Internal Audit

For

Tonyrefail Community Council

2021/22

Prepared by Jason Morgan.

Introduction

The internal audit has been carried out in order to satisfy the requirements of the Wales Audit Office for the control and regulation of community council's in Wales in respect of the appropriate use of public money. These requirements are encased in statute ~ *'Accounts and Audit (Wales) Regulations 2014'*

Guidance on the form, coverage and content of the internal audit can be found in the publication *'Governance and accountability for Local Councils in Wales – A Practitioners Guide (2019 Edition)'* and it is this publication that is the main source of reference for the internal audit. This publication details the areas to be reviewed and the expected level of control that must be evidenced for the Council's systems of financial control to receive an unqualified opinion.

The document '*Internal Audit Arrangements at Town and Community Councils in Wales*' published by the Wales Audit Office in January 2019 has also been used for reference in particular *'Appendix 4: Good Practice – Work Programme'* that details the areas expected to be covered in the Internal Audit.

Cyber Security

It should be brought to the Council's attention that cyber security is viewed as the major on-going risk facing all organisations with an online presence. Although not specifically covered in this audit, it is recommended that the Council consider a periodic review of its IT and data security arrangements in line with industry best practise. The Council may want to consider the adoption of an Information Security Policy (ISP).

Cyber security includes but is not limited to:

- Changing both default passwords on routers – standard password and the administrator password
- Ensuring that email attachments are encrypted using a tool such as 7-Zip and ensuring the passwords for encrypted files are robust
- Keeping antivirus and anti-malware software up to date
- Ensuring that all critical business systems have the latest patches installed
- Only publishing pdf files on the Council's website.

Council Website

An observation of the previous audit was that a number of documents on the website were in Microsoft Word format, which is a security risk as explained in the section. It should be noted that substantial effort has gone into the conversion of existing documents to pdf however, at the time of the evidence gathering for the audit several policy documents remained in Microsoft Word format. At the time of writing, these documents are now in pdf format.

In addition, the 'Notice of Virtual Meeting March 2021' link contains the full details of the minutes, which appears to include sensitive information that should not be available on the website.

Areas Tested

Previous Internal Audit Report ** point of concern **

The Internal Audit report for 2020/21 was considered during the meeting of 17th June 2021. Councillors noted the content of the report and that the documents requiring approval had since been approved by full council and all outstanding Word Documents replaced with pdfs. It was resolved that the Clerk look at the creation of an Information Security Policy (ISP) as suggested by the internal auditor.

On inspection during the following sections include MS Word documents:

1. Vacancies: 'Temporary Summer Operative Application Form & Pack,

2. Trane Cemetery - Forms: the Internment Form Trane Cemetery, Application for the approval of memorial and inscription with 1 owner & 2 owners, cemetery rules & regulations and memorial inspection

3. Your Community: Equipment Loan Form Welsh & English, Enghraifft Asesiad Risg generic llawn 2020, Generic Litter Picking Risk Assessment (full) 2020, Blank Risk Assessment Form W and Blank Risk Assessment Form.

Recommendation: Ensure that all documents posted on the Council's website are in pdf format.

Proper bookkeeping

The cashbook is maintained using the RBS Omega book keeping package. The configuration (i.e. ledger setup including cost centres) is clear and the postings appear accurate and support the Council's financial administration. The balances @ 31/3/2022 were as follows:

1. Business Premium a/c: £298,005.37
2. Current a/c: £5,125.00
3. Business Tracker: £20,465.84.

These amounts agreed with the bank statements

Standing Orders and financial regulations adopted and applied ** observation **

The standing orders and financial regulations were tabled for review and adoption at the AGM of May 2021. Although the financial regulations were adopted during the meeting, the standing orders were deferred to September 21 in lieu of an outstanding query. There is no further mention of the standing orders in the minutes for the 2021/22 period.

Also, both documents on the Council's website are dated 7th January 2019.

It should also be noted that section 10. Contracts, paragraph 10.1.g of the Financial Regulations refers to section 10.3. This section does not exist.

Observation:

1. The Standing Orders were not reviewed and adopted by the Council during the period (*Standing Orders s.5.j.ix*).
2. The Standing Orders and Financial Regulations published on the Council's website are out of date.

Recommendation:

1. Maintaining a tracker of deferred agenda items to ensure completion.
2. All document available on the website should be up to date and reflect the Council's current, approved governance.

Payment Controls ** observation**

Payments were supported by invoices, expenditure was approved and VAT was appropriately accounted for. Payments were made by cheque and direct debit with internal controls in place. Payments were approved for payment in the monthly minutes although a detailed payment schedule was not seen - *Financial Regulation 5. Instructions for the making of payments paragraph 5.4.*

Payments were recorded in the cash book. A sample of invoices were checked to the cash book to ensure accuracy and that VAT was recorded where incurred.

<u>Quotations</u>

There were no significant purchases/payments during the period that would require quotations or estimates. Also, there are no references to the purchase of goods and services in the minutes that would require quotations or estimates.

<u>VAT</u>

The VAT a/c was prepared using the standard VAT reports from the accounting software package and appear correct. Sampling was used to check various transactions for accuracy and these appear accurate. The VAT returns have not been seen although the bank reconciliation is sufficient to determine that the returns were submitted and the VAT reclaimed appropriately.

<u>S137 Expenditure</u>

Expenditure under Section 137 of the Local Government Act 1972 was approved by members and recorded in the Council's minutes of 16th September 2021 and separately analysed in the cashbook and accounts. Total S137 expenditure was within the allowable limit.

Expenditure under Section 137 of the Local Government Act 1972 was approved by members and recorded in the Council's minutes of September 21. The total amount of grant money approved came to £4,205.00, however, the amount of grant money actually paid under account code 4330 Grants, totals £3,705.99 (the actual account code balance is £3,205.99 the difference being a number of journal entries). **Of the grants approved, payments do not appear to have been made to Tonyrefail & Gilfach Goch defibrillator (£250) and The Friends of St. John (£250).**

There were also payments made outside of the grant applications e.g. £750 paid to both the Taff Ely Food Bank and the Lighthouse project. **Evidence of requests for funding or that due diligence was performed on the recipients has not been seen**.

Observation:

- It appears that not all the grant money approved by the Council was actually paid and reasons for non-payment have not been seen.
- No requests for funding from either the Taff Ely Food Bank or the Lighthouse project were seen or evidence of due diligence of the recipients of the cheques has also not been seen. This may lead to the inappropriate use of Council funds or possibly the Council falling victim to a fraud or scam.

Recommendation:

- Monitoring controls are put in place to ensure that all grant monies approved are paid to grantees.
- Sufficient evidence is in place to support the payment of s137 monies to include, for example, correspondence with the recipient and evidence of the due diligence process to ensure that money paid goes to where it is intended.

Risk Assessment ** point of concern **

The adoption of the Financial Risk Assessment took place at the AGM in May 2021. The register does not appear to have been reviewed in detail since 2019 (Document available on the Council's website is dated 7th January 2019) and does not include topical items such as cyber security and data protection

Note: The risks faced by organisations today are constantly changing and as such the Risk Assessment is a 'living' document that should be reviewed:

1. At least annually, or
2. When a new risk/threat/vulnerability becomes known.

Recommendation: Prior to the formal adoption of the Risk Assessment by the Council, advice is received from OVW, the SLCC and Zurich (as the specialist insurer) to ensure the scope of the Risk Assessment is adequate. This can be noted in the minutes to provide confidence to the councillors of the adequacy of the Risk Assessment.

Budgeting **note**

The proposed budget for 2021/22 was approved at the meeting of January 21st 2021. A budget for the period has not been seen although budget entries were made in accounting system.

Note: As the budget has not been seen, it was not possible to review significant variances from the previous period.

Income

Samples testing was carried out on the cashbook, paying in books, receipts (burials and memorials), bank statements and minutes to see if other income was properly accounted for and regularly banked.

Income for the year was higher than forecast by 12.7%. The budgeted income amount was £274,937 and the actual income amount was £309,724.

This variance includes the following amounts:

1. CiL income budget £0 actual £22,545
2. Cemetery Income Budget £28,000 Actual £45,132

All VAT was claimed and received appropriately.

Petty Cash

The council does not hold petty cash.

Employees **note**

Salaries to employees and allowances to members were paid in accordance with Council approvals and PAYE and NI requirements were properly applied.

The total staffing costs for the period were £177,473 against a budget of £209,450 (including staff training). This variance was due in the main to a reduction in Cemetery and admin staffing costs both from salaries and superannuation.

Deductions for tax, NI, pensions and union membership were checked to ensure the correct rates had been applied. The total of the statutory deductions shown in the payroll system agreed with the total paid to HMRC.

The payroll package automatically submits details to HMRC and provides a receipt for the submission.

Pension arrangements through the Local Government Pension Scheme (LGPS) are in line with the Work Place Pensions regulatory requirement. More information on workplace pension schemes can be found here:

https://www.gov.uk/employers-workplace-pensions-rules

Note: It was observed that two members of staff left the Council during the year. This may result in

1. Miss-leading total staffing cost where comparisons are made to prior periods (i.e. not comparing like-for-like), &

2. A reduction of the Council's resources and therefore affect the Council's ability to perform its duties.

Asset register

A comprehensive asset register is maintained and is split into the main categories of :

1. Combined Asset Register £126,847.98
2. Staff Based assets: £270.82
3. Office Buildings Inventory £4,387.65
4. Cemetery Asset Register £28,683.38

The register also includes the insurance value which can be used as a realistic guide for replacement/reserve estimates. The insurance policy is with Zurich and contains itemised details of the insured items. The financial amount stated in the policy agrees with the asset register insurance amounts. Policy Number YLL2720856753 04/04/2021 - 03/04/2022

Bank Reconciliation

The bank reconciliation is automatically performed within the RBS Omega book keeping package. The reconciliation accurately reflects the bank account statements as follows:

1. Business Premium A/c £298,005.37
2. Current A/c £5,125.00
3. Business Tracker £220,465.84

less: Unpresented Cheques: £2,116.33

Total: £321,479.88

Cash book:

1. Current a/c £301,014.04
2. Business Tracker: £20,465.84

Total: £321,479.88

Investments

There are no investments

Year End Accounts

Year End accounts were prepared on the correct accounting basis, agreed with the cash book, were supported by an adequate audit trail from underlying records, and where appropriate debtors and creditors were properly recorded.

The accounts have been prepared on an Income and Expenditure basis that required amounts due for the year, but not yet received or paid should be included in the accounts, with an appropriate debtor or creditor shown in the balance sheet.

Various payments due for the year but not yet made, payments made in advance of next year and income due for the year not yet received have been identified and included in the Income and Expenditure account and a Balance Sheet prepared.

A test check was carried out of the trail of figures from cash book to the final financial statement.

<u>Conclusion</u>

Following a selective assessment of compliance with the relevant procedures and controls expected to be in operation during 2021/22, it was not appropriate to give an unqualified internal audit opinion. An unqualified report would mean full compliance with the '*Accounts and Audit (Wales) Regulations 2014' and the criteria and guidance laid out in the 'Governance and accountability for Local Councils in Wales – A Practitioners Guide (2019 Edition)'.* Whilst in the main compliance is evident, attention is required in a number of areas details of which are contained in the main body of the report. The main points of concern lie with;

- Standing Orders and financial regulations adopted and applied, and the
- Payment Controls
- Risk Assessment

I would like to thank the Clerk of the Council for their cooperation and help.

Signed: JAH Morgan Jason Morgan

Date: 27th June 2022.