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15th May 2020

Internal Audit for St Nicholas & Bonvilston Community Council

Year Ending 31st March 2020

I would like to thank members for appointing me as Internal Auditor for 2019/20. I would also like to thank the Clerk for her assistance with the internal audit.

This Council, like most small Councils, has the issue of a segregation of duties. However, the Clerk maintains detailed records and it is evident from the records presented to me that the Council is now made aware of the financial situation at each meeting and that this is recorded in the minutes. Also, as the cheque stubs are also initialled by the two cheque signatories, this provides an extra level of control. In addition, there are only a small number of transactions made each month which allows for more careful and closer scrutiny. I am therefore satisfied that there are enough controls in place to mitigate the risk.

I can see by the minutes that the Council have been without a Chairperson for several months. The Council should elect a Chairperson, otherwise amongst other potential issues there is a danger that financial controls requiring a Chairperson will not be complied with.

I have performed the Internal Audit for the year ending 31st March 2020 in accordance with tests for internal audit within the Annual Return and your engagement letter.

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.

The Clerk keeps comprehensive books of account by way of an electronic cashbook. The cashbook is supported by hard copy invoices / remittances which support the payments or receipts made during the year. Consequently, I was able to easily follow the audit trail from the Council's Minutes through to the Cashbook and Bank Statements.

The Clerk provides a detailed monthly financial report at each meeting, which is included in the minutes, this was reviewed for each month. The report includes all payments to be approved and receipts, as well as the cash balance

I am satisfied that appropriate books have been kept properly throughout the year.

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 reviewed during the year and appear to cover all financial requirements appropriately.

Although the Council were provided with quarterly budget vs actual expenditure analysis, there was a breach of the following financial regulation.

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.

Breach – There were a number of instances where the expenditure of a certain budget line was exceeded. In some cases, the budgets were then later changed but this should occur before the payment is approved and made.

Budgets must be adjusted by resolution before the payments are approved in order to ensure that individual budget lines are not breached in the future.

The overall budget was well within spend.

Several payments were made by the Clerk by debit card. Although these tended to be for small amounts, they were not authorised before being made. They were on the list of payments to be approved at full Council meeting; however, this was after the payment had been made. Therefore, all debit card payments should be authorised prior to being made in one of the ways required by the financial regulation below.

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.

The cashbook is supported by hard copy invoices and the minutes show that the expenditure items were approved at the Council meetings. All payments were agreed to the minutes, invoice and bank statement.

VAT is clearly shown in the cashbook and is reclaimed on an annual basis; the 2019/20 VAT has yet to be reclaimed however, the Clerk has confirmed this will be completed shortly. All invoices were agreed to the cashbook to ensure that VAT was correctly identified.

I have discussed with the Clerk the powers under which the Council have made a number of payments and there were a small number of payments which appeared to be s137 but were not identified as such. These have now been allocated as s137. The s137 payments during the year totalled approx. £2.3k, these were agreed to invoice and were well below the s137 limit.

The Clerk should ensure that before each payment is approved, the power for the payment is considered and where it relates to s137 this should be identified during the Council meeting as such.

I noted from the cheque book that one blank cheque had been signed by a Councillor. I understand from the Clerk that this was to assist with any payments that needed to be made during lockdown. Blank cheques should not be signed due to the increased risk of fraudulent payments.

Given the breaches of financial regulations I conclude that this test has been FAILED.

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

It is clear from the minutes of the meeting that a risk report by the Clerk was circulated to Councillors prior to the AGM and it was resolved to accept the report with some additional matters on cyber security. I do not envisage that any major risks have been missed, especially due to the lack of assets.

I am satisfied that the Council has passed this test.

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 an adequate budgetary process. The January 2019 minutes document the detailed discussions on the budget, reserves and precept.

The precept has increased from £9k in 2018/19 to £10.5k in 2019/20. With a further increase to £11.5k in 2020/21.

The Practitioners' Guide indicates that reserves should be between 3 to 12 months' of the gross expenditure.

The carried forward general reserve from 2019/20 is £9.5k in line with the prior year. This carried forward represents approx. 9.5 months of the 2019/20 expenditure.

Upon reviewing the 2020/21 approved budget I can see that the budgeted general reserve carried forward will cover approx. 6 months of budgeted expenditure, within the recommended range.

Budget monitoring occurs each quarter, these analyses have been reviewed and the meeting minutes for each quarter reflect their presentation and discussion. On occasion the budget analysis did not occur until two months following the quarter end, the Clerk has confirmed that in future the analysis will occur in the month after the quarter end.

On balance, I am happy that the Council has satisfactorily passed this test.

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

The Council's income for 2019/20 consisted only of the precept (88%), two donations from community fundraising for a new defibrillator and a VAT refund for 2018/19. The precept and VAT refund were received by BACS, the two donations were received by cheque and a review of the bank statement showed they were promptly banked.

VAT was not applicable for any of these receipts.

I agreed all the income to supporting documentation, Minutes and the Bank Statements. 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.

The Clerk during 2019/20 was paid by the number of hours she worked each month however the average of these seemed reasonable given a Council of this size. The Clerk is also paid a working from home allowance as well as a refund of any office/mileage expenses. Timesheets are produced by the Clerk and these are approved by the Chair this was evidenced by signature on each timesheet.

The Clerk's salary was subject to NI/PAYE and this was calculated using an external accountancy firm, however no NI/PAYE was owed or paid during 2019/20. The Council is registered as an employer with HM Revenues and Customs and uses an external accountancy firm to ensure that RTI submissions are made.

The Salary costs during 2019/18 were very similar to the previous year.

There were two payments of members allowances during the year, these were correctly disclosed on the website/notice board. The remaining members completed opt out forms.

I am satisfied that the Clerk's salary was paid in accordance with minuted Council approval and that all tax obligations were met.

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

The fixed asset register only showed one of the four assets purchased during the year. These assets have now been added. All additions were agreed to invoice. Otherwise by looking at the payment schedule/invoice file there do not appear to be any other omissions.

A projector broke during the year as indicated in the minutes, this has been removed from the fixed asset register and replaced with the new projector purchased. There were no other disposals during the year.

The Council have FAILED this test as the registers are not kept complete.

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 reconciling items relating to outstanding cheques, recently issued. Quarterly bank reconciliations were also completed during the year. The balances/reconciling items on the year end bank reconciliation were agreed to the cashbook/bank statements as relevant and the reconciliation recast for arithmetical accuracy.

The minutes confirm that quarterly bank reconciliations are completed, reviewed and approved by the Vice Chair. These are signed to evidence approval.

I am satisfied on balance that this test has been met.

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 an income and expenditure basis which is appropriate for the size of the Council. There was a very clear audit trail supporting the amounts in the Cashbook.

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

I am satisfied that this test has been met

11. Trust funds

Not applicable

Joanna Howell

J Howell