

# **Pontyclun Community Council**

*Internal Audit Report 2020-21 (Final Update)*

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*For and on behalf of*  
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## Background

Statute requires all town and parish councils 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 Return.

This report sets out the work undertaken in relation to the Internal Audit for the 2020-21 financial year; the Interim review which took place on the 25th November 2020 and the Final Update review of the year which took place on the 26<sup>th</sup> April 2021.

## Internal Audit Approach

In commencing our review for the year, we have again had regard to the materiality of transactions and their susceptibility to potential mis recording or misrepresentation in the year-end Statement of Accounts / Annual Return. Our programme of cover, which has been modified in light of the Covid-19 directives under which Councils are required to operate, is designed to afford appropriate assurance that the Council has appropriate and robust financial systems in place that 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 regulatory framework. The programme is also designed to facilitate our completion of the 'Internal Audit Report' as part of the Council's Annual Governance and Accountability Return process, which requires independent assurance over a number of internal control objectives.

## Overall Conclusions

We have followed up the suggestions and formal recommendations made in our FY2019-20 reports and acknowledge that the members have noted and considered these in their deliberations and have implemented these as appropriate. The Council has continued to make significant business processes and performance improvements, even in these challenging times. We have reviewed the Council's modified practices implemented, and amended from time to time, to comply with Public Health Wales' Covid-19 directives, and report that, on the basis of the work undertaken to date in the current year, the Council continues to operate robust and effective internal controls in all areas examined to date. Resultantly, no recommendations for improvement have been made as a result of this review.

We have noted that the Council has complied, as far as it is possible to do so, with Public Health Wales Covid-19 directives amended from time to time, maintaining a consistently high standard of service provision. The Council has also taken all reasonable steps to ensure the health and safety of its Staff, Members, Clients and members of the public utilising the Council's facilities. All modified and exceptional working practices have been formally Reviewed, Resolved and Recorded in the Council's Minutes and the Council is complimented for its management processes in this regard.

Once again, we commend not only the Clerk/RFO for his continued professional management and administration of the Council's finance and governance functions, but also the Staff and Members who have worked tirelessly to maintain services for their constituents during these unprecedented and challenging times. Once again, the manner in which the requested electronic documents and backup files were presented by Clerk/RFO and his team for audit was exemplary, making this remote interim review process as straightforward as possible during these unprecedented times.

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

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# Detailed Report

## Review of Accounting Records & Bank Reconciliations

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

- Agreed the opening trial balance detail with that in the 2019-20 Statement of Accounts;
- Ensured that the ledger remains “in balance” as at the 31<sup>st</sup> March 2021;
- Ensured that the cost and expenditure coding structure remain appropriate for purpose;
- Noted that the Council continues to maintain a Barclays Bank credit card under the Welsh Government Scheme;
- Checked detail in cashbook 1, which contains the transactions on the Business current account with Lloyds Bank, agreeing the detail for the months of April, May and June 2020, and March 2021 to the underlying bank statements; and,
- Similarly reviewed the monthly bank reconciliations for the months of April, May and June 2020 and March 2021 to ensure that there are no long-standing reconciling items or other anomalous entries.

### Conclusions

*There are no matters arising in this area of our of our review warranting formal comment or recommendation. We take this opportunity to commend the Clerk/RFO and his Assistant for the excellent standard of accounting records maintained during this period where access to the Council’s offices, and interactions between staff and members have been extremely restricted due to the Public Health Wales Covid-19 directives.*

## Review of Corporate Governance

Our objective here is to ensure that the Council has a robust series of corporate governance policies, procedures and documentation in place; that Council and Committee meetings are conducted in accordance with the adopted Standing Orders and that, as far as we may reasonably be expected to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation.

We noted that Standing Orders (SOs) were last reviewed in May 2019 and Financial Regulations (FRs) have been reviewed in May 2020, at the Annual meeting of the Community Council using the model documents supplied by One Voice Wales. We have concluded our review of the minutes of the Full Council and Working Group meetings for the year to the 31<sup>st</sup> March 2021 to establish, whether any issues exist that may have an adverse effect, through litigation or other causes, on the Council’s current or future financial stability, with no issues arising. We also note that the Council instructed the Clerk, at the meeting of the Full Council in February 2021, under Minute reference 6, to review the Standing Orders to detail exceptional arrangements for holding Council meetings during irregular events, such as lockdowns actioned by Central and Devolved government.

We have also noted the content of the External Auditor’s Report and Certificate.

## *Conclusions*

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

## **Review of Expenditure**

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved and amended Covid-19 procedures and budgets;
- Payments are supported by suitable 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;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct expense codes have been applied to invoices when processed; and,
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have reviewed the procedures in place for processing payments and are pleased to note that there was clear evidence of all payment documents being subject to proper scrutiny by members with each invoice being properly coded and initialled.

Due to the remote nature of this Interim Audit, due to the Covid-19 directives, we have electronically tested a sample of payments processed in the financial year to 31<sup>st</sup> March 2020 on the basis of all payments in excess of £750 and every 20<sup>th</sup> payment irrespective of value. The payment selection was made by the Internal Auditor and electronic copies of the invoices and other payment documents forwarded by the Clerk. At the Year-End review the sample tested, was extended from twelve payments examined during the Interim Review, to twenty-three payments, totalling £21,235.07 and representing 49.6% of all non-pay payments made during FY2020-21.

We note that VAT returns are prepared in Rialtas Alpha and submitted to HMRC. We have reviewed and agreed all four reclaims prepared and submitted to the 31<sup>st</sup> March 2021 to the underlying Alpha accounting records.

## *Conclusions*

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

## **Review of 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: -

- Examined the Council's current insurance policy covering 2020-21, to ensure that appropriate levels of cover are in place, noting that subsequent to a formal review that the

Council's cover is now been placed with BHiB: Employers, Products and Public Liability remain set at £10 million with Officials Indemnity cover at £500,000, Legal Expenses at £100,000, Fidelity Guarantee at £250,000, Liable & Slander at £250,000 and Business Interruption cover at £50,000, all of which we consider appropriate for the Council's current requirements;

- Noted that the Council continues to employ a strict Risk Management regime and has a full Risk Management Policy in place for the main Health & Safety and Business operations of the Council, and a separate policy for the Council's Play and Recreation area. We also note from the recorded Minutes that the Council's approach to Covid-19 Risk Management has been formally reviewed in each Council meeting with updates issued from RCT and Public Health Wales, which have been amended from time to time, reviewed in a timely manner; and,
- Examined the Council's arrangements for the regular inspection of playgrounds and recreation areas, noting that these have been closed for extended periods during the financial year. due to Covid-19 directives issued by Public Health Wales and requests from RCT. These areas have only been reopened after due consideration to the Health & Safety of Council Staff, Members and Constituents, was given by the Clerk/RFO and Members and appropriate risk mitigation measures having been put in place in accordance with Public Health Wales directives.

### ***Conclusions***

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

## **Review of Budgetary Control & Reserves**

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and the level of precept to be drawn down from the Borough Council. We have noted / ensured:

- The comprehensive budget setting and precept determination process undertaken by the Clerk and Members;
- The Clerk/RFO has produced a Budget setting and Review policy which ensures a transparent and consistent approach to the Budgetary and Precept determination process;
- That Members Approved and Adopted the 2021-22 financial year Budget and Precept during the January 2021 meeting of the Full Council, in the amount of £128,105, under Minute reference 7;
- That Members receive regular reports identifying the budget position throughout the year;
- That the Council has formally approved the establishment of specific reserves;
- The Earmarked Reserves have been correctly managed, noting movement upon the Reserves being properly recorded in the Rialtas Accounting Software and referenced in the Council's Minutes;
- The utilisation of reserves and the return of unused balances to the General Fund are reported to the Council at regular intervals.

We note that the Council's reserves, as at the 31<sup>st</sup> March 2021 stood at £103,729.88 including EMRs of £56,468 leaving a General Reserve fund of £47,262 which equates to approximately four-and-a-half months net revenue expenditure based on current levels, which is at the upper level of the generally recognised CiPFA guidelines of between three, and six months' revenue spending. We deem this an appropriate level of reserve for the Council's size and budgetary requirements or 2021-22.

Finally in this area of our review, we have examined the year end budget performance detail, as set out in the Alpha accounts with no unexplained or unanticipated variances existing warranting further enquiry.

### **Conclusions**

*There are no issues arising in this area of our review warranting formal comment or recommendation: We have reviewed the Clerk/RFO's final Budget Setting and Review Policy document and regard this as an exemplary Corporate Governance and Financial Planning document, which ideally should be produced and employed by all Councils to ensure a consistent and transparent approach to the Budgetary and Precept determination process.*

### **Review of Income**

The Council receives income from a relatively limited range of sources in addition to the annual Precept, primarily by way of Caterer rent, Grass Cutting, VAT reclaims, A Footpath Grant, Café 50 hire for groups, donations and donations from groups and individuals.

Our aim here is to ensure that income due to the Council is identified and recovered within a reasonable timeframe, and that fees have been levied in accordance with the approved scales of fees and charges.

We have visually examined the Alpha nominal ledger income transaction reports for the year to the 31<sup>st</sup> March 2021, ensuring that, as far as we are reasonably able to ascertain, all income due to the Council has been received appropriately and that no significant miscodings have arisen.

We have noted that the Council's budgeted income for the 2020-21 financial year has been significantly impacted by Covid-19 in two key areas:

1. As Café 50 has not been able to open the Council has received reduced rent from the caterer and there have been no hire fees from groups whatsoever. This has reduced the Council's projected income for FY2020-21 by approximately £2,500. There will be an offset in reduced utility bills in due course, as less Gas/Electricity and water has been used, however the relevant bills will not be received till 2021.
2. The Council usually receives grants and donations from various bodies to help support Café 50. The Community shop was the main donor. The shop was forced to close, due to the Covid-19 directives, reducing their income. Any capacity the shop had to donate was channelled into what it perceived to be more urgent local requirement.

Resultantly, the Council's projected income has reduced by approximately £7,000 as at the 31<sup>st</sup> March 2021.

## **Conclusions**

*There are no issues arising in this area of our review warranting formal comment and recommendation. As with all Councils in Wales and England, income has seen a significant and substantial reduction. Pontyclun Community Council is to be complimented on its business continuity planning: It's approach to managing service provision under extreme governmental prohibitions which have caused significant loss of income has been exemplary.*

## **Review of Petty Cash Account**

*The Council does not operate a petty cash account, all incidental expenses being identified on reclaims submitted monthly by staff, which are subject to the normal expenditure approval controls.*

*We note that a Visa debit card remains in use for ad-hoc purchases and to take advantage of internet pricing, which is held securely for utilisation by the Clerk. Statements are settled in full each month, with the statements and supporting documents presented to members for the same level of scrutiny as other trade payment documents.*

*We have noted previously that a Barclays Credit card has been obtained and may also be used for ad-hoc purchases.*

## **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 HMRC legislation in accounting for the deduction and payment over of income tax and NI contributions, and meeting the requirements of the local government pension scheme. To meet that objective, we have:

- Checked to ensure that the Council has reviewed and approved appropriate pay scales for staff by reference to scanned copies of original letters confirming salary/SCP levels;
- Noted that the National Pay Award for FY 2020-21 was approved with effect from the 1<sup>st</sup> April 2020, retrospectively, on the 9<sup>th</sup> September 2020;
- Noted that the difference between the FY2019-20 and FY2020-21 National Pay Award and increase in SCP grades (backpay), deductions and pension contributions will be applied in the next available payroll;
- Checked all staff salaries paid in June 2020, agreeing the gross amounts paid to the approved FY2019-20 pay scale by reference to each employee's contract of employment;
- Ensured that PAYE, NIC and superannuation deductions have been made accurately by reference to the June 2020 payroll detail following central government's budget changes;
- Checked that any overtime or variable hours payable to casual employees is appropriately supported by authorised timesheets; and,
- Ensured that individual salaries and the total payments to HMRC and the Pension Fund Administrator are in accord with the June 2020 payroll detail.

## **Conclusions**

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

## **Review of the Fixed Asset Register**

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. We note the Council's compliance with this requirement; the Clerk maintains and manages an appropriate register with values identified both at cost price, or where unknown, at the best approximation thereto, together with the annually uplifted insurance value to assist with budgetary planning for future replacements.

We note that the Asset Register has again been reviewed and revised during the 2019-20 financial year, with a revised value of £316,019 (£312,499 prior year) which has been correctly reported in the Annual Return at Box 12 of the Accounting statements.

## **Investments and Loans**

*The Council has no funds invested, other than by way of the Business Current Account with Lloyds Bank plc. Similarly, the Council has no loans either repayable by, or to it. Subsequently, there are no issues arising in this area of our review warranting formal comment or recommendation.*

## **Statement of Accounts and Annual Return**

The Council's accounts are managed in the Rialtas Accounting software package, the detail of which we have examined and consider reflects accurately the year's transactions as recorded therein. The software is also used to generate the detail for inclusion in the year's Annual Return, which we have also verified as being consistent with the accounting and other relevant supporting records.

We have also reviewed the procedures in place for identifying year-end debtors, creditors and accruals and agreed the detailed values recorded in the year-end Balance Sheet to the underlying records with no long-standing unpaid accounts or other issues arising.

### ***Conclusion***

*We are pleased to record that no issues arise in this area and, on the basis of the work undertaken during the course of our review for the year, we have "signed off" the Internal Audit Certificate in the Annual Return assigning positive assurances in all relevant areas.*