

Interim Internal Audit  
For  
Llantwit Fardre Community Council  
2022/23

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## Contents

Introduction.....	2
Interim Audit Approach.....	2
Audit Programme .....	2
Proper bookkeeping .....	2
Accounts Payable (AP).....	2
Risk Assessment .....	2
Standing Orders and Financial Regulations adopted and applied .....	4
Budgetary Controls .....	4
VAT .....	4
Bank Reconciliation .....	4
Income (Accounts Receivable (AR)) .....	4
Conclusion.....	5

## Introduction

The following report provides a high level assessment of particular areas of the financial and administrative activities of the Council for the period up to 31st October 2022. The approach is consistent with previous interim audits and therefore comparisons can be made with these prior period reports.

## Interim Audit Approach

Based upon the result of the Internal Audit for 2021/22 the scope will be as follows:

- A high-level review to assess if the 'Recommendations' detailed in the Internal Audit Report 2021/22 have been considered and adopted,
- A high-level assessment of the Council's overall current administration for indicators of non-compliance with both Statute and internal governance, and
- To identify and make recommendations on observed issues or deficiencies or possible improvements.

## Audit Programme

### Proper bookkeeping

The bookkeeping process is efficient and correct. The RBS Omega bookkeeping package is in use and is to be extended to include the Asset package. All aspects of the Council's bookkeeping (e.g. reconciliations and VAT register) are under the direct control of the Council administration.

The Monthly Accounts (reviewed) are prepared up to and including October 2022 and include:

- Bank Reconciliation @ 31/10/2022
- Cashbook – Current & Deposit A/C for Month 7 (October 2022)
- Balance Sheet @ 31/10/2022
- Income & Expenditure A/C for the Month To Date (MTD) and Year To Date (YTD) to 31/10/2022.
- Council Detail Report – Actual v Budget YTD.

The ledgers (including the cashbook) are up to date (as at 31<sup>st</sup> October 2022) and maintained in a manner that provides a high degree of confidence in the accurate recording of income and expenditure.

### Accounts Payable (AP)

Payments were in accordance with the requirements of the Financial Regulations. Payments examined were timely, correctly recorded in the cashbook and posted to an appropriate nominal code.

### Risk Assessment

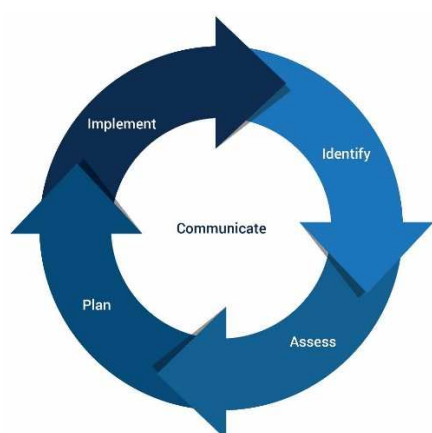
The Council reviewed and adopted the Financial Risk Assessment @ the Council meeting of 16<sup>th</sup> May 2022. Although the Financial Risk Assessment is in place and meets its basic obligations under the requirements of the *Accounts and Audit (Wales) Regulations 2014*, the approach to risk management needs review.

**Recommendation:** A recommendation is that the Council manage risk through a Risk Register. A Risk Register is a repository of all identified risks and includes additional information, such as the

nature of the risk (type of risk), possible consequences of the realisation of a risk (financial or otherwise) and mitigation (controls) measures.

Effective risk management is a cycle that consists mainly of:

- **Risk identification:** Are all the risks identified, are there any circumstances that give rise to new risks e.g. legislative. Legislation in itself is not a risk. Using GDPR as an example, the risk is the improper use of personal data and the consequences of doing so for the Council.
- **Risk assessment:** Assess the impact and probability of the risk and if the measures in place keep the risk to an acceptable level. For GDPR the impact is in the legislation.
- **Plan:** Does the assessment reveal a need for additional mitigating controls e.g. functional controls such as an additional report signed by an officer of the Council or maybe additional insurance or perhaps a standby generator for potential power cuts – there are many types of control.
- **Implement:** making sure the controls are in place and if appropriate, testing the control and making a note in the Risk Register. E.g. if a standby generator is purchased in case of a power cut, make sure it is serviced and tested with the information recorded in the risk register.



The current Financial Risk Assessment document is more of a control assessment i.e. control area followed by the control objective, a cause (risk), significance, likelihood and finally, the controls themselves.



#### LLANTWIT FARDRE COMMUNITY COUNCIL FINANCIAL RISK ASSESSMENT – MAY, 2022

CONTROL AREA	CONTROL OBJECTIVE	CAUSE	SIGNIFICANCE OR IMPACT	LIKELIHOOD	CONTROLS
<b>HIGH LEVEL CONTROLS</b>					
Segregation of duties	A key feature of an effective control framework is to ensure that where possible, no single individual has sole responsibility for any transaction from authorisation to completion and review. For smaller councils there may be particular resource constraints that make proper segregation of duties difficult to achieve. However, members can take action to compensate for these difficulties. For example, members reviewing reports of transactions independently of the RFO.	Council unaware of financial position of Council funds.	Medium	Medium	*Reports provided for monthly meeting. *Two signatures required for all cheques. *Bank statements / reconciliations are checked a minimum of twice a year. *All invoices initialled by 2 councillors. *All purchasing is planned and paper trail filed with invoices.
Budgetary control	One of the most important financial monitoring activities is budgetary control. This is monitoring the council's performance against its budget. The council should have procedures for regular budget reporting in place.	Inadequate monitoring of performance	Medium	Low	*Income and Expenditure report provided to Full Council, monthly *Quarterly review of nominal ledger by RFO. *Six monthly review of spending by Finance and Policy Committee. (undertaken on 13.01.2022)
		Annual Precept not the result of proper detailed consideration	Medium	Low	Full review of spending for the year to date and past year expenditure levels before budget is prepared and precept set by Full Council. (undertaken on 13.01.2022)
Internal Audit	The role of internal audit is to look at the effectiveness of the council's financial controls. The members should consider reports prepared by the internal auditor that identify weaknesses in internal control.	Non compliance with statutory requirements.	Medium	Low	Internal auditor re-appointed and ongoing for interim and end of year audits. (interim review undertaken April/May, 2022)
		Non-compliance with statutory	Medium	Low	Ensure that all accounts and returns are completed and

There are various templates for a risk register and something similar to the following would be sufficient:

Risk Description <i>Brief summary of the risk</i>	Impact description <i>What may happen if the risk is realised</i>	Impact level Rate 1 (low) to 5(high)	Probability level Rate 1(low) to 5(high)	Priority Level Impact * Probability	Mitigation (controls) <i>What can be done to limit the impact or probability.</i>
Increased risk of fraud.	Inappropriate use of Council monies and possible breach of legislation.	5	2	10	1. Segregation of duties

The scope of the assessed risks may also benefit from revision. Cyber Security for example is cited as the top risk facing organisations in 2023 (Institute of Chartered Accountants of England and Wales <https://www.icaew.com/insights/viewpoints-on-the-news/2022/oct-2022/businesses-face-perfect-storm-of-risks>), but it does not appear in the Financial Risk Assessment.

## Standing Orders and Financial Regulations adopted and applied

Consideration and adoption of the Standing Orders and Financial Regulations took place at the annual general meeting of the 16th May 2022.

**Observation:** Under Section 21. Responsibilities under data protection legislation, it is stated that:

*f. The Council shall maintain a written record of its processing activities.*

No record or register of processing activities currently exists.

**Recommendation:** A review of the Standing Orders to ensure compliance with statutory requirements of data protection legislation and ensure there is a written record of data processing activities.

## Budgetary Controls

Budgetary controls were not assessed during the interim audit.

## VAT

The VAT reports produced by the RBS accounting package appear correct and the appropriate entries in the bank statements are in place.

**Recommendation:** keeping a screen print of the HMRC submission with the VAT report would provide additional evidence that the submission was successful and on time.

## Bank Reconciliation

A detailed Bank Reconciliation is in place and included as part of the monthly accounting process.

Current Account:

Cash book @ 31/10/22 £184,354.33

Bank Statement @ 31/10/22 £184,354.33

Deposit Account

Cash book @ 31/10/22 £85,000

Bank Statement @ 31/10/22 £85,000

## Income (Accounts Receivable (AR))

The recording of income appears correct and reconciled in a timely manner.

## Conclusion

The overall financial administration of the Council is consistent and reliable with all periodic internal reporting requirements. The points noted are:

- The revision of the approach to risk management (non-qualifying item),
- Compliance with the requirements for data protection stated in the Standing Orders (qualifying item), and
- Attaching a screen print of the HMRC VAT submission confirmation to the VAT reports (non-qualifying item).

In conclusion, the Council appears to be on track for an unqualified final audit.

I would like to thank the Clerk of the Council for her cooperation during this interim audit.

Jason Morgan

Date: 10th November 2022.