



2020 - 2021 Internal Audit Report of Newcastle Higher Community Council

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Background

All town and community councils are required by statute to make arrangements for an independent internal audit examination of their accounting records and systems of internal control and for the conclusions to be reported each year in the Annual Return. This is the first year that KLG Internal Auditor has provided this service.

This report set out the work that undertaken in relation to the 2020 - 2021 financial year, due to the current Pandemic the Internal Audit was conducted remotely, with the co-operation of the Community Clerk.

Internal Audit Approach

In undertaking the review for the year, I have regarded the materiality of transactions and their susceptibility to potential misreporting or misrepresentation in the yearend statement of accounts/annual return. The internal audit programme has been designed to cover and afford appropriate assurance that the Council's financial systems remain 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 national statutory framework. The programme is also designed to facilitate the completion of the 'Internal Audit Report' in the Council's Annual Governance & Accountability Return, which requires independent assurance over a number of internal controls and objectives.

Overall Conclusion

The Council have failed to operate adequate internal controls in 2 of the 11 annual return internal audit objectives. I have made 9 recommendations for improvement.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

My objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in the cashbooks or the financial ledgers.

A single cashbook is in place to reflect the transactions through the Co-operative current account.

- ❖ Randomly selected purchase invoices verified them to the cash book and to the Council's minutes for approval.
- ❖ Ensured the accurate disclosure of the combined cashbooks and bank accounts balance as recorded in the detailed yearend accounts and also the Annual Return, which have been prepared by the Clerk.

Conclusions

The Council operates a handwritten cash book which records the transactions from the Co-operative current account. Whilst conducting the check, I noticed that 10 payments have been made which have not been approved by Council. Comparing the cashbook to the Council's minutes the following payments have been presented for payment.

June Meeting Chq numbers 1730 – 1744 (I also note that the chq numbers listed do not match the number recorded in the cashbook, however the payment amount tallies)

September meeting Chq numbers 1730 – 1744 (same schedule as presented to June meeting)

November meeting Chq numbers 1756 – 1762

December meeting Chq numbers 1761 – 1770 (overlap of two payments already presented)

January meeting Chq numbers 1771 - 1772

February meeting Chq numbers 1773 – 1776

March meeting Chq numbers 1777 - 1796

10 Payments not authorised by Council prior to being made amounting to £7526.69.

Bank reconciliations

The minutes do not record any bank reconciliations being presented to Council on a periodic basis. The budget setting process provides a view of the balances at that point in the year, however presenting this once, does not constitute too periodic. I also note as per the Councils Financial Regulations, that there have been no periodic checks carried out by Councillors.

Recommendations

- 1. Invest into an accounting software package specifically for Town & Community Council's for example Scribe.**
- 2. Bank reconciliations to be produced monthly and presented to Council at Full Council meetings.**
- 3. Periodic spot checks to be carried out on the cashbook and bank statements by a Cllr, who will signed to verify by the Cllr the check has been conducted.**
- 4. To move to on-line banking. I can highly recommend Unity Trust Bank; the Clerk can be added for administration purposes uploading payments ready to be approved and not required to be a signatory therefore ensuring segregation of duties.**

Review of Corporate Governance

My objective here is to ensure that the Council has a robust regulatory framework in place; that Council meetings are conducted in accordance with the adopted Standing Orders and that no actions of a potentially unlawful nature have been or are being considered for implementation. To meet that objective, I have:

- ❖ Extended the review of the Council for the full financial year to ensure that no issues affecting the Council's financial stability existence whereby the Council may either be considering or have taken decisions that might result in ultra vires expenditure being incurred.

Conclusions

In the September meeting Council agreed to pay the retiring Clerk a gratuity payment of £15,000 on advice received from the previous Internal Auditor. It is unclear if the advice was requested or given. However due to a change in Regulations governing the payment of gratuities were contained in the Local Government (Discretionary Payments) Regulations 1996 ("the 1996 Regulations"). They were revoked by the Local Government (Discretionary Payments) (Injury Allowances) Regulations 2011 ("the 2011 regulations") which came into force on 16 January 2012.

The Council have sought further advice from One Voice Wales and have been contacted by Audit Wales in relation to the payment. The Council have taken steps to act on the advice of both One Voice Wales and Audit Wales.

Reference to a maintenance committee can be found in the September 20, November 20, January 21 and March 21 minutes. There are no terms of reference for the committee therefore and the committee has not been correctly constituted.

Recommendations

5. Terms of reference are agreed for the committee.

Review of Expenditure

My 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 invoice from the supplier or other appropriate documentation confirming that payment was due and acknowledgement of receipt.
- ❖ Relevant Financial Regulations and Standing Orders have been met in relation to formal tendering processes.

Here I sampled invoices from various different months and checked that the payments in the cash book can be traced back to the invoice. The invoices must be authorised by councillors at the monthly Council meeting prior to payment being processed. If paid by cheque the cheque is signed by 2 signatures.

Conclusion

I have noted that all payments are supported by the appropriate documentation, however I also note that 10 payments were not submitted to full Council in order to be verified. Please see recommendation 1-4.

Assessment and Management of Risk

My aim here is to ensure that the Council has appropriate arrangements in place to identify all potential areas of risk, including those of Health and Safety nature as well as those of a financial nature.

In the 2010– 2021 year there a risk assessment report was produced in December 2020, however the Council should maintain a risk register which indexes the likelihood of the risk occurring. Further guidance on the Management of Risk can be found at chapter 9 of Governance & Accountability for Local Councils in Wales – a practitioner’s guide 2019 (available for down load from One Voice Wales Website)

Conclusion

The risk report is not adequate enough to reference all risks to the Council.

Recommendation

- 6. The Council should introduce a risk register an example of a risk register can be found here [Llanfoist Fawr Community Council - Risk Register \(llanfoist-fawr-community-council.co.uk\)](https://llanfoist-fawr-community-council.co.uk)**

Precept Determination & Budgetary Control

My objective here is to ensure that the Council has a robust budget setting and budget monitoring procedure in place.

- ❖ The Council has undertaken a Budget Setting process and precept determination exercise, which forms part of the precept request.
- ❖ Regular reports are provided to the Council.

Noted that the Councils precept determination included the gratuity payment to the previous clerk, that Council had not undertaken due diligence to ascertain if the gratuity payment could be made at the time of the precept/budget setting process.

Noted that Council have not received the appropriate financial reports during the year.

Conclusion

The budgetary reporting to Council was not at an acceptable level for the 2020-2021 Financial year. As a minimum at least every quarter the Council should be presented with an Income and Expenditure Report and a Budget vs Actual expenditure report. Members should scrutinise these reports and formally note and approve the reports in the minutes of their meetings. As a result of the precept determination and budget setting process the Council levied a unnecessary item (gratuity payment) which resulted in the Council precept being higher than it would have normally been.

Recommendations

- 7. On a quarterly basis Council should be presented with an Income and Expenditure Report and a Budget vs Actual expenditure report. Members should scrutinise these reports and formally note and approve the reports in the minutes of their meetings.**
- 8. The budget setting process should be managed by the Clerk with careful consideration given to items that members have not considered to include in the precept determination before and if required seek the necessary legal advice from One Voice Wales and NALC.**

Review of Income

My aim here is to ensure that robust systems are in place to ensure the correct identification of all income due to the Council, to ensure that income is recorded in a timely manner. I have therefore examined the following:

- ❖ Noted that income is received in the following forms, the precept, bank interest, and allotment income.
- ❖ Checked the Payment confirmation from Bridgend County Borough Council for payment of the precept and confirmed that the amount received matched the amount requested as per the formal agreement signed off by Council.

Conclusion

I am pleased to note that there are no matters for concern with regards to the review of income.

Petty Cash

I note that the Council does not hold Petty Cash, however this has still should be recorded on the Annual Risk Assessment.

Conclusion

I am pleased to report that there are no issues to report in this area.

Wages and Salaries

Here my aim is to ensure that effective controls are in place for the processing of salaries and wages. The only employee of the Council is the Community Clerk. The salary owing to the Clerk for the month is then calculated and presented to Council for approval along with the cheques for approval.

- ❖ Checked payslips provided by Clerk for approval by Council and then traced back to bank statement to confirm payment.
- ❖ Also checked the salary agreed by Council agreed to appropriate NALC pay scale.

Conclusion

I am pleased to report that there have been no issues with the identified in this area.

Fixed Asset Register My aim here is to ensure that the Council has a register in place and that it is comprehensive, and it contains all the basic information that it should do.

Inspected the Fixed Asset Register and noted that there were no additions or disposals during the 2020 -2021 year.

Conclusion

The Fixed Asset Register remains up to date.

Insurance

My aim here is to ensure that the Council has adequate insurance in place.

Conclusion

I am pleased to note that the Council has suitable insurance.

Investments & Loans

None held by the Council.

Reserves

At the end of the year, the Councils reserves amounted to £59,821.46

It is recommended that as well as having earmarked reserves, the Council should hold a general reserve fund which at the minimum should amount to 3 months' worth of the annual precept. This is recommended to assist the Council in the unlikely event of not receiving its precept payment on time or in the event of an unforeseen emergency. Further guidance can be found in the Practitioners Guide for Governance and Accountability Wales 2019.

Recommendations

- 9. The Council should implement a reserves policy.**

Statement of Accounts and Annual Return

I have verified the accuracy of the data contained in Annual Return and I have examined and confirmed that there is an undelaying audit trail from the financial records. I note that due to the size of the Council no accounting software is used and the income and expenditure is recorded in a manual ledger.

Conclusion

I have duly signed off the Internal Audit Report in the Annual Return.