

Chepstow Town Council

Internal Audit Report 2022-23: (Final-update)

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For and on behalf of
Auditing Solutions Ltd

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 Internal Audit process for the 2022-23 financial year: the first of the two annual reviews, the interim audit took place on the 18th October 2022 and supplemented by the final-update audit which took place on the 17th April 2023.

Internal Audit Approach

In commencing our review for the year, we have again 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. 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 Return process, which requires independent assurance over a number of internal control objectives.

Overall Conclusions

We have followed up the recommendations made in our 2021-22 reports and acknowledge that the members have noted and considered these in their deliberations. The Council has continued to make business processes and performance improvements. We report that, on the basis of the work undertaken to date, the Council continues to operate adequate and effective internal controls in all areas examined to date. Resultantly, we made only three recommendations for improvement as a result of the Interim audit, which are recorded in the main body of this report and in the appendix to this report. No further recommendations as a result of the year-end audit.

Once again, we recognise the Clerk/RFO's continued professional management and administration of the Council's finance and governance functions. As in previous years, the manner in which the requested electronic documents and backup files were presented for audit was exemplary, making the interim Internal Audit review process straightforward.

As this shall be my last year auditing Chepstow Town Council I would like to personally thank the Clerk/RFO for her assistance, not only during the current financial year, but those which preceded it. I wish the Clerk/RFO, her administration team and the Members of Chepstow Town Council every continued success in the future.

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

Detailed Report

Review 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 Chepstow Town Council received an Unqualified External Auditor's certificate / report dated the 21st March 2023;
- Verified detail of the opening trial balance for 2022-23 on the financial ledger with that in the closing 2021-22 Statement of Accounts and Annual Return (subject to final closedown which had not taken place at the time of the year-end update audit);
- Noted that a credit card with a limit of £100.00 remains in use by the Clerk, with the balance settled monthly;
- 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. The Council's Accounts and Administrative data is retained and protected using this hosting service;
- Checked and agreed detail of three sample months' cashbook transactions: April, and September 2022 and December 2023 to supporting bank account statements; and,
- Verified detail in the "current account" bank reconciliations as at the 30th April, and 30th September 2022, and the 31st March 2023.

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 Standing Orders and Financial Regulations were last reviewed and re-adopted at the Full Town Council meeting in February 2022;
- Concluded our review of the minutes of Full Council and its Standing Committee meetings (excluding Planning) for the year to the 31st March 2023 ensuring that no issues affecting the Council's financial stability either in the short, medium or long term exist, noting only a minor procedural issue which has arisen recently, and which is commented on below;
- Noted that the Council has again adopted the Terms of Reference and Schemes of Delegation for its Standing Committees and Working Parties;

- Noted that the Council continues to make Grants and Community Contributions to local organisations using appropriate Powers;
- Noted that the Council correctly advertised the period for the Exercise of Public Rights; and,
- Noted that the Council correctly published the Annual Return and supporting financial information pertaining to the 2021-22 financial year, on its official website, at the following address: http://www.chepstow.co.uk/Financial_Management_30233.aspx
- Noted that the Council continues, as far as may be reasonably ascertained with the General Data Protection Regulation (GDPR) and has a formally adopted Information and Data Protection policy.

Conclusion and recommendations

Whereas this auditor recognises that the majority of council members are new to council affairs, it is a matter of significant concern that approval of the Council's statutory accounts was deferred due to the inability of several Members to understand basic accounting principles, i.e. credits and debits on bank accounts. We further note that various concerns and deferrals have occurred in a number of the Working Parties/Groups.

No matter may be deferred unless new and pertinent information has been identified, or where the Council meeting has overrun and there is insufficient time to complete the published Agenda. Where neither of these issues have arisen, ALL items of business MUST be put to the vote, and the vote recorded: for, against, or abstention. This is to ensure that the democratic process is protected and made as widely available as possible

If a matter is not carried, the Clerk/RFO and Members are reminded that, the item of business may not appear on the Council's Agenda for a further six months.

Members are reminded that a full information package, support for Agenda and Meeting Summons is submitted to them at least three full clear days prior to the meeting, with that information also being made available to them on google drive. It is incumbent on each member to review said information, and if they have any questions, or do not understand any item of business, to refer directly to the Clerk/Deputy Clerk prior to the meeting for clarification.

I take this opportunity to remind the Clerk/RFO and Members that failure to Approve the Council's financial statements promptly, recording queries about credits and debits, where it is actually a matter of lack of member knowledge rather than an issue with the council's accounts, may leave the Council open to unwarranted allegations of impropriety.

R1. The Clerk/RFO and Members must ensure that no item of business is deferred arbitrarily, and the democratic process is protected at all times. **Noted.**

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 concluded 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 25th cashbook transaction irrespective of value for the financial year to 31st March 2023. Our test sample comprises 56 payment totalling approximately £402,135 and equating to approximately 65% of all non-pay related payments made to the above date. All the payments in our test sample complied with the testing criteria.

We have noted that the Council has undertaken multiple quotation processes during the financial year to the 31st March 2023. All appear to have been managed in compliance with the Council's currently adopted Standing Orders and Financial Regulations. We further note that one Tender process was initiated at the 15th June 2022 meeting of the Finance, Policy & Audit Committee, under Minute Reference 18 where the Town Clerk was instructed to go to Tender vis a vis the Town Cleansing Team.

Finally in this area of our review, we have noted that all four quarterly VAT returns have been submitted in a timely and accurate manner and have verified detail to the Omega control account detail. We have also that the VAT recoverable was correctly disclosed in the year-end accounting statements (subject to final closedown).

Conclusions

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

Review of 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 retains Peninsula to assist officers in relation to the production of both the financial and physical Health & Safety risk assessments, the risk register and risk management strategy. We note that the Council's annual Risk Assessment Report and Risk Management Strategy were reviewed and readopted at the 8th February 2022 meeting of the Finance, Policy & Administration Committee, under Minute reference 43 of that meeting;
- Noted that the council has no playgrounds or playing fields under its management; and,
- Examined the Council's extant insurance policy to ensure that appropriate cover is in place, noting that the Council's insurance requirements have now been placed with WPS Hallam on a Commercial Combined insurance policy, underwritten by Aviva:

Policy No: 100760566CCI
Period of cover 01-06-22 to 31-05-23

Key features

- Employers Liability £10 million

- Products & Public Liability £10 million
- Commercial Legal Protection £1 million
- Commercial (Internal) Crime £350K
- Directors & Officers Indemnity £250K
- Corporate Legal Liability £250K
- Business Interruption £100K

We consider the level of cover appropriate for the Council's current needs. We note that Members have, as is required, reviewed its content of the Insurance policy and confirmed its appropriateness.

Conclusions

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

Review of 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.

We have noted that, as in previous years, as of the 18th October 2022, the Clerk/RFO and Members engaged in a detailed and robust Budget setting and Precept determination process in respect of the Council's expenditure requirements for the 2023-24 financial year. The draft budget is due to be presented at the Finance Policy & Audit Committee for its Member's consideration in November. The draft budget and precept were endorsed prior to being submitted to the Full Council for scrutiny and Approval at the 23rd November 2022 meeting of the Full Town Council.

Subsequently, Members Resolved to approve the draft 2023-24 budget in the amount of £680,280 under Minute reference 144 d (i-a), and the 2023-24 precept in the amount of £657,533 (unchanged over the previous year) with the balance being made up from the General Reserve, under Minute reference 144 d (i-b).

We have noted the Council's overall reserves as at the 31st March 2023 have reduced to £1,027,671 (£1,046,294 prior year) with Earmarked reserves of £636,854 (£750,963 prior year) leaving a General Reserve fund of £390,821 (£295,331 prior year) equating to approximately 7 months' revenue spending at the average monthly 2022-23 level, sitting just above the upper of the generally recognised CiPFA guideline of between three and six months revenue expenditure.

Finally, in this area of our review we note that Councillors continue to receive regular and detailed income and expenditure reports along with the bank balance detail at each meeting.

Conclusions

There are no matters arising in this area of our review warranting formal comment or recommendation. We take this opportunity to commend the Clerk/RFO and Members for the consistent and exemplary manner in which the Town Council undertakes and determines its Budget and Precept. Finally, we ask that the Clerk/RFO forwards the Council's year-end variance report to us after the year-end close down has been performed.

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 lease/rent agreements, (no room hire in the financial year to date), occasional grants & donations, bank interest and recoverable VAT.

It is notable that the Environment & Amenities Committee Resolved that due to the financial hardship being experienced by all retailers in the High Street, a community which the Council has worked strenuously to support and develop in previous years, it was agreed that the summer floral displays and Christmas trees will again be installed and maintained at the Council's expense.

The Council has one Lease Rental agreement in place in respect of the Gatehouse which terminates in 2025. The Old Library had been vacant since the summer of 2022, however a new tenant has been identified for a one year lease which will terminate in 2025.

We note that Members again Resolved to maintain the Council's Schedule of Fees for 2022-23 at prior year levels to aid with business recovery for the Chepstow constituents. In accordance with the Council's Financial Regulations, it is anticipated that a further review of the Council's fees will be undertaken during the Budget setting and Precept determination process for the 2023-24 financial year.

Conclusions

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

Review of the 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 petty cash transactions for the months of April and September 2022, and March 2023, against the reconciliation reports certified by the Clerk/RFO with no issues arising.

Finally, in this area of our review, the Clerk/RFO certified the physical Petty Cash balance as at the 31st March 2023. We also checked the physical Petty Cash balance during the year-end final-update audit with no issues arising.

Conclusion

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

Employment, remuneration & Payroll

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 a comprehensive Establishment List in place which details the Scale Point on the nationally agreed framework against which staff are salaried, hourly rate and additions to the working hours including 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;
- Checked the gross salaries paid to individuals in September 2022 with reference to members' approved schedule of staff salaries for 2022-23; 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 payments issued.

Conclusions

There are no matters arising in this area of our review warranting formal comment or recommendation. We do, however, take this opportunity to recommend to the Clerk/RFO and Members that a formal evaluation of staff roles and remuneration by the National Association of Local Councils (NALC) or One Voice Wales (OVW). The last review was undertaken almost five years ago in 2018, and public sector employment and contracting terms have changed significantly during that period.

R2. *The Clerk/RFO and Members should consider requesting either NALC or OVW to undertake a formal evaluation of the Council's staff roles, responsibilities and remuneration to ensure that the Council remains a best practice & competitive employer.*
Noted.

Review of Fixed Asset Register(s)

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 Town Clerk completing a detailed review of the document in the year.

We note that the council continues to maintain a robust fixed asset register which is recorded in the Rialtas Asset Management module of the accounting software. As in prior financial years, the Register was formally reviewed and readopted at the Finance, Policy & Audit Committee in the 8th February 2023 meeting, under Minute reference 46. We have reviewed the fixed asset register

against the insurance schedule noting that all categories of assets are properly maintained and agreeing in year acquisitions and disposals.

Finally, in this area of our review, we have checked and verified the Fixed Asset Value recorded in the register at £1,293,615 (*£1,293,615 prior year*) which has been correctly disclosed in the AGAR Section 2 – Accounting Statements for the 2022-23 financial year.

Review of Investments and Loans

Our aim in this area of review is 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 originally resolved to adopt an Investment Strategy for 2017-18, in line with the guidance issued by the National Assembly for Wales. This strategy continues to be maintained with Members Resolving to Readopt the Council’s Annual Investment Strategy 2022-23 during the 15th June 2022 meeting of the Finance Policy & Audit Committee under Minute Reference 11.

The Council holds its funds in a Unity Trust Current and Reserve Account and the CCLA Public Sector Deposit Fund, on which monthly interest is received: as indicated earlier in this report, we have verified the appropriate receipt of that interest and its recording in the relevant cashbook.

As at the 31st March 2023 the Town Council held funds as follows:

Account	Cashbook Number	Reconciled Value as at 31-03-23
Unity Trust Bank Current Account	CB1	£558,140.67
CCLA PSDF		£406,393.21
Gateway Credit Union		£22,193.43
		Total £986,727.31

The detail of each account has been checked and verified against the prime documentation, i.e. bank statements as at the 31st March 2023, cashbook entries and corresponding bank reconciliations.

We take this opportunity to remind the Town Council that it is obliged to protect, as far as is reasonably possible, the public funds under its management. Currently the Government’s Financial Services Compensation Scheme (FSCS) provides protection for to £85,000 invested in one institution, where that institution has a turnover of less than €500,000. Chepstow Town Council’s turnover is in excess of this amount.

We note that the CCLA PSDF continues to provide highly efficient investment solution, used by many councils in Wales & England, which spreads the risk of the council’s investment amongst ‘A’ rated financial institutions.

We have checked and verified both half-yearly loan instalments, repaid to PWLB this year, to its third party “demand” under the review of payments sample testing with no issues arising.

Finally, in this area of review we note that the Council has no loans owed to it.

Conclusion & recommendation

Given the volatility in the market and future uncertainty due to the ongoing global public health situation, we once again, strongly recommend that the Town Council take steps to ensure that the public funds under its management are protected to the extent that it is possible to do so, with the objective of ensuring that each of the Town Council's deposits is covered by the Government's FSCS. To this end, we strongly recommend that the Council reviews its current investment holdings in line with its Adopted Annual Investment Strategy and Investment Policy.

R.3 The Town Council should expediently consider the level of funds it has invested in its accounts with the Unity Trust Bank and consider how the Council can best protect the public funds under its management, seeking independent financial advice in this matter, if Members deem such action appropriate. Noted.

Annual Return and Accounting Statements

The 1996 Accounts and Audit Regulations required all Councils to prepare annually a detailed Statement of Accounts, together with supporting statements identifying other aspects of the Council's financial affairs.

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 AGAR, which we have also verified as being consistent with the accounting and other relevant supporting records.

We have 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.

We have also checked and verified the provisional Accounts, as the final closedown of the Rialtas accounting system has yet to take place, against prime documentation, and consider that the Council's Accounting reports accurately record the 2022-23 financial year's transactions, and 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 yet to receive the Clerk/RFO's full Statement of Accounts.

Conclusion

On the basis of our detailed work during the course of the year on the Council's systems of financial control and content of the detailed Statement of Accounts (provisional) and that summarised detail set out in the Annual Return (provisional), we have signed off the Internal Audit Report of the Annual Return assigning positive assurances in each relevant area.

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NOTE TO REPORT

We confirm that all confidential & sensitive information, supplied for the purposes of this audit including, Personnel Minutes, Payroll and Employment data have been permanently deleted from Auditing Solutions Ltd.'s servers and any printouts made for the purposes of this audit have been destroyed in accordance with the Company's data and document retention policies and with the prevailing General Data Protection Legislation.

Rec. No.	Recommendation	Response
Review of Corporate Governance		
R1	The Clerk/RFO and Members must ensure that no item of business is deferred arbitrarily, and the democratic process is protected at all times.	<i>Noted.</i>
Review of Employment remuneration & payroll		
R2	The Clerk/RFO and Members should consider requesting either NALC or OVW to undertake a formal evaluation of the Council's staff roles, responsibilities and remuneration to ensure that the Council remains a best practice and competitive employer.	<i>Noted.</i>
Review of Investments & Loans		
R3	The Town Council should expediently consider the level of funds it has invested in its accounts with the Unity Trust Bank and consider how the Council can best protect the public funds under its management, seeking independent financial advice in this matter, if Members deem such action appropriate.	<i>Noted.</i>