
Chepstow Town Council

Internal Audit Report: Final Update

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Background

All town and parish councils are required by statute to make arrangements 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. Auditing Solutions Ltd has provided this service to Chepstow Town Council since 2004-05.

This report sets out the work undertaken in relation to the 2017-18 financial year, during our visits on the 21st September 2017 and the 17th April 2018, together with the matters arising and recommendations for action, where appropriate.

Internal Audit Approach

In undertaking our review for the year, we have had regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts/Annual Return. We have employed a combination of selective sampling techniques (where appropriate) and 100% detailed checks in a number of key areas in order to gain sufficient assurance that the Council's financial and regulatory systems and controls are appropriate and fit for the purposes intended.

Our programme of cover has been designed to afford appropriate assurance that the Council's financial systems are robust and 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 'Annual Internal Audit Report' in the Council's Annual Return, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

We have concluded that, on the basis of the programme of work we have undertaken, the Council has maintained adequate and effective internal control arrangements.

We ask that members consider the content of this report and acknowledge that the report has been reviewed by Council.

We are also pleased to record that, in the areas examined, no major issues or concerns have been identified and that we consider the Council continue to operate generally effective control procedures in each relevant area, and we wish to commend the new Clerk for the clear and professional manner in which the accounts and governance documentation was presented and for her assistance during this year's audit process.

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 has continued to use the Omega accounting system to maintain the Council's financial records for the year. The Council continues to use Unity Bank for its day-to-day banking and holds surplus funds in short term deposits with CCLA (circa £152k) and Gateway (Circa £22k). We have: - We have: -

- Noted that the External Auditor has required certain amendments to the 2016-17 Annual Return;
- Verified detail of the opening trial balance for 2017-18 on the financial ledger with that in the closing 2016-17 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 Accounts backup procedure utilising the Cloud and Microshade;
- Checked and agreed detail of three sample months' cashbook transactions (April and August 2017, and March 2018) to supporting bank account statements; and
- Verified detail in the "current account" bank reconciliations as at 30th April and 31st August 2017, and March 2018.

Conclusions

No issues arise in this area currently warranting formal comment or recommendation.

Review of Corporate Governance

Our objective here is to ensure that the Council has a robust series of corporate governance documentation in place; that Council and Committee meetings are conducted in accordance with the adopted Standing Orders and that, as far as we are able to reasonably ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation.

- We note that the Financial Policy and Audit Committee completed a review of Standing Orders and Financial Regulations, in February 2017 and that these documents were formally adopted in the meeting of the full Council in February 2018;
- We also note that the council continues to operate a dedicated and easy to use website which contains details of Council meetings, Agenda, Minutes and other useful information associated with the Council and local commercial and community initiatives providing transparent access to the democratic process by local residents and interested parties; and
- We have completed our review of the minutes of Full Council and standing Committee meetings (excluding Planning) for the year ensuring that no actions have either been taken or are being considered that might result in unlawful expenditure being incurred.

Conclusions

In our Internal Audit Interim Report, we noted that, due to the confidential nature of Council business and the importance of proper fiduciary competence it is essential that the Council verifies the work record of its officers, their qualifications and indicated membership of professional bodies. All HR complaints must be managed by the process set out in the Council's own Grievance Procedure and HR Policies. Resultantly we made the following recommendations and have noted the Council's response, however, we cannot find any evidence in the Agenda and Minutes of the Personnel Committee that the recommendations have been discussed in the 2017-18 Financial Year.

- R1. *The Council should establish an account with the Disclosure and Barring Service (DBS), which helps employers make safer recruitment decisions and helps prevent unsuitable people working with vulnerable groups. The DBS replaces the Criminal Records Bureau (CRB) and the Independent Safeguarding Authority (ISA) and is an executive non-departmental public body sponsored by the Home Office. Response: Members noted the recommendation and passed this to the Personnel Committee for review.*
- R2. *All existing and prospective employees should be required to undergo an enhanced DBS check confirming their eligibility to work in the UK; check the individual's work record for the past ten years; conduct a police and criminal records check and verify academic achievement. The DBS can be accessed via the government portal <https://www.gov.uk>. Response: Members noted the recommendation and passed this to the Personnel Committee for review.*
- R3. *All HR Complaints made by or against Council employees must be managed in accordance with the Council's own Grievance Procedure and brought to a formal conclusion, even where a material party to the complaint(s) is no longer in the Council's employ. Response: Members noted the recommendation and passed this to the Personnel Committee for review.*

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 £2,500, together with a more random sample of every 40th cashbook transaction irrespective of value for the financial year to 31st March 2018. Our test sample comprises 39 payments totalling £168,169 and equating to approximately 62% of all non-pay related payments made during the 2017-18 Financial Year.

We are pleased to record that all payments in our test sample complied with the above criteria.

We also note that the Council's VAT returns have been submitted in a timely and accurate manner throughout the Financial Year and have verified detail of the reclaims prepared for HMRC, ensuring that they agree with the Omega control account detail.

Conclusions

No issues arise in this area currently 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 formally re-adopted by the Financial Policy and Audit Committee in February 2018;
- 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 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.

Conclusions

No issues arise in this area currently warranting formal comment or recommendation. However, we take this opportunity to advise the Clerk and members that its risk registers must now be updated, during FY 2018-19, to incorporate all identified risks that are associated with GDPR legislation which comes into force on the 25th May 2018.

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.

- The draft 2018-19 budget and precept were approved with the resolution to recommend the budget to the Full Council at the FP&A meeting on the 18th October 2017. Members subsequently resolved to approve the budget and precept, the latter being set at £629,750 at the meeting of the Full Council in November 2017;
- The Council continues to receive regular management reports updating them on the financial position of the Council; and

- We note that, as at the 31st March 2018 five Earmarked reserves (EMRs) have been formally established and are properly recorded within the Rialtas Omega accounting software.
- The Council's total funds at the financial year-end stand at £675,241, with funds totalling £400,132 held in Earmarked reserves designated for specific purposes. The residual General Reserve balance of £275,109, equating to approximately eight-and-a-half months' revenue spending, which is significantly higher than the generally recognised CiPFA guideline of between three and six months such spending.

Conclusion

The Council continues to hold healthy balances in well managed Earmarked reserves, the level of General Reserve, however is somewhat higher than the upper level specified in CiPFA guidelines. Members are encouraged to review the level of reserves again during FY 2018-19 to ensure that the level of General Reserve is set and maintained at a level appropriate for the Councils ongoing financial requirements.

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 2017-18 in September 2016 in accordance with their Financial Regulations.

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 also checked the Council's current lease agreements and are please to report that these continue to function satisfactorily with rents being collected and banked on a timely basis.

Conclusions

No issues arise in this area currently 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 and 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 August 2017 and March 2018 with no issues arising and confirmed that the physical cash and as yet uncashed reimbursement cheque correspond with the £250 imprest.

Conclusions

No issues arise in this area currently 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, as most recently further revised effective from 1st April 2017.

To meet the above objectives, we have: -

- Noted that there is no establishment list in place currently due to ongoing staff changes at the Council;
- Noted that the payroll is outsourced to Chepstow Accountancy Services (CAS) with appropriate supporting documentation provided, which is then authorised by the RFO and the Acting Clerk with subsequent approval by members, payment being made by BACS;
- Ensured that the Council reviews and approves pay scales for staff annually, noting that amendments to salary levels for 2017-18 were approved by the Council;
- Checked the gross salaries paid to individuals in April and August 2017 with reference to members' approved schedule of staff salaries for 2017-18 and to staff contracts of employment with no issues arising; and
- Checked to ensure that Tax and NI deductions have been made applying the appropriate PAYE code and NIC Table for 2016-17 with no issues arising.

Conclusions

No issues arise in this area currently 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 Deputy 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.

Conclusions

No issues arise in this area currently 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 have resolved to adopt an Investment Strategy for 2017-18 in line with the guidance issued by the National Assembly for Wales. 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.

- No specific “investments” requiring separate disclosure are held: such “surplus” funds as exist are held in separate accounts with the CCLA fund standing at approximately £152,000 and the Gateway deposit account standing at approximately £22,000 as at the 31st March 2018;
- We have verified the year-end balance and the interest earned on the CCLA fund and the balance and the interest earned on the Gateway account to prime documentation; and
- We have also checked and agreed the two half-yearly loan instalments, repaid to PWLB this year, to their third party “demand”.

Conclusions

No issues arise in this area currently warranting formal comment or recommendation.

Statement of Accounts and Annual Return

The Accounts and Audit Regulations, as amended periodically, require all councils to prepare annually a Statement of Accounts, which is now in the form of the Annual Return at Section 2, which is, together with the Annual Governance Statement at Section 1, subject to independent external audit examination and certification.

As part of our review process, we have examined the Council’s procedures in relation to the identification of detail for inclusion in Section 2 of the Return, which is generated automatically by the Rialtas accounting software, and is used by the Clerk & RFO to provide a detailed set of accounting statements. We have agreed detail therein to Section 2 of the 2017-18 Annual Return.

Conclusions

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 Report in the year’s Annual Governance and Accountability Return assigning positive assurances in all areas.

Rec No.	Recommendations made during the Internal Audit Interim Review	Response
Review of Corporate Governance; Potential risks of Fraudulent Activity.		
R1	The Council should establish an account with the Disclosure and Barring Service (DBS), which helps employers make safer recruitment decisions and helps prevent unsuitable people working with vulnerable groups. The DBS replaces the Criminal Records Bureau (CRB) and the Independent Safeguarding Authority (ISA) and is an executive non-departmental public body sponsored by the Home Office.	<i>Members noted the recommendation and passed this to the Personnel Committee for review.</i>
R2	All existing and prospective employees should be required to undergo an enhanced DBS check confirming their eligibility to work in the UK; check the individual's work record for the past ten years; conduct a police and criminal records check and verify academic achievement. The DBS can be accessed via the government portal https://www.gov.uk .	<i>Members noted the recommendation and passed this to the Personnel Committee for review.</i>
R3	All HR Complaints made by or against Council employees must be managed in accordance with the Council's own Grievance Procedure and brought to a formal conclusion, even where a material party to the complaint(s) is no longer in the Council's employ.	<i>Members noted the recommendation and passed this to the Personnel Committee for review.</i>