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DINAS POWYS COMMUNITY COUNCIL

INTERNAL AUDIT OF ACCOUNTS 2023/24

Includes Bogda's comments

REPORT OF PAUL EGAN, INTERNAL AUDITOR

May 2024

1. INTRODUCTION.

1.1 The internal audit of accounts for 2023/24 was requested by the Clerk/RFO of the Community Council and all relevant papers and supporting documents were provided by the Clerk/RFO. I visited the office on 22 May 2024 to inspect the accounts and supporting documents.

1.2 The audit engagement letter identified that the estimated time allocation for the audit would be one day. In order to work within this time parameter, it was necessary for me to plan the audit around the priority areas of work that needed to be undertaken as part of a reasonable assurance audit. I am grateful to the cooperation of the Clerk/RFO in providing the necessary documentation and for addressing my questions arising from the audit.

1.3 The work undertaken as part of the audit was as follows:

a. To check that the accounts were prepared on the correct basis.
b. To check that the Council was adequately insured.
c. To assess the efficiency of the process of salary payments and determination of salary levels.
d. To check that VAT refund claims had been submitted for 2023/24.
e. To check the accuracy of the asset register.
f. To check whether contracts of employment had been issued to all employees.
g. To undertake limited checks of income receipt and banking.
h. To undertake a random check on all expenditure transactions.
i. To assess the risk register and ensure that it was reviewed on an annual basis.
j. To undertake an assessment of the final bank reconciliation for the year.
k. To check whether bank reconciliations had been undertaken on a regular basis throughout the year and if not whether there were any implications for the Council in relation to cash flow management.
l. To check that schedules of payments were submitted to Council/Finance Committee meetings for approval.
m. To confirm the accounting statements to include in the annual audit return.
n. To examine the level of reserves to assess whether earmarked reserves were allocated and if the general unearmarked reserve was acceptable based on the guidance contained in the Practitioner's Guide on Governance and Accountability 2019.
o. To check whether a budget had been prepared for 2023/24 as a means of setting the precept, assessing the level of reserves and using the budget as a basis of monitoring income and expenditure during 2023/24.
p. To check whether the Council had prepared the statutory annual report for 2023/24 and the statutory training plan.

1.4 The audit was restricted to the tests in (1.3) above and this report concentrates on the findings of these tests.

2. CORRECT ACCOUNTING BASIS.

I noted that the Council's gross income and expenditure were both in excess of £200k and that this was also the case in 2022/23. The accounts were however prepared on a receipts and payments basis which is perfectly acceptable. However, it should be noted that in 2024/25 the gross amounts will be above £200k and therefore for 2024/25 the accounts will need to be prepared on an income and expenditure basis which will require the Clerk/RFO to prepare a balance sheet at the end of the financial year ensuring that receipts and payments relate specifically to the financial year. This will require proper treatment of what are known as accruals and prepayments.

Paul suggests that a different methodology is used in preparing the accounts due to the fact that the council will be in the next tier of categorisation (income of over £200,000). I am not convinced that this would need a different process to the one that is currently used, with a couple of additional actions, eg preparing an end-of-year balance sheet.

Accruals and pre-payments relate to annual subscriptions and payments for services and utilities that are paid in arrears or in advance. In the case of DPCC this relates to:

- HallMaster booking system
- Website & Email hosting
- Waste
- One Voice Wales Membership
- Gas

Basically, there are two ways of dealing with accruals and prepayments – calculating the correct amounts for the financial year per month and entering in spreadsheets on a monthly basis, or to change to a double entry method of accounting.

Personally, I would check precisely what is required and seek to address with a method that fits both the requirements of the Act and also DPCC methodologies. The alternative enters the sledge-hammer and nut scenario!

On further investigation .. The Governance and Accountability A Practitioners Guide Wales 2019 states:-
Guidance
Identifying the appropriate basis of accounts
17.1. Councils must prepare their accounting statements on an income and expenditure basis unless they meet the qualifying condition for the preparation of receipts and payments accounts as set out in the proper practices section of this chapter.
17.2. The qualifying condition does not apply when annual receipts and payments exceed £200,000 for three consecutive years. Where councils meet the qualifying condition, councils may choose to prepare accounts on a receipts and payments basis.

According to the above, DPCC may continue to use the current method

This guidance document is being updated currently and the position may change, so advise scrutiny, one published and issued.

The Guidance doc can be found here:
http://www.onevoicewales.org.uk/OVWWeb/UserFiles/Files/Front%20Page/Governance%20and%20Accountability%20A%20Practitioners%20Guide%20Wales%202019.pdf

I would point out that the Well-Being of Future Generations (Wales) Act 2015 requires any Council with a gross income or expenditure in three successive years to prepare a well being plan. The Council will need to develop such a plan in 2025/26.

That is correct. And not an inconsiderable task.

DPCC, as one of the larger Town and Community Councils in Wales, from 2025 will be required by law to prepare an annual report showing how the Council is taking “reasonable steps” to meet the objectives set out in the Vale Public Services Board Well-being Plan.

DPCC may be able to avoid this by reducing it’s gross income to below £200,000, either through a reduction in the precept or other income, which is more difficult to predict.

It may be that the threshold is lifted to £250,000 before 2025 (fingers crossed).

3. INSURANCE ARRANGEMENTS.

There is adequate insurance cover in place up to 31 December 2024. The Council may wish to check whether cyber security cover is in place and if not to obtain a quotation for this additional cover.

Without being complacent, DPCC have limited exposure to the outside world. The cloud is not used, nor is there remote access to the system from outside. As long as staff follow usual precautions with unexpected requests to ‘click’ or download, and regular back-ups are undertaken, the risk is low.

However, it would be worth investigating cost of cover (if not already included), weighing up with system and process requirements and considering)

4. SALARY PAYMENTS.

Salary payments are processed using Basic PAYE Tools and although I did not undertake a full check of payments, the amount spent on salary and NI for the year appeared reasonable. The salary payments made to the Clerk/RFO are authorised by a designated councillor. All staff pay is linked to the NJC for Local Authority staff pay scales and the Council approves any increases in rates of pay notified by NALC and the SLCC. I was provided with a copy of the minute relating to the approval of the latest inflationary pay award.

5. VAT REFUND.

VAT claims are submitted to the HMRC on a yearly basis but from 2024/25 an adjustment will need to be made in the end of year accounts so as to account for when the VAT refund was actually due rather than when received. I would suggest that the Council may consider it beneficial to make quarterly claims rather than a single annual claim. I checked that the VAT claim was submitted for 2023/24 and can confirm that this was the case.

> Does PE mean that the claim must relate to the whole of the financial year – ie April to March?
>
> The VAT reclaim deadline for local authorities, if submitting annually is (or was) 21 Feb to cover a period of 1st Feb to 31 Jan. This may have now changed.
>
> If this is to be moved to cover April -March, payment would not be in the financial year to which the reclaim relates, generating an accrual and that then means that the accounts cannot be finalised until the VAT reclaim has been submitted and payment received.

6. FIXED ASSET REGISTER.

The Clerk/RFO had had included a number of additional items purchased in the register. It was noted that leases/title deeds were held in the office safe. I would recommend that the Council decides on when a revaluation of its buildings should be undertaken.

> DPCC Properties were re-assessed in 2021 (I think), at a cost of around £3K (from memory). This was to provide a re-instatement estimate for the purposes of insurance.
>
> Whilst there is no reference that I could find in the financial regs that state the property values need to be assessed, the insurance cover is based on cost to

re-instate so needs to be fairly accurate and is refreshed by a best-guess scenario on an annual basis by insurance companies.

It makes sense to periodically (every 8-10 years perhaps) undertake an independent appraisal of re-instatement cost in order to ensure that insurance cover is adequate.

However, this causes a bit of a headache for the Audit process – particularly if one forgets to mention that the value has been RESTATED.

7. CONTRACTS OF EMPLOYMENT.

Contracts of employment had been issued to employees.

8. PETTY CASH ACCOUNT.

There is a petty cash imprest account in place. I was unable to reconcile the account as top up funding does not directly relate to the float value of £100. The Clerk/RFO explained that cheques for topping up the float did not necessarily match the amount required to reach the £100 level. I would recommend therefore that the Clerk produces a schedule showing the starting balance at 1st April 2023 and include the top up payments made by cheque less the value of receipts obtained for purchases made. This should be signed off by a designated councillor. The Council may wish to consider the acquisition of a debit card for use by the Clerk to obviate the need for a petty cash imprest account. This would need to be accompanied by a control procedure.

I have no idea why PE was unable to reconcile the account. IT IS NOT AN IMPREST ACCOUNT.

All income and expenditure is accounted for with cheque authorisations (for cash into the account) and receipts to evidence expenditure. Expenditure is usually for stamps, tea/ coffee / milk, batteries, and small incidental items. Spend ranges from a couple of pounds per month to £20 or £30.

The start balance is carried forward from the previous year.

To do anything else is extremely long-winded

An imprest account relies on the balance of the account to be fixed at (say) £100 at the start of each accounting period (month). This would mean topping up the account by sometimes as little as £1.49. The problem is … where does this money come from? Is it possible to cash a cheque for this amount? Is it worth getting the cheque prepared, authorisation and cheque signed, drive to the bank , queue for half an hour.....

This is a matter of practicality. Perhaps calling it something else would satisfy?

9. RISK REGISTER.

There is an urgent need for a risk management policy and register to be prepared which should be reviewed annually.

BIG Piece of work, but as has been identified, needs to be done.

10. INCOME RECEIPT AND BANKING.

A check was undertaken of income received against the bank statements and the cash book. No issues were identified.

I also examined the burial and hall hire records and those relating to allotments. Based on sample checks no issues of concern were highlighted. There is a process issue relating to the use of the computerised hall hiring system in that on limited occasions the name of the hirer is not included in the payment record. The Clerk/RFO advised that this issue was being addressed. Regular reviews of fee levels for each of the chargeable services are undertaken.

11. EXPENDITURE TRANSACTIONS.

I undertook a 1 in 5 check of cash book entries to invoices and the bank statements and found no issues of concern. I recommend that for cheque payments, the cheque stubs be initialled by the signatories. It was noted that all online payments are authorised by a designated councillor. I noted that on occasion employee's personal credit cards are used to purchase items for the Council. I would recommend that this practice now ceases and the Council may consider that a Council credit card be obtained with its use controlled by an approved procedure.

Decision to be made by Council

12. BANK RECONCILIATIONS.

Bank reconciliations were prepared on a monthly basis. I checked the end of year reconciliation which was correct. The end of year reconciled cash balance was £245824 which was consistent with the accounting statement contained in the annual return. I would recommend that Account No 27213757 with a balance of £0.03 be closed.

Decision to be made by Council

13. UNEARMARKED RESERVES.

The Practitioner's Guide on Governance and Accountability indicates that it is acceptable for the level of a Council's unearmarked reserves to be within the range of 3 to 12 months of the annual budgeted spend. The total amount at the end of the financial year was £245824. This is higher than at the end of 2022/23 which was £212666 a difference of £33158.

I would recommend that the Council considers the current level of reserves and formally resolves the amounts required for specific purposes known as earmarked reserves indicating what they are to be used for. The Clerk/RFO advised that the earmarked reserves totalled £167366 (Replacement Roof for Parish Hall) and the unearmarked reserves totalled £78458.

> Would suggest that a realistic (ish) cost of replacing the roof is sought from a specialist. This can then be used as justification for the reserves.
>
> Would also make sense to see under what circumstances the insurance company would /would not pay for the repair and to what limit.
>
> Earmarking – realistically, this is done at the pre-budget stage when projects are identified and prioritised. However, due to good(!) budget management, the costs have generally been covered within the budget allocated for the year. Perhaps not the best way. Maybe, going forward the projects that have been agreed need to be allocated a spend level (on the budget & cashflow sheets) from the reserve held in the Nat West (Operational account).
>
> All will need minuting as part of the budget setting process.

14. S137 PAYMENTS.

In relation to S137 payments a sum of £498.99 had been recorded in the annual return which related to payments where no specific power existed. I would recommend that in relation to any payments relating to the use of the Section 137 power a resolution is passed by the meeting as follows:

> **RESOLVED** that: In pursuance of the power conferred by Section 137 of the Local Government Act 1972 (as amended) and being of the opinion that the expenditure satisfies the requirements of that section, a donation of ...... be made to the .... in support of its work.

> To be noted

15. SETTING OF THE BUDGET AND PRECEPT.

I noted that the Council approved a budget for 2023/24 and 2024/25 and that the precept for that same year was determined after the budget was approved. This is the correct order by which the precept should be determined. I did not find any evidence that the Council included in its consideration the balances available in the prior financial years relating to the level of reserves. For future years, the level of reserves should form part of the consideration of budget setting. The Clerk/RFO was aware that only the Council can lawfully determine the budget and precept level.

Add line to budget prep sheets (estimated) and also to cashflow speadsheet (income section)

16. MONITORING OF BUDGET.

Budget monitoring reports comparing income and expenditure against budget headings were submitted to every meeting of the Finance Committee.

17. PART 1 OF THE ANNUAL AUDIT RETURN.

Line No.	2022/23	2023/24
1	210766	212666
2	123895	133220
3	144925	110353
4	93650	102504
5		
6	173270	108361
7	212666	245824
8		
9	212666	245824
10		
11	212666	245824
12	1905287	1979167
13		

18. OTHER MATTERS.

a) It was noted that the statutory annual report for 2022/23 had not been prepared as required by the Local Government and Elections (Wales) Act 2021 but that an annual report for 2023/24 was under preparation.

Annual report to form part of the end of year activities

b) I was not provided with any evidence to show that the Council had prepared its statutory training plan and this requires attention in order to meet legal requirements.

Training Plan to be prepared and agreed (likely to be bone of contention!)

c) The Council may wish to consider using the One Voice Wales Finance and Governance Self-Assessment Toolkit to guide it in relation to assessing compliance and improvement. Many Councils are finding its use to be highly beneficial.

To be noted

d) The Council might wish to consider subscribing to a bespoke accounting software package which would serve to streamline financial processes and produce targeted financial reports with limited additional staffing input.

To be considered?

e) Although agendas for meetings are published online, they do not include supporting papers. The statutory guidance supporting the Local Government Democracy (Wales) Act 2013 states that supporting papers should be published online whenever reasonably practicable.

To be noted

f) I noted that the level of reserves held in the bank exceeded the £85k Financial Services Compensation scheme. As a significant sum of cash is being reserved for earmarked purposes, the Council may wish to consider opening a savings account in another bank/building society which provides the same compensation cover. It may be possible to secure an improved interest rate in a notice savings account.

In hand, I believe

g) Other checks performed relating to declarations of acceptance of office, the requirements of the Independent Remuneration Panel for Wales, terms of reference for committees, register of member's interests, publication of draft minutes within 7 working days of a Council meeting and publication of annual financial returns were all satisfactory.

In conclusion I would wish to thank the Clerk/RFO for her assistance in providing information and explanations to enable me to complete the audit. It is clear to me that she is fully committed to providing an effective financial accounting service in support of the work of the Council.