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Internal Audit for St Nicholas & Bonvilston Community Council

Year Ending 31st March 2023

I would like to thank members for appointing me as Internal Auditor for 2022/23.

Risks

Lack of permanent Clerk

Unfortunately, the Council clerk left in September 2020, and a permanent clerk could not be found. A locum Clerk was employed during the previous year and an acting RFO has been appointed. A permanent Clerk/RFO has now been appointed and it is important for the Clerk to ensure that they have a suitable handover and attend training if they do not have previous RFO experience. A thorough review of the financial regulations and any suggested improvements in this report would also be valuable.

Lack of Segregation of duties

Due to the remote nature of working with the temporary Clerk and a lack of permanent RFO the Chairman has become too responsible for the finances of the Council and so there is a lack of segregation of duties. Section 2 of this report indicates areas where the Chairperson is still inappropriately involved in the finance of the Council and where the Council have breached their financial regulations.

Brought forward failures

The Council had a negative 2021/22 internal audit report and a qualified 2021/22 external audit opinion. I acknowledge that the Council have put in place an improvement plan and that there have been great strives to improve the accounting records and controls, however this still needs to be improved going forward.

New members

There have been several changes in Council members during the year, and it is stressed to members that it is their responsibility to ensure that there is appropriate governance and financial review in place and therefore any training they require to do this should be identified.

I have performed the Internal Audit for the year ending 31st March 2023 in accordance with my engagement letter and 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.

It was pleasing to note that unlike the past two years this year a detailed cashbook has been maintained.

The Council were able to supply me with invoices / remittances which supported the majority of the payments or receipts made during the year. There were a couple of invoices missing due to confusion with a regular supplier, however this will be resolved going forward as the suppliers has been asked to provide invoices in a different way.

In my last report I queried whether the costs relating to the locum clerk although paid via SLCC should be included as staff costs in the annual return, this has now been completed for this year and so the prior year amounts have been restated.

This test was PASSED

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

The Council follow model financial regulations as supplied by One Voice Wales (OVW), these were updated and approved at the April 2022 meeting. The Council should ensure that the financial regulations cover all requirements especially around use of debit cards and online banking.

The agendas and pre meetings report included payments to be approved and receipts. However, some payments were made before they were approved and some payments did not appear to be approved per the minutes at all, especially the debit card payments. Given the lack of segregation of duties this was a major breakdown in controls.. The following regulation was therefore breached:

Regulation 4.1 Expenditure on revenue items may be authorised up to the amounts included for that class of expenditure in the approved budget. This authority is to be determined by:

- *the Council for all items over [£5,000];*
- *a duly delegated committee of the Council for items over [£500]; or*
- *the Clerk, in conjunction with Chairman of Council or Chairman of the appropriate committee, for any items below [£500].*

Such authority is to be evidenced by a minute or by an authorisation slip duly signed by the Clerk, and where necessary also by the appropriate Chairman.

It was pleasing to note that the Council were provided with quarterly budget vs actual expenditure analysis for each quarter. However, there were several balances where the actual expenditure was over the budgeted amount, some of this was seen as early as Q2 in the year. This has resulted from no budget virements being approved when it is anticipated that the actual costs will be more than budgeted. Also, the quarter 4 budget analysis was not presented till the May 2023 meeting, this needs to be done at the March meeting so that virements can be approved before payments approved as required. There was a breach of the following financial regulation:-

4.2. No expenditure may be authorised that will exceed the amount provided in the revenue budget for that class of expenditure other than by resolution of the Council, or duly delegated

committee. During the budget year and with the approval of Council having considered fully the implications for public services, unspent and available amounts may be moved to other budget headings or to an earmarked reserve as appropriate ('virement').

The minutes show that the Council has been presented with quarterly bank reconciliations as required, however the minutes indicate that the whole Council have noted these bank reconciliations and it appears they aren't always seen with the bank statement.

This is a breach of the below regulation:-

On a regular basis, at least once in each quarter, and at each financial year end, a member other than the Chairman shall be appointed to verify bank reconciliations (for all accounts) produced by the RFO. The member shall sign the reconciliations and the original bank statements (or similar document) as evidence of verification. This activity shall on conclusion be reported, including any exceptions, to and noted by the Community Council.

Some of the payments made during the year were made using a debit card. This debit card is held by the Chairperson and thus is a breach of the following financial regulation, as well as adding to the lack of segregation of duties previously discussed.

6.20- Any Debit Card issued for use will be specifically restricted to the Clerk/RFO and will also be restricted to a single transaction maximum value of £500 unless authorised by Council in writing before any order is placed.

The debit card used did not appear to be well controlled, as I could not see evidence of the approval of the debit card payments in the minutes. Now a permanent Clerk has been appointed only they should be able to use the card as per the financial regulation. The cashbook shows repayments from the Chairman, this is because the debit card was used for personal expenditure and so this error was being refunded. This is an example of the lack of segregation of duties putting Council funds at risk.

VAT is clearly shown in the cashbook; the 2022/23 VAT reclaim has been recently submitted but has not yet been paid. For all of the invoices I have received I was able to confirm the VAT had been correctly identified other than on one occasion – this payment will be reclaimed in the next VAT reclaim. The VAT reclaim was agreed to the cashbook VAT entries.

There were no s137 payments declared as such during the year. A review of the payments in the cashbook did not appear to indicate any s137 payments.

I reviewed the cheque book and could see that cheque stubs showed the two initials of signatories.

This test has been FAILED. The Council should ensure that these controls are now in place and working effectively.

3 The body assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.

In November 2021 the Council produced and approved a new risk register which appears comprehensive and well thought through, this has been updated in May 2023 but has not yet been approved.

The key risk to this Council however is a lack of financial control and although improvements have occurred in 2022/23 these must be improved further now a permanent Clerk has been appointed.

The Council had insurance in place for the year and appeared to have complied with the GDPR and accessibility requirements. I was able to review the insurance documentation.

The website contained an up to date declarations of interest register, all minutes during the year were reviewed and interests declared in the minutes were noted on the register.

The Council website did not have the details of the members expenses/allowances paid during the year, although there were several payments of allowances, this should be put on the website before/ when reported to the IRP by September 2023.

On balance this test is PASSED

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 resulted from a detailed budgetary process. The January 2023 minutes document the review and approval of the budget and the accompanying draft budget shows a good level of detail of consideration of the forecast spend for the year and any predicted changes.

The precept request for 2023/24 has been maintained at £55k. The carried forward general reserve from 2022/23 is £45k this carried forward represents approx. 12 months of the actual 2022/23 expenditure, and approx. 10 months of the budgeted payments for £2023/24 so does appear reasonable per the practitioner's guide of 3-12 months.

As per section 2 of this report, adequate budget monitoring was not in place.

Due to the lack of budget monitoring the Council has FAILED this test.

5. Expected income was fully received, based on correct prices, properly recorded and promptly banked, and VAT are appropriately accounted for.

The vast majority of the Council's income for 2022/2023 consisted of the precept (97%), a VAT refund and the repayments by the Chairman discussed above. These were received by BACS.

VAT was not applicable for any of these receipts.

I agreed all the income to Minutes and the Bank Statements, though the Council should ensure remittances are received where possible e.g. for precept. I am satisfied that all income was fully received and properly recorded.

The Council have PASSED 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.

All members were paid their allowances during the year, these were at the agreed rate.

During the year there were no salaried employees. The Locum Clerk is employed via SLCC Enterprises, hence the Council receive an invoice from them for payment, it doesn't therefore have PAYE/NI commitments. The SLCC Invoices are treated as all other invoices.

The Council have PASSED this test.

8. Asset and investment registers were complete, accurate and properly maintained.

There were two additions during the year per the FA register and these were agreed to the cashbook and to invoice. A review of the payment cashbook/invoices I had copies of did not indicate any obvious omissions. There were no disposals during the year.

The Council have PASSED this test.

9. Periodic and year-end bank account reconciliations were properly carried out

A year end bank reconciliation was completed and there were a small number of outstanding cheque reconciling items, these related to February and March 2023. All but one has now been cashed, however the RFO may want to chase the recipient of that cheque to cash it before it becomes out of date.

It was pleasing to note that Quarterly bank reconciliations are now completed during the year. The balances on the year end bank reconciliation were agreed to the cashbook/bank statements as accurate and the reconciliation recast for arithmetical accuracy.

The Council have PASSED this test.

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.

Debtors and creditors were correctly not recorded, as they are not required when the receipts and payments method is used.

It was difficult to follow an audit trail of payment approval in the minutes, to cashbook to bank statements. This was because of cheque numbers not being written on the minutes, and in some cases, cheques being missed from approvals listings, and a lack of debit card payments being approved on the minutes. There were also several payments that didn't appear to be approved at Council meetings but again this was very difficult to follow.

Going forward the permanent Clerk attending the Council meetings should hopefully ensure that all payments are approved and minuted as such.

The Council have FAILED this test.

11. Trust funds

Not applicable

Joanna Howell

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