

Chepstow Town Council

Internal Audit Report 2018-19: 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 interim Internal Audit for the 2018-19 financial year: The Interim Audit which took place on the 17th September 2018 and the Final Update Audit which took place on the 3rd May 2019.

Internal Audit Approach

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 Return process, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

We have followed up the recommendations made in our 2017-18 reports and acknowledge that the members have noted and considered these in their deliberations and enacted the recommendations where it has been deemed appropriate. We also report that, on the basis of the work undertaken to date in the current year, the Council continues to operate adequate and effective internal controls in all areas of our review to date.

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. Therefore, 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.

We take this opportunity to commend the Clerk/RFO for her continued professional management and administration of the Council's finance and governance functions during what has been a challenging period for the Council with long-term governance issues which are, at the date of this audit, still unresolved. We thank the Clerk/RFO, and her team, for the very clear and effective documentation being retained in support of the Council's operations. The logical manner in which this information is stored and presented both for the purposes of the day to day running of the council, and for external scrutiny has made the interim Internal Audit review process straightforward.

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

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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 Bank for its day-to-day banking with surplus funds held in short term deposits with CCLA and Gateway. We have: -

- Noted that the External Auditor's certificate for the 2017-18 Financial Year had still not been received by the Clerk/RFO as at the date of the Final Update review, due to continuing investigations into an employment matter and a governance matter pertaining to an asset not currently owned by the Council;
- Verified detail of the opening trial balance for 2018-19 on the financial ledger with that in the closing 2017-18 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 August 2018, and March 2019 to supporting bank account statements; and
- Verified detail in the "current account" bank reconciliations as at 31st May and 31st August 2018, and the year end bank reconciliations as at the 31st March 2019.

Conclusions and recommendation

The balance recorded for the CCLA Public Sector Deposit Fund in the Year End Trial Balance and consequently the Annual Return has been stated incorrectly as £400,271.76 rather than the statement balance of £402,335.07.

R1. The Year End balance of £402,335.07 must be correctly recorded in the Council's Accounts and the Statement of Accounts redrafted prior to the Annual Return being signed off. Recommendation: Implemented.

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 further revised during FY 2018-19 and that the revised documents were adopted in the February meeting of the Full Council;
- 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;

- Noted that the Council continues to make Grants and Community Contributions to local organisations using appropriate powers;
- Noted that the Clerk/RFO is in the process of amending the Council's Financial Procedures to incorporate the new electronic authorisations process;
- Noted from the Council's minutes that it declined to place a representative on an outside body due to uncertainty about the status of that body's constitution; and
- Noted that the Clerk/RFO has undertaken all reasonable steps to ensure the Council's immediate and ongoing compliance with the General Data Protection Regulation (GDPR). This includes, but is not limited to arranging secure off-site backup facilities hosted by Microshade, the development and subsequent adoption by members of new Information & Data Protection and Privacy policies, the provision of dedicated Council e-mail addresses for all council members and administration staff, and the amendment of forms and e-mails to ensure users of the council's services are aware of what data will be retained and the Council's Privacy Policy.

Conclusions made at the Interim Internal Audit

There are no issues in this area of our review warranting formal comment or recommendation. It is this auditor's conclusion that the Council continues to operate robust, proportionate and effective Corporate Governance procedures. We take this opportunity to provide some general advice concerning the points noted above:

We remind the Clerk/RFO and members that an annual review should be undertaken to ensure that all monies awarded as a Grant, under the Local Government Act 1972 s.137, have been spent on the project or procurement which they were applied for. We also remind the Clerk/RFO and members that if a party applies for a grant for a specific item, for example a tent for a Scouting organisation, the council could consider purchasing this directly and making an irrevocable deed of gift of the item to the applicant under s.137. This would provide the benefit of allowing the Council to reclaim the VAT thereby achieving best value for both the Council and its electorate.

It is important that the Council only appoint members to properly constituted and managed organisations, so as to protect the reputation of the Council and its members, from unwarranted allegations of bias, lack of transparency or personal interest and potential financial claims. Further, members, when appointed to act as a representative should only act in the capacity as an observer, not a member of a management committee or board where they are required to act as a decision maker. To act in a decision-making capacity, unilaterally, would exceed a member's powers: All decisions made on behalf of the Council requiring the consensus and resolution of a quorum of members.

Finally, we have reviewed the new policies, procedures and noted new infrastructure that has been put in place in order to comply with the new General Data Protection Regulation and consider these to be both reasonable and proportionate. We take this opportunity to remind the Clerk/RFO and members that private e-mail address must no longer be used to undertake any communication on behalf of the Council to ensure GDPR compliance.

Conclusions and recommendation made at the Year End Audit

The minutes record that under minute reference 104 the Council has made a; 'Grant of £700 to an individual on behalf of the Royal British Legion'. Upon investigation, the Grant Application

*was made in the name of the Royal British Legion, however, the cheque in respect of the Grant Award was made to a private individual which is not a proper accounting practice. All Grant Awards made **MUST** be paid to the Applicant named on the application forms and not to a third party.*

We take this opportunity to remind the Clerk and the Members that the Local Government Act 1972 Power S.137 does not permit grants to be made to the following:

- *Individuals*
- *General Appeals*
- *Statutory organisations or the direct replacement of statutory funding / Government organisations or the direct replacement of Government funding. I.e. Schools, Hospitals etc.,*
- *Activities or organisations promoting political beliefs*
- *Activities or organisations promoting religious beliefs*
- *Overseas travel*
- *Arts projects with no community or charitable element*
- *Sports projects with no community or charitable element*
- *Medical research, equipment or treatment*
- *Animal Welfare*

The Clerk and Members must ensure, that prior to any Grant being Awarded that the Council is complying with its own Financial Regulations, acting within its delegated powers and not acting unlawfully, i.e. taking actions which are deemed to be ultra vires.

R2. The Clerk/Responsible Finance Officer must ensure that, when scrutinising all Grant applications that the Applicant is the same legal entity as the Recipient to whom the award is made.

R3. The Chief/Responsible Finance Officer must ensure that the council acts within the Powers delegated to it to ensure that no ultra vires actions are made.

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 to the 31st March 2019. Our test sample comprises 46 payments totalling £203,066.87 (Not including transfers) and equating to 64% of

all non-pay related payments made during the Financial Year. All the payments in our test sample complied with the testing criteria.

We also note that the Council's VAT returns have continued to be submitted in a timely and accurate manner. We have examined the Q1, Q2 and Q3 VAT returns and verified these against detail to the Omega control account detail. The Q4 VAT return was in the process of being run at the time of the Year End Audit.

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 formally re-adopted by the Financial Policy and Audit Committee in February 2019;
- 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.

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 Reserves or the General Reserve.

- The draft 2019-20 budget and precept were approved with the resolution to recommend the budget to the Full Council at the Finance Policy and Audit Committee. Subsequently, at the January 2019 meeting of the Full Town Council, Members resolved to approve the budget and precept, setting the budget at £633,066 with a reduced Precept of £561,066 with £72,000 of the General Reserve being used to make up the budget thereby reducing the

charge on Band D Properties. 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;
- We note that, as at the 31st March 2019 the Council 19 active Earmarked reserves (EMRs), which have been formally established and are properly recorded within the Rialtas Omega accounting software; and,
- The Council's total funds at the financial year-end have risen considerably to £914,725 (£675,241 at the prior year level) with funds totalling £574,370 (£400,132 prior year level) held in Earmarked reserves designated for specific purposes. The residual General Reserve balance of £340,355 (£512,441 prior year level), equating to approximately 10 months' revenue spending, which is higher than the generally recognised CiPFA guideline of between three and six months revenue expenditure, however, we note the steps taken by the Clerk and Members to reduce the level of the Council's General Reserve position over 2018-19.

Conclusion and recommendation

We have noted the reduction in the Council's Precept demand for FY 2019-20, and note that this will go some way to redress the very high level of reserves currently held. However, even with a reduction of £72,000 in the Precept demand creating a Budget shortfall to be made up from the Council's General Reserve, this still leaves a General Reserve equivalent to almost thirteen-and-a-half month's revenue expenditure which is still double that of the CiPFA guideline.

The Council continues to hold healthy balances in appropriate and well managed Earmarked reserves.

We restate our conclusion to the Clerk and Members made in our Year End Audit Report for FY 2017-18 that the Councils General and Earmarked Reserves are reviewed, thoroughly, during the Budget setting and Precept determination process for FY 2020-21 and that the level of General Reserve is set and maintained at a level appropriate for the Councils ongoing financial requirements.

R4. The Clerk and members should ensure that the Council's General and Earmarked Reserves are reviewed, thoroughly, during the Budget setting and Precept Determination process and that the Precept demand is made with the CiPFA guideline of retaining between 3, and 6 months General Reserve based on current revenue expenditure.

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 2018-19, 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 also checked the Council's current lease agreements and are pleased to report that these 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 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 2018 and March 2019 with no issues arising and confirmed that the physical cash and as yet uncashed reimbursement cheque correspond with the £250 imprest. We have also checked and verified the Year End Petty Cash reconciliations to the 31st March 2019 with no issues arising.

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.

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 Clerk/RFO 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 2018-19 were approved by the Council in the Personnel Committee in March 2018;
- Checked the gross salaries paid to individuals in August 2018 with reference to members' approved schedule of staff salaries for 2018-19; and
- Verifying 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 issues 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 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.

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

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. No specific "investments" requiring separate disclosure are held: such "surplus" funds as exist are held in two separate accounts with the CCLA Public Sector Deposit Fund and the Gateway deposit account:

- 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 and that this document is reviewed by members periodically;
- We note that, at the Financial Year End, the CCLA PSDF stands at approximately £402,335, a further in-year investment of £248,000 having been made, the total fund representing the Council's Earmarked Reserves;
- We note that, at the Financial Year End, the Gateway deposit account stands at approximately £22,171;

- We have agreed the current balance and interest earned on the CCLA fund and the Gateway account to prime documentation; and,
- We have also checked and verified the two half-yearly loan instalments, repaid to PWLB this year, to their third party “demand”.

Conclusions

There are no issues arising in this area of our review 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 | Response |
|--|---|------------------------------|
| Review of Accounting Records and Bank Reconciliations | | |
| R1 | The Year End balance of £402,335.07 must be correctly recorded in the Council's Accounts and the Statement of Accounts redrafted prior to the Annual Return being signed off. | <i>Response: Implemented</i> |
| Review of Corporate Governance | | |
| R2 | The Clerk/Responsible Finance Officer must ensure that, when scrutinising all Grant applications that the Applicant is the same legal entity as the Recipient to whom the award is made. | |
| R3 | The Chief/Responsible Finance Officer must ensure that the council acts within the Powers delegated to it to ensure that no ultra vires actions are made. | |
| Review of Accounting Records and Bank Reconciliations | | |
| R4 | The Clerk and members should ensure that the Council's General and Earmarked Reserves are reviewed, thoroughly, during the Budget setting and Precept Determination process and that the Precept demand is made with the CiPFA guideline of retaining between 3, and 6 months General Reserve based on current revenue expenditure. | |