consideration be given to the acquisition of a suitably designed rubber certification stamp to be affixed to every invoice and / or payment docket containing the following information: -

- Initials of Clerk confirming arithmetic accuracy of invoice and appropriate receipt of goods / services as invoiced
- Cheque / other payment reference number (ideally, direct debits, standing orders, etc should be allocated a unique consecutive reference number)
- Official order number, where applicable

- Date of payment
- Initials of both members authorising release of the payment and / or signing cheques

We note that, due to the clerk's sickness absence at the start of the financial year, no VAT reclaim was prepared and submitted to HMRC for 2017-18, also noting that a reclaim has now been prepared for that year and will be submitted for repayment shortly, together with a reclaim covering 2018-19. The implementation of the RBS Alpha software will simplify the process and help ensure compliance with HMRC on-line submission requirements, which become effective from October 2019: claims should ideally be submitted at regular quarterly intervals to ensure further maximisation of the Council's interest earning opportunities.

Conclusions and recommendation

We are pleased to report that no significant concerns have been identified in this review area with only one recommendation arising aimed at further strengthening the existing operative controls.

- R7. *Consideration should be given to the acquisition of a suitably designed (as indicated in the body of the report) rubber certification stamp to be placed on each and every invoice / supporting payment docket duly initialled by the Clerk and two members to evidence effective discharge of their fiduciary responsibilities.*
- R8. *Consideration should be given to the quarterly preparation and submission of VAT reclaims.*

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 has 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, although we have seen no indication in the minutes for the 2018-19 financial year that the document has been presented to and been adopted formally by the Council;
- 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 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

No issues arise in this area currently warranting formal comment or recommendation. We have, however, drawn the clerk's attention to the availability of software specifically designed for this tier of local government (Local Council Risk System – LCRS) by a company based in Scotland

(DMH Solutions). The software identifies some 500 potential individual risks that may or may not apply to a council and for them to be scored (between 0 and 3 – Not applicable to severe) for both likelihood of coming to fruition and financial / political risk, the resultant product of those two values generating an Action Plan. The software includes all or any references to legislation pertaining to the individual risks and also generates a detailed risk register of assessed risks, together with Insurance and Health / safety checklists.

We also remind the clerk that the Governance and Accountability Manual – The Practitioner’s Guide requires risk assessments to be the subject of annual review and formal re-adoption.

R9. 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 draft 2019-20 budget and precept were approved by full Council at a meeting in January 2019 with the latter set at £200,540;
- The Council continues to receive regular management reports updating them on the financial position throughout the year;
- As indicated earlier in this report, specific funds are set aside in specific earmarked reserves, each with its own bank account; and
- The Council’s total funds at the financial year-end stand at £194,700, with funds earmarked to specific projects in place totalling £100,400. The residual General Reserve balance of £94,300 equates to approximately six half months’ revenue spending, which is in line with generally recognised CiPFA guidelines of between three and six months such spending.

Conclusion

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

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 no formal review of rents, fees, etc has taken place in recent years, contrary to the requirements of the adopted Financial Regulations, paragraph 9.3 which requires that an annual review is undertaken.

We note that allotment rents fall due on 1st August annually and that, due to the clerk's sickness absence, the issue of invoices was delayed, also noting that of the 29 available plots, 5 currently remain available for letting.

We note 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 have advised the clerk that such casual usage should strictly be considered a vatable service and have 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.

Conclusions

No significant issues arise in this area warranting formal comment or recommendation, although, as indicated above, we suggest that formal agreement be obtained from HMRC that, in view of the low volume of income received, VAT charges may be waived.

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 staff in post during 2018-19 and ensured that the gross salaries payable in March 2019 were in accord with those details;
- Noted that the payroll was undertaken in house during 2018-19, but has been outsourced for the new financial year;
- Noted that the Admin Assistant appointed part way through 2018-19 has, as yet, not been provided with a formal employment contract;
- 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 and recommendation

No significant issues arise in this area currently other than reminding the Council that all employees should be provided with a formal employment contract.

R10. The Admin Assistant should be provided with a formal contract of employment as soon as is practicable.

Fixed Asset Register / Inventory

The Governance and Accountability Manual requires all Councils to prepare and maintain registers of their stock of land, buildings, vehicles, furniture and equipment. We are pleased to note that the Council continues to meet this requirement with a detailed register in place.

We have reviewed the content noting the addition of new acquisitions in the year to the register, together with the removal of a few disposals, with the asset value recorded in the AGAR duly and correctly amended.

We have also discussed with the clerk the advisability of establishing an inventory record.

Conclusions and recommendation

No significant issues arise in this area, although we have suggested that consideration be given to the establishment of a photographic register of street furniture and the like, which may ease the progression of any insurance reclaim in the event of damage or theft of such items. We have also suggested that an inventory of office equipment should be developed.

R11. Consideration should be given to the establishment of a photographic register of street furniture and the like, together with an inventory of office equipment.

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 are pleased to note the existence and re-adoption of an Investment Strategy during 2018-19 in line with the guidance issued by the National Assembly for Wales. No formal investments are held, surplus funds being held, as identified earlier in this report, in a raft of deposit accounts with Barclays.

Loans are in existence with the PWLB, repayable half-yearly: we have verified the two repayments made in 2018-19 by reference to the PWLB loan repayment requests and have also verified the value of the outstanding loan liability as at 31st March 2019 to be disclosed in the AGAR.

Conclusions

No issues arise in this area warranting formal comment or recommendation.

Statement of Accounts and AGAR

The Accounts and Audit Regulations, as amended periodically, require all councils to prepare annually a Statement of Accounts now in the form of the AGAR, which is, together with the Annual Governance Statement, subject to independent external audit examination and

certification. We have noted earlier in this report that the 2017-18 AGAR remains uncertified by the external auditors at the present time and will review the outturn at our interim visit to the Council for 2019-20.

The Council's annual turnover only requires the AGAR financial detail to be prepared and submitted in Receipts and Payments format, which has been the case up to and including the 2016-17 Return. Due to the clerk's sickness absence at the start of the 2018-19 financial year, the 2017-18 Return detail was compiled by an external contractor with the year's VAT reclaim of £5,000 recorded in the Return as a debtor.

As the 2017-18 Return has still to be signed off by the external auditors the clerk has suggested that she contact them with a view to amending the 2017-18 detail to exclude the VAT debtor and have that year's Return, together with the 2018-19 Return completed again on a Receipts and Payments basis.

The clerk has also agreed to advise us of the outcome of that conversation, once held, and will then submit the 2018-19 Return to us by post for verification of the values to be recorded and sign-off of the Internal Audit Certificate.

Conclusions

We are pleased to record that no issues arise in this area currently warranting formal comment and we will, as indicated above, sign-off the Internal Audit Certificate in the 2018-19 Return on receipt from the clerk assigning appropriate assurances and references to this report, here applicable.

| Rec. No. | Recommendations | Response |
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| Review of Accounting Arrangements and Bank Reconciliations. | | |
| R1 | The Council should nominate an independent (of the cheques signing process) member to review bank reconciliations periodically (Para 2.2 of the adopted Financial Regulations refers), that review being evidenced with the reviewer's initials / signature and date of review. | <i>19/20-10.3 RESOLVED:</i> To appoint Cllr S Raggett as the independent member to review Council's bank reconciliations periodically. |
| R2 | Consideration should be given to rationalising the number of bank accounts in operation, thereby potentially generating a greater rate of interest return: the RBS software to be implemented in 2019-20 will give more than adequate scope for identification of sums set aside in specific earmarked reserves. | <i>18/19-271.1 RESOLVED:</i> To close down individual fund accounts and transfer the funds to General Reserves |
| Review of Corporate Governance | | |
| R3 | All contracts and official orders must only be instigated and signed by officers of the Council as stipulated in Section 10 of the Council's formally adopted Financial Regulations. | <i>Noted</i> |
| R4 | All Council and Committee meetings of the Council should be conducted in accordance with the Council's governance arrangements and approved Terms of Reference for committees, with formal minutes prepared recording the discussions and resolutions arrived at. | <i>Noted</i> |
| R5 | The level at which formal tender action is required should be reviewed and reduced to £25,000 in line with the requirements of the Public Contracts Regulations. | <i>18/19-27.1 RESOLVED:</i> To note that the sum of £25,000 has been incorporated in the Council's Standing Orders and Financial Regulations due for adoption at the Annual Meeting 20.5.19 |
| R6 | The Council should give formal consideration to the powers being relied on when approving grants and donations, only using the Section 137 or Power of Well Being when no other specific power exists. The Council should also note that it does not have powers to provide educational facilities. | <i>Noted</i> |
| Review of Expenditure & VAT | | |
| R7 | Consideration should be given to the acquisition of a suitably designed (as indicated in the body of the report) rubber certification stamp to be placed on each and every invoice / supporting payment | <i>18/19-271.1 RESOLVED:</i> To note the recent implementation of a paper docket to be |

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| | docket duly initialled by the Clerk and two members to evidence effective discharge of their fiduciary responsibilities. | <i>attached to the front of each invoice and direct debit notice.</i> |
| R8 | Consideration should be given to the quarterly preparation and submission of VAT reclaims. | <u>18/19-271.1 RESOLVED:</u> <i>To note the introduction of the RBS Finance package will enable easy print off of information required to undertake quarterly preparation and submission of VAT reclaims.</i> |
| Rec. No. | Recommendations | Response |
| Assessment and Management of Risk | | |
| R9 | Risk registers should be subject to annual review, update (where appropriate) and formal re-adoption by the Council at least once annually. | <u>18/19-271.1 RESOLVED:</u> <i>To note risk registers are already in existence and reviewed by the office however, formal adoption by Council will be added to the agenda for Annual Meeting 20.5.19.</i> |
| Review of Staff Salaries | | |
| R10 | The Admin Assistant should be provided with a formal contract of employment as soon as is practicable. | <u>18/19-271.1 RESOLVED:</u> <i>To circulate members with the SLCC/OVW model contract of employment, job description and initial advert for the post of Admin Assistant for consideration at the Ordinary Meeting scheduled for 10th June 2019</i> <u>19/20-30.1 RESOLVED:</u> <i>To accept the Contract of Employment for Admin Assistant and to convene a meeting of the</i> |

Human Resources (HR) Committee at 6pm on Monday 8th July 2019 with delegated powers to agree the Job Description to be issued with the Contract of Employment

Asset Registers

R11 Consideration should be given to the establishment of a photographic register of street furniture and the like, together with an inventory of office equipment.

*18/19-271.1 **RESOLVED:** To note the office has already started to compile the above list.*
