

# RLT AUDITING

*Specialising in parish councils*

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## LLANFAIR WATERDINE PARISH COUNCIL

### INTERNAL AUDIT REPORT FOR FINANCIAL YEAR 2022/3

#### INTRODUCTION

As the Council's internal auditor, I have independently carried out an examination of areas which meet the internal control objectives as listed on page 4, the Annual Internal Audit Report section, of the Annual Governance and Accounts Return (AGAR) for the year ended 31<sup>st</sup> March 2023.

I have tested the Council's compliance with the assertions on p.4 of the AGAR, referring to best practices as outlined in the JPAG Practitioners' Guide 2022, published March 2022.

I would like to thank the clerk/RFO, Maggie Brown for her assistance.

Should you have any queries with this report please do not hesitate to get in touch.

#### OVERALL

The standard of administration and system of internal controls relating to the audit areas examined throughout the financial year were considered to be very good.

Having completed a comprehensive examination of council records presented to me, I have completed the Annual Internal Audit Report on page 4.

#### DETAILED FINDINGS & RECOMMENDATIONS

This report takes each of the Internal Audit statements on p.4 of the AGAR in turn and assesses if the council has complied with it. The report outlines the areas covered during the internal audit which support the Annual Internal Audit Report section of the AGAR. Under each section, the report states if it is my opinion, as Internal Auditor, that the control has been met. Recommended areas for attention are highlighted.

##### A. Appropriate accounting records have been properly kept throughout the financial year?

The primary accounts record is in the form of an Excel Receipts and Payments cashbook. Accounting records were found to be accurate and provided an adequate audit trail. A sufficient analysis of accounting records existed within the cashbook, with items being categorised according to budget categories. The accounting statement provided as at 31/3/2023 corresponded with the cashbook.

**Internal control objective met? YES**

**Recommendations: None.**

B. This authority complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for?

The Standing Orders and Financial Regulations were both updated on 17<sup>th</sup> May 2022, and comply with the current NALC model. This was confirmed in the minutes.

#### **Payments for the year - £6,483.27**

The council charges for some services, such as delivery of the newsletter. I have included comments below re VAT as it can be chargeable on services provided by the parish council for payment e.g. if it counts as a business activity.

A sample of payments were tested to the cashbook, supporting invoices, bank statements, payroll documentation and council minutes. I also checked VAT was accounted for where applicable. The following payments were tested. All documentation was in order and there was clear evidence of authorisation of payments.

P3 – salary, £396.88

P8 – jubilee mugs, £664.94

P13 – election fee, £100.00

P21 – hall hire, £21.00

P27- salary, £464.18 -

P29 – Llanfair Times distribution - £6.50

P30 – clerk’s expenses, £56.08

P31 – drain clearance, £730.80

P34 –salary months, £350.80

P35 – tax, £88.40

**Internal control objective met? YES**

#### **Recommendations:**

- While the procedure for approving online payments is acceptable, it is lower risk to use a bank for online banking that allows the clerk to set up a payment and two councillors to authorise. There are also banks that allow triple authorisation, the clerk being one authoriser.
- VAT should be recorded in the minutes which it isn’t always.
- In regard to VAT on supplies the council makes, the council needs to consider if VAT should be charged. In the case of the jubilee mugs, as they were a one-off item, I would not consider they meet the regular supply test, with reference to VAT rules. Therefore, on balance I think this would be a non-business activity. However, the council may want to seek advice on if the delivery service for the newsletter counts as a business activity for VAT purposes – see [Local authorities and similar bodies \(VAT Notice 749\) - GOV.UK \(www.gov.uk\)](https://www.gov.uk/guidance/local-authorities-and-similar-bodies-vat-notice-749). I have to say that I am not an expert on VAT law, so this is just my opinion. One option may be to treat the sums for the newsletter as donations rather than payments.

C. This authority assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these?

The Risk Assessment is fit for purpose and was approved on 17<sup>th</sup> May 2022 and reviewed 20<sup>th</sup> March 2023. The minutes confirm its approval.

**Internal control objective met? YES**

**Recommendations:**

- **I note the council uses online banking. The Risk Assessment needs to be updated to reflect procedures for online banking.**

D. The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate?

2022/3 Budget & Precept

The Budget & Precept setting process for 2022-3 was adequate and a precept of £4,000 was set following consideration of a budget report, prepared by the clerk and presented to council in January 2022.

***Budget Monitoring***

In-year budget monitoring was carried out quarterly and budget monitoring reports are presented to Council periodically, as noted in the minutes. I have seen the Q3 report.

***Reserves***

The 2022/3 year-end balance is £2,411.22. The clerk informed me that £1365.33 of this is to top up the precept. Where an amount like this is allocated for general running costs, this would be classed as a general (un-earmarked) reserve not an unearmarked one. Best practice guidelines advise un-earmarked reserves should be between 3 and 12 months' of a council's expenditure, which this council's is.

The budget for 2023-4 was set in January 2023, the precept being set at £4,500. A budget report was presented to the council.

**Internal control objective met? YES**

**Recommendations:**

- **Include the budget in the minutes.**
- **Consider ringfencing part of the reserve for purposes such as elections, asset maintenance e.g. I note the council has aimed to reduce the number of noticeboards. The single noticeboard which the council has may rot and need replacing; replacements can be expensive so it would be sensible to start putting money aside so the funds are built up to replace it in a few years' time. Likewise, in future the laptop may need upgrading as such items have a limited life. It may be worth doing an asset condition review - this will better inform what reserves are needed.**

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

**Total receipts for the year were £5,352.95.**

A precept receipt of £4,000 was agreed to the SC remittance advice and precept request.

Other income was EMG, jubilee mug sales, Llanfair Times delivery, Llanfair Trust and VAT relating to May 2021 to May 2022.

I tested a sample of the following receipts to the corresponding remittance documentation and bank account records and minutes.

- R1 - Precept – £4,000. Received as budgeted but receipt not minuted.
- R6 - Jubilee mug sales of £250.68. Matches remittance but not minuted.
- R13 - VAT reclaim covering May 2021 to May 2022. I checked a sample of the reclaimed payments from May 2022 and they match the cashbook records. The receipt was not minuted.
- R15 – Llanfair Trust – grant of £183.66 towards the jubilee beacon.

I note that some of the receipts for the Llanfair Times distribution are in cash. As the clerk does not live near a branch of the bank, she transfers money from her account as a deposit instead. Cash should be banked intact and checked. Whilst I am not suggesting any funds are unaccounted for, the current practice is procedurally risky and places the clerk and council at risk.

**Internal control objective met? NO**

**Recommendations:**

- **The primary reason I have given a NO is because of cash not being banked intact. Cash receipts should be banked intact, not via transfers from the clerk. A procedure should be in place for checking the amount of cash received before it is banked e.g. a councillor to check it and record the check.**
- **Receipts should be minuted clearly, as soon as possible after they are received. This shows the council has checked receipts.**
- **Council should have a procedure in place to verify receipts e.g. at least one councilor (ideally different councillor each time) to check receipts against remittance advice and bank statements.**
- **I would recommend publishing a copy of the approved budget and precept either within or as an appendix to the minutes.**
- **It would be helpful to identify in the cashbook which receipts are cash, which are cheques, which are BACS.**

F. Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for?

N/A.

**Internal control objective met? N/A**

**Recommendations: N/A**

G. Salaries to employees and allowances to members were paid in accordance with this authority's approvals, and PAYE and NI requirements were properly applied

The clerk has a contract and works 4 hours per week and is on SCP12 of the NALC salary scales which at the rate effective from 1<sup>st</sup> April 2022 equates to £2,647.84.

A sample of the clerk's salary payments were checked against RTI payroll reports. There is evidence that PAYE and NI have been deducted and reported to HMRC.

In 2022/3, salary paid was £2,737.28. This included a backdated pay award relating to ALC adjustment to pay scales. I have checked the calculations and they are correct.

There is evidence of councillors checking the clerk's salary and reviewing pay e.g. in November 2022

The council is registered with The Pensions Regulator and has followed enrolment and re-enrolment procedures, re-declaration of compliance being submitted on 20<sup>th</sup> March 2023.

**Internal control objective met: YES**

**Recommendations: None.**

H. Asset and investments registers were complete and accurate and properly maintained.

The Council's fixed asset register/inventory was examined, it is due to be adopted shortly. The register itemises assets at their nominal/original cost value and totals £584.64. The initial version I examined totalled £581.64 as the council had not assigned a value to three donated items previously. Following my advice to correct this, the items now have a value of £1 each.

The Council's insurance policy was renewed on 17<sup>th</sup> February 2023, cover having been continuously in place prior. The policy expires on 16<sup>th</sup> February 2023. The level of cover appears to be adequate for the value of the assets on the register.

**Internal control objective met: YES**

**Recommendations:**

- **Council to re-adopt the asset register with corrected values.**
- **Carry out an asset condition review to inform future planning for replacing assets.**

I Periodic bank account reconciliations were properly carried out during the year

The presented year-end bank reconciliation. I informed the clerk that the balance carried forward should match the balance as at end 31.3.22 (the first version included payments agreed in 2021/2 paid in 2022/3). The reconciled balance is £2,114.22 as at 31.3.2023.

Throughout the year, the Clerk/RFO has reported quarterly bank reconciliations to Council which have been agreed and adopted by Council. I examined the Q3 bank reconciliation which matches the bank statement. My comment is that the unpaid payments from 2021/2 should be deducted off the reconciled balance. Fundamentally, though the overall reconciled figure is accurate.

**Internal control objective met? YES**

**Recommendations: Recommend that full copy of the bank reconciliations are published with the minutes.**

J. Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate debtors and creditors were properly recorded.

The AGAR and Statement of Accounts has been correctly compiled on a receipts and payments basis based on the cashbook.

**Internal control objective met? YES**

**Recommendations: None.**

K. If the authority certified itself as exempt from a limited assurance review in 2021/2, it met the exemption criteria and correctly declared itself exempt?

The Council fully met the exemption criteria, which included having annual gross income and annual gross expenditure values each below £25,000. Council resolved to approve the certificate at the 17<sup>th</sup> May 2022 meeting; the AGAR and related paperwork were also approved at the meeting.

**Internal control objective met? YES**

**Recommendations: None**

L. The authority publishes information on a website/webpage, up to date at the time of the internal audit, in accordance with the Transparency Code for Smaller Authorities

The Transparency Code for Smaller Authorities states that by no later than 1<sup>st</sup> July in the year to which it relates the authority must publish:

- Details of all items of expenditure over £100
- End of year accounts:
  - Bank reconciliation for the relevant financial year,
  - An explanation of any significant variances (e.g. more than 10-15 percent) in the statement of accounts for the relevant year and previous year
  - An explanation of any differences between ‘balances carried forward’ and ‘total cash and short term investments’, if applicable
- Annual Governance Statement;
- Annual Internal Audit Report;
- List of councillor responsibilities e.g. committees and outside bodies they sit on;
- Location of public land and building assets
- Minutes, agendas and papers of formal meetings (publish agendas within required clear days and draft minutes within 30 days of meeting)

**Internal control objective met? YES**

**Recommendations: None.**

M. The authority, during the previous year (2022-3) correctly provided for the exercise of public rights as required by the Accounts and Audit Regulations.

The authority published notice of exercise of public rights on its website within the correct time frame.

**Internal control objective met: YES**

**Recommendations: None.**

N. The authority has complied with the publication requirements for the 2021/2 AGAR?

The following documents were published online:

- Certificate of Exemption
- Annual Internal Audit Report
- Section 1 AGAR – Annual Governance Statement
- Section 2 AGAR- Accounting Statements

**Internal control objective met: YES**

**Recommendations: None.**

O. Trust funds (including charitable) – The council met its responsibilities as a trustee?

To the best of my knowledge, the Council does not act as a sole trustee for managing a Trust fund or asset.

**Internal control objective met: N/A**

**Recommendations: N/A**

**OTHER FINDINGS**

**Council minutes**

A sample review of Council meeting minutes established that the Council was quorate when it met.

**Code of Conduct and registrable interests**

I noted that the council has not yet adopted the new Code of Conduct, and I understand they are soon to do so. Just a reminder that when this is done, Other Registrable Interests will also need to be logged with the Monitoring Officer.