

## **Chepstow Town Council**

*Internal Audit Report 2019-20: final update*

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*For and on behalf of*  
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## **Background**

Statute requires all town and parish councils to arrange for an independent internal audit examination of their accounting records and system of internal control and for the conclusions to be reported each year in the Annual Return.

This report sets out the work undertaken in relation to the reviews which took place for the 2019-20 financial year audit: The Interim review which took place on the 29<sup>th</sup> November and the 2<sup>nd</sup> December 2019, supplemented by the final update review which took on the 15<sup>th</sup> May 2020.

## **Internal Audit Approach**

The 2019-20 Year End Internal audit has been undertaken remotely due to the Covid-19 virus situation and in accordance with Government advice. All files and supporting document required to complete the audit have been supplied by the RFO, as requested, electronically.

In undertaking our review for the year, we have again had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts / Annual Return. Our programme of cover is designed to afford appropriate assurance that the Council has appropriate and robust financial systems in place that operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Internal Audit Report' as part of the Council's Annual Governance and Accountability Return (AGAR) process, which requires independent assurance over a number of internal control objectives.

## **Overall Conclusion**

Based on the satisfactory completion of our programme of work for the year, we have concluded that the Council has, again maintained adequate and effective internal control arrangements. We are pleased to report that there are no issues arising this year warranting formal comment and none warranting any recommendation.

We understand that the last few months of the 2019-20 financial year have been challenging for all councils, both in their day to day operational and their administrative functions. We take this opportunity to acknowledge the exemplary quality of records maintained by the Clerk/RFO and thank Lucy for her assistance during this final update audit which has ensured the smooth and successful progress of our review.

We have completed and signed the 'Internal Audit Report', having concluded that the control objectives set out in that Report have been achieved within the financial year to a standard adequate to meet the needs of the Council.

## Detailed Report

### Maintenance of Accounting Records & Bank Reconciliations

Our objective here is to ensure that the accounting records are being maintained accurately and currently and no anomalous entries appear in the financial ledgers. The Clerk/RFO has continued to use the Omega accounting system to maintain the Council's financial records for the year. The Council continues to use Unity Trust Bank for its day-to-day banking with surplus funds held in short term deposits with CCLA and Gateway. We have: -

- Noted that the outstanding External Auditor's certificate for the 2017-18 financial year has now been received. Additionally, the Council has received an Unqualified External Auditor's certificate for the 2018-19 financial year, the External Audit having been successfully concluded;
- Verified detail of the opening trial balance for 2019-20 on the financial ledger with that in the closing 2018-19 Statement of Accounts and Annual Return;
- Ensured that the cost and nominal coding structure remains appropriate for purpose;
- Noted that the Council continues to employ a robust General and Accounts data backup procedure using IT services from Microshade;
- Checked and agreed detail of three sample months' cashbook transactions (May and September 2019 and March 2020) to supporting bank account statements; and,
- Verified detail in the "current account" bank reconciliations as at 31<sup>st</sup> May and 30<sup>th</sup> September 2019, and the 31<sup>st</sup> March 2020.

#### *Conclusions*

*There are no matters arising in this area of our review warranting formal comment or recommendation.*

### Review of Corporate Governance

Our objective is to ensure that the Council has robust corporate governance arrangements in place, and that, as far as we may reasonably be expected to ascertain (as we do not attend Council or Committee meetings) all meetings are conducted in accordance with the adopted Standing Orders and no actions of a potentially unlawful nature have been or are being considered for implementation. We have:-

- Noted that the Financial Policy & Audit Committee completed a review of Standing Orders and Financial Regulations and resolved to re-adopt these documents at the Full Town Council meeting in February 2020 under Minute references 190 and 191 respectively;
- Completed our review of the minutes of Full Council and its Standing Committee meetings (excluding Planning) for the year ensuring that no issues affecting the Council's financial stability either in the short, medium or long term exist;
- Noted that the Council continues to make Grants and Community Contributions to local organisations using appropriate powers;
- Noted that the Clerk/RFO has amended the Council's Financial Procedures to incorporate the new electronic authorisations process; and,

- Noted that the Clerk/RFO continues to undertake all reasonable steps to ensure the Council's immediate and ongoing compliance with the General Data Protection Regulation (GDPR).

### **Conclusion**

*There are no matters arising in this area of our review warranting formal comment or recommendation.*

## **Review of Expenditure**

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- Payments are supported by appropriate documentation, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due and/or an acknowledgement of receipt, where no other form of invoice is available;
- The correct expense codes have been applied to invoices when processed; and,
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have completed testing in this area for compliance with the above criteria selecting a sample of high value payments individually in excess of £4,000, together with a more random sample of every 25<sup>th</sup> cashbook transaction irrespective of value for the financial year to 31<sup>st</sup> March 2020. Our test sample comprises 40 payments totalling £208.029 and equating to 67% of all non-pay related payments made to the above date. All the payments in our test sample complied with the testing criteria.

We note that quarterly VAT reclaims are prepared and now submitted electronically, directly from the Rialtas Software. We have reviewed all four quarter returns for the 2019-20 financial year to the 31<sup>st</sup> March 2020 noting that the first three have been settled accordingly, and that the fourth and final claim of the year had been submitted, and was pending payment. We have verified the value of each to the underlying Omega control account detail.

### **Conclusions**

*There are no issues arising in this area of our review warranting formal comment or recommendation.*

## **Assessment and Management of Risk**

Our aim here is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks to minimise the opportunity for their coming to fruition. We have: -

- Noted that the Council continues to use Ellis Whitham to assist officers in relation to both financial and physical Health & Safety risk assessments with the risk register and risk management strategy. However, we note that the Council's risk register was formally reviewed

in February 2020, however, that this was not presented to the Full Council for scrutiny and subsequent adoption during the 2019-20 financial year;

- Noted that the council has no playgrounds or playing fields; and,
- Examined the Council's extant insurance policy to ensure that appropriate cover is in place, noting that the insurance remains with Aviva arranged by WPS and that members have reviewed its content and confirmed its continued appropriateness. We note that both Employer's and Public Liability cover remain at £10 million with Fidelity Guarantee cover at £350,000 which we deem an appropriate level of cover for the Council's current needs.

### **Conclusions**

*There are no matters arising in this area of our review warranting formal comment or recommendation. We take this opportunity to remind the Clerk/RFO and members of the mandatory requirement for the Council's financial and operational risk registers to be the subject of review and formal adoption by the Full Council, "at least once annually", within the municipal year.*

## **Budgetary Control and Reserves**

In this area of review, we are seeking to confirm that the Council has determined its annual budget based on sound assumptions of intended spending, that sufficient funds are available to meet future spending plans and that members are kept aware of actual budgetary performance during the course of the financial year. We also seek to assess the adequacy of retained reserves, be they in respect of specific earmarked funds or the General Fund.

Our aim here is to ensure that: -

- The Council has undertaken a Budget setting and Precept determination exercise, which forms the basis of the annual precept request from the parent Council;
- The Council has received regular reports identifying the budget position throughout the year;
- The Council has formally approved the establishment of specific reserves;
- The utilisation of reserves and the return of unused balances to the General Fund are reported to the Council at regular intervals; and,
- Year-end reserves and General Fund balances are reviewed to ensure that they are both appropriate and are likely to be utilised.

The Council's minutes, together with the supporting papers provided to Council indicate that members undertook a robust Budget setting and Precept determination process in the Finance Policy and Audit Committee, which recommended a draft Budget and Precept to the Full council for the 2020-21 financial year. The Budget and Precept were formally adopted at the Extraordinary meeting of the Full Council on the 8<sup>th</sup> January 2020, setting the Precept at £657,553 (£561,066 prior year) under Minute reference 156 (4) We are also pleased to note that Councillors continue to receive regular income and expenditure reports along with the bank balance detail at each meeting.

Overall reserves as at 31<sup>st</sup> March 2020 have increased significantly to £1,003,689 (£914,725 prior year) with Earmarked reserves of £619,110 (£574,370 prior year) leaving a General Reserve fund of £384,579, which equates approximately 10 months' revenue spending at the 2019-20 level and

equating to approximately 10 months' revenue spending, which is higher than the generally recognised CiPFA guideline of between three and six months revenue expenditure.

### ***Conclusions***

***There are no matters arising in this area of our review warranting formal comment or recommendation.***

## **Review of Income**

Our objective here is to ensure that appropriate records are maintained to ensure that all income due to the Council is identified, invoiced accordingly, and recovered within an appropriate time scale. In addition to the Precept the Council receives supplementary income from a relatively limited variety of areas, including hire of the Gatehouse rooms, rent agreements, payments by local traders for hanging baskets and Christmas trees, market income, grants, bank interest and recoverable VAT.

We note that members have formally considered and approved the schedule of fees for FY 2019-20, in accordance with their Financial Regulations, during the Budget setting and Precept determination process, resolving to leave the fees set at the prior year level.

We have checked a sample of invoices from the Sales Ledger Day book and the nominal ledger relating to the markets and are pleased to report that these processes and procedures continue to operate satisfactorily with cheque and cash banking completed on a timely basis.

We have noted that the Council's current lease agreements continue to function satisfactorily with rents being collected and banked on a timely basis.

### ***Conclusions***

***There are no issues arising in this area of our review warranting formal comment or recommendation.***

## **Petty Cash Account**

Whilst the amount of spending through the petty cash account is minimal, we are required, as part of the internal audit certification process on the Annual Return to confirm that all such transactions are appropriately controlled, recorded and that VAT is identified for recovery wherever appropriate.

An Excel spreadsheet is prepared periodically, generally monthly, detailing the sequentially numbered receipt, nominal ledger code, description of item and cost, with VAT appropriately separated for recovery. We have examined transactions in May 2019 with no issues arising. Due to the remote nature of this year's final update review it has been impossible to check the physical cash balance, however, we have checked and verified the Omega Petty Cash reconciliations with no issues arising.

### ***Conclusions***

***There are no matters arising in this area of our review warranting formal comment or recommendation.***

## Salaries and Wages

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenue and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme.

To meet the above objectives, we have: -

- Noted that there is now an establishment list in place which details the Scale Point on the nationally agreed framework against which staff are salaried in addition to the working hours and additional increments paid for Saturday, Sunday and Bank Holiday working;
- Noted that the payroll continues to be outsourced to Chepstow Accountancy Services (CAS) with all appropriate supporting documentation provided;
- Noted the payroll production process which is managed by the Clerk/RFO with subsequent approval by members, payment being made to employees by BACS;
- Ensured that the Council reviews and approves pay scales for staff annually, noting that amendments to salary levels for 2019-20 were approved by the Council in the Personnel Committee in March 2019;
- Checked the gross salaries paid to individuals in May 2019 with reference to members' approved schedule of staff salaries for 2019-20; and,
- Verified the detail of the net salary and third-party payments of PAYE / NI and Pension contributions by reference to payslips and payroll summary reports and the subsequent cheque payments issued.

### *Conclusions*

*There are no matters arising in this area of our review warranting formal comment or recommendation.*

## Fixed Asset Register / Inventory

The Governance and Accountability Manual requires all Councils to prepare and maintain registers of their stock of land, buildings, vehicles, furniture and equipment. We are pleased to note that the Council continues to meet this requirement with the Clerk completing a detailed review of the document in year. We note that the council continues to maintain a robust fixed asset register which is formally reviewed and readopted during each financial year. We have reviewed the fixed asset register against the insurance schedule noting that all categories of assets are covered.

Finally, in this area of our review, we have checked and verified the Fixed Asset Value recorded in the register at £1,274,213, (£1,262,231 prior year).

### *Conclusions*

*There are no issues arising in this area of our review warranting formal comment or recommendation.*

## **Investments and Loans**

We aim here to ensure that the Council has appropriate investment and borrowing strategies in place and that the most advantageous interest rates are being obtained.

We note that Members resolved to adopt an Investment Strategy for 2017-18, in line with the guidance issued by the National Assembly for Wales, and that this strategy continues to be maintained. Surplus funds are held currently in accounts with CCLA and Gateway. We have agreed the current balance and interest earned on the CCLA fund and the Gateway account to prime documentation.

We have also checked and agreed both the annual loan instalments, repaid to PWLB this year, to their third party “demand” under the review of payments sample testing.

### ***Conclusions***

***There are no issues arising in this area of our review warranting formal comment or recommendation.***

## **Statement of Accounts and Annual Return**

The Council’s accounts are managed in the Rialtas Omega software accounting package, detail of which we have examined and consider reflects accurately the year’s transactions as recorded therein. The software is also used to generate the detail for inclusion in the year’s Annual Return, which we have also verified as being consistent with the accounting and other relevant supporting records.

We have also reviewed the procedures in place for identifying year-end debtors, creditors and accruals and agreed the detailed values recorded in the year-end Balance Sheet to the underlying records with no long-standing unpaid accounts or other issues arising.

### ***Conclusion***

***We are pleased to record that no issues arise in this area and, on the basis of the work undertaken during the course of our review for the year, we have “signed off” the Internal Audit Certificate in the Annual Return assigning positive assurances in all relevant areas.***