AUDITING SOLUTIONS LTD

Chepstow Town Council

Internal Audit Report 2020-21: Final Update report

Claire Lingard
Consultant Auditor

Reviewed by

Stuart Pollard
Managing Director

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 Governance and Accountability Return (AGAR).

This report sets out the work undertaken in relation to the Internal Audit process for the 2020-21 financial year; the interim review which took place on the 11th & 12th November 2020, supplemented by the final update review which took place on the 30th April 2021.

Internal Audit Approach

In concluding our reviews of 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 / AGAR. Our programme of cover, which has been modified in light of the Covid-19 directives under which Councils are required to operate, 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 AGAR process, which requires independent assurance over a number of internal control objectives.

Overall Conclusions

We have followed up the recommendations made in our 2019-20 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, even in these challenging times and we have reviewed the Council's modified practices implemented to comply with the Government's Covid-19 directives, and report that, on the basis of the work undertaken in the current year, the Council continues to operate adequate and effective internal controls in all areas examined Seven recommendations for improvement have been made which are set out in the Review of Corporate Governance and the Review of Expenditure and the attached action plan.

We have noted that the Council has taken all reasonable steps both to comply with both central Government and Welsh Assembly Covid-19 directives, also ensuring that the Council's service provision remains at a consistently high standard; ensuring both the health and safety of the Employees, Members, Tenants and members of the public availing themselves of the Council's services and facilities. All modified practices being formally Reviewed, Resolved and Recorded in the Council's Minutes.

We commend not only the Town Clerk/RFO for her continued professional management and administration of the Council's finance and governance functions, but also the Members and Staff who have worked strenuously to maintain services for their constituents during these unprecedented and challenging times. Once again, the manner in which the requested electronic documents and backup files were presented by the Clerk / RFO for audit was exemplary, making the review process straightforward.

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

This report has been prepared for the sole use of Chepstow Town Council. To the fullest extent permitted by law, no responsibility or liability is accepted by Auditing Solutions Ltd to any third party who purports to use or rely, for any reason whatsoever, on this report, its content or conclusions.

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 Town 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 Council is in receipt of the External Auditor's report for the 2019-20 financial year, detailing a single minor issue;
- Verified detail of the opening trial balance for 2020-21 on the financial ledger with that in the closing 2019-20 Statement of Accounts;
- Noted that a credit card with a limit of £500.00 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;
- Checked and agreed detail of three sample months' cashbook transactions (April and June 2020, and March 2021) to supporting bank account statements;
- Verified detail in the "current account" bank reconciliations as at 30th April and June 2020, and the 31st March 2021; and
- Checked and verified the disclosure of the year-end combined cash and bank balances in the year's Annual Return statements.

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 reviewed and subsequently re-adopted at the Full Town Council meeting in February 2020;
- Concluded 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 statutory Powers including s.137 Local Government Act 1972 (amended);

- Noted that the Town Clerk/RFO has amended the Council's Financial Procedures to incorporate the new electronic authorisations process;
- Noted the Town Clerk/RFO's detailed document: 'Covid Financial Impact Statement', and,
- Noted that the Town Clerk/RFO continues to undertake all reasonable steps to ensure the Council's immediate and ongoing compliance with the General Data Protection Regulation (GDPR).

Conclusions

We are concerned to note that due to two ICO complaint directives, the Council has commenced minuting matters in the Full Town Council Minutes which we consider should properly be recorded in 'Confidential Minutes'.

We take the opportunity to remind the Clerk and Members that a Council's operations are mandated by the Local Government Act 1972 (Amended), an Act of Parliament. The Local Government Act defines, in Law, the way in which Councils in England and Wales are required to operate, including the Council method of Minute taking including Confidential Minutes: where the Clerk, in their considered opinion, deems this desirable and appropriate for the benefit of all parties concerned.

Confidential Minutes are not and should never be seen as a method of suppressing information. This is not their purpose, rather they are an entirely Lawful and proper method of maintaining information that could potentially be injurious to a third party, but which requires proper recording in the Council's records, with proper discretion. It is possible that the ICO is not aware of this necessary and lawful Council tool.

Whereas the ICO is correct in stating that the situation should be minuted, as was already the case, the ICO has no lawful mandate or authority to override the Local Government Act 1972 (Amended), nor to prevent the proper and lawful taking of Confidential Minutes where the Clerk deems, on the basis of the LGA 1972(A) and the Council's Standing Orders, that it is appropriate and desirable to do so.

For further information on Confidential Minute taking and Minute taking in general, we refer the Clerk and Members to the latest edition of Charles Arnold-Baker which details the precise legislation and practices required.

Consequently, we recommend that the issues raised by the ICO's directive are so serious, that they should be referred to the Wales Audit Office: 'Audit Wales' for its consideration, further direction and ruling in the matter.

R1. A temporary Committee should be established, with full terms of reference and delegated authority as required, to deal with the matter. ***Response: Noted.***

R2. The record of the Committee's meetings should be Minuted exactly as detailed and required in Charles Arnold-Baker. The Minutes, once approved by the Committee, should be placed before the Full Town Council for scrutiny of content and recommendations and Resolution thereon. ***Response: Implemented.***

R3. As the ICO directive potentially supervenes the Local Government Act 1972 (Amended) the matter should be raised directly with Audit Wales for consideration, further direction and ruling in the matter. ***Response: Noted.***

During the Final Update review a number of minor errors were identified in the Minutes of the Full Council:

Meeting date	***Issue***
06/05/20	***Min ref 213 used twice***
11/11/20	***Min ref 52 used twice***
25/11/20	***Min ref 52 used again***
03/02/21	***Min ref 94 & 95 used again (Min ref 95 sub-min 'g' omitted)***

It is important that when the Minutes are reviewed, the Clerk and Members ensure that the Minute referencing is both accurate and correct.

During the Estimates Committee meeting of 18th November 2020, Committee Members resolved to Approve and Recommend the draft budget and precept, for the 2021-22 financial year, for adoption by the Full Town Council at its Extraordinary Meeting on 6th January 2021.

During the Estimates Committee meeting, the Precept Value was not recorded in the Council's minutes, in full, as required, only the value per band 'D' house.

Subsequently, in the Extraordinary meeting of the Full Council on 6th January, only the draft budget was Approved and Adopted by the Council, the Precept was not mentioned once in this meeting and has not been formally Adopted. The Council's Budget and the established Precept are separate legal entities and must be Adopted and recorded in the Council's Minutes separately.

The Town Clerk/RFO has confirmed that the 2020-21 Precept was established in the amount of £657,551 and a request for this Precept was formally issued to Monmouthshire CC.

Finally, in this area of our review, the Minutes of the Personnel Committee of 10th March 2021 were not available as the hyperlink to the Minutes was actually linked to the Agenda.

R5. The Clerk and Members must ensure that Minute references are recorded correctly, not reused or omitted.

R6. The total value of the Precept by the Council must be formally Approved, and Adopted by the Members and the full value of the Precept established formally recorded in the Council's Minutes.

R7. The person(s) responsible for uploading public documents to the Council's website should test each hyperlink when the upload has been completed to ensure that the link does launch the correct document for the viewer.

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 25th cashbook transaction irrespective of value for the financial year to 31st March 2021. During the interim review, the initial test sample included 32 payments, this has been extended to include 59 payments at this final update review, with a total value of £360,830, equating to 98% of all non-pay payments. All payment documents examined complied with the testing criteria.

We have noted that one of the transactions identified in the sample testing above, was in relation to a partnership agreement with MIND. The Council's Minutes confirm that this is a two year agreement in the amount of £30,000 which is £5,000 over the ceiling limit triggering the mandatory tender process and the registering of the tender on the Government's https://www.gov.uk/contracts-finder web portal. No tender process was undertaken.

At the outset of the Central and Devolved governments' response to Covid-19, the Town Council released an initial sum of £2,000 (s.137, LGA 1972 – amended) to support the set up costs of the 'Chepstow Covid-19 Helping Group' which provided wide ranging assistance in the community. The Council has budgeted for continuing support in the 2021-22 financial year budget.

The Town Council also agreed a sum of £20,000, Minute reference 276, to support the 'Shop Local' campaign to encourage visitors to the town and to provide personal protective equipment which enabled the Community Centres to reopen as safely as possible.

We have noted that in addition to the £6,588 s.137 awards of Grant Aid made by the Council during the financial year, the Council has made £134,142 in Community Contributions during the 2020-21 financial year, including the distribution of £35,763.39 from the 'Emergency Crisis Fund (Covid)'.

The Council has set aside £80,000, Minute reference 67(i) in earmarked reserves to provide emergency funding for a Grant Aid scheme where Chepstow based charities, community groups, third sector groups and voluntary organisations which directly support the Chepstow community during the public health directives and beyond are eligible to apply. The addition of these funds, bringing the total of the earmarked reserves to £96,211, split between the 'Emergency Crisis Fund (Covid)' in the amount of £66,708, and the 'Tourism Events Post Covid Fund' in the amount of £29,503 is budgeted for distribution over a two year period.

Finally, we note that, the Council has placed £47,452 (the underspend from planned projects in the 2020-21 financial year) in an earmarked reserve and has properly rolled the planned expenditure forward into the 2021-22 budget.

We note that quarterly VAT reclaims continue to be prepared and submitted electronically, directly from the Rialtas Software.

We have reviewed all four quarter returns for the 2020-21 financial year, 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 with no matters arising.

Conclusions and Recommendation

One matter has arisen in this area of our review as detailed above. The Clerk and Members are reminded that the current value for all procurements which triggers the mandatory tender process is £25,000. This includes the value, exclusive of VAT, of multi-year contracts including partnership agreements. The matter has been discussed with the Clerk.

R8. All procurements in excess of £25,000 net of VAT (the current trigger value for mandatory tender), including multi-year contracts and partnership agreements must be registered as formal tenders on the Government's Contracts Finder web portal. ***Response: Noted.***

R9. The Council should give formal consideration to the powers relied on for the issue of grants and donations, specifically in relation to Covid support matters, as The "General Power of Competence" is, as yet, not available to councils in Wales and "The General Power of Wellbeing" is restricted to the Section 137 expenditure limit per elector. Guidance should be sought from One Voice Wales on the potential powers that might correctly be applied for Covid support.

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 continues to use Peninsula to assist officers in relation to both financial and physical Health & Safety risk assessments with the risk register and risk management strategy. The Council Adopted its formal Health & Safety Risk Assessment and Risk Management Strategy during its 24th February 2021, as recommended by the Finance and Audit Committee on 10th February 2021, under Minute reference 110 of that date;

- Noted that the Town Clerk/RFO and Members have responded promptly and professionally to the Central and Devolved government public-health directives, which have been amended from time to time throughout the financial year, and have ensured that risk mitigation strategies and measures have been properly and reasonably deployed after due consideration;
- 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.

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.

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 2021-22 financial year in its November 2020 meeting under Minute reference 6 (3).

The Budget was formally adopted at the Extraordinary Meeting of the Full Council on 6th January 2021 under Minute Reference 95 (e), the Precept being established at £657,551 (£657,553 prior year). As reported in the Review of Corporate governance the formal adoption of the Precept was omitted from the Minutes of that date in error.

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 31st March 2021 have increased significantly to £1,121,453 (£1,003,689 prior year) with Earmarked reserves of £819,273 (£619,110 prior year) leaving a General Reserve fund of £302,180 (£384,579 prior year) equating to approximately 7 months' revenue spending at the average monthly 2020-21 level, which is only slightly 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.

The Clerk advises that the Council has seen a minimal reduction in its income due to the public-health directives issued by both Central and Devolved Government.

Rental Income: Central and Devolved government have directed that no aggressive rent collection is undertaken and that payment plans be developed to assist businesses to pay rent across the financial year. Whilst business failure remains a risk to the Town Council, appropriate payment plans have been agreed with existing tenants.

It is worthy of note that the Environment & Amenities Committee Resolved, due to the financial hardship being experienced by all retailers in the High Street, a Community which the Town Council has worked strenuously to support and develop in previous years, that the summer floral displays and Christmas trees would be installed at the Council's expense. The impact on the income is approximately £3,000 and it has been agreed in the 2021-22 budget that the Council continues to fund this for the duration of the 2021-22 financial year.

We note that Members formally considered and approved the schedule of fees for 2021-22 at the November 2020 meeting of the Full Town Council, and Resolved that there should be no increase during the financial year to aid with the financial recovery of the Chepstow community.

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 AGAR 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 examined petty cash transactions for October 31st, 2020 against the reconciliation with no issues arising.

Due to the remote nature of this Final Update review of the 2020-21 financial year it has been impossible to check the physical cash holding, however, we have checked and verified the Omega Petty Cash reconciliations and year-end balance sheet with no issues arising, and rely upon the veracity of the Town Clerk/RFO's self-certification of the funds in this area of our review.

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 an establishment list is now 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 any variation to working practices during the Covid-19 situation have been properly considered by members and Resolutions thereto formally recorded in the Council's Minutes;
- Noted that an employment dispute which occurred during the financial year has now been fully resolved;
- Noted that a new Deputy Clerk has been appointed and is in receipt of a contract of employment based on the One Voice Wales model document. We have checked and verified the terms of the contract with no issues arising;
- Noted that the payroll continues to be outsourced to Chepstow Accountancy Services (CAS) with all appropriate supporting documentation provided to the Council;
- Noted the payroll production process, which is managed by the Town 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 2020-21 were Approved and Adopted retrospectively with effect from 1st April 2020 at the Personnel Committee meeting of the Town Council on Wednesday 14th October 2020. All members with SCP model contracts received the National Pay Award and one admin member received a two SCP grade increase to salary;
- Checked the gross salaries paid to individuals in June 2020 with reference to members' approved schedule of staff salaries for 2020-21; 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.

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 17th June 2020 meeting under Minute reference 21. 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 £1,280,649, (£1,274,213, prior year) which has been correctly disclosed in the AGAR Section 2 – Accounting Statements for the 2020-21 financial year.

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. The Finance, Policy and Audit Committee Resolved to establish a working party to review all the Council's Policy and Strategy documents during the 2021-22 financial year in its 18th November 2020 meeting, under Minute reference 10.

Surplus funds continue to be held 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 half-yearly loan instalments, repaid to UK Debt Management Office this year, to their third party "demand" under the review of payments sample testing.

Conclusions

There are no matters 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 AGAR, 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 AGAR assigning positive assurances in all but one area, due to the failure of the Town Council to initiate a formal Tender Process as identified in our Interim report.

Finally, we take this opportunity to remind the Town Clerk/RFO of the requirements in relation to the documentation that should be displayed on the Council's website, together with the need to ensure compliance with the timing requirements for publication of the Notice of Public Rights to examine the Council's documentation for the financial year.

Rec. No.	Recommendation	Response
Review of Corporate Governance		
R1	A temporary Committee should be established, with full terms of reference and delegated authority as required, to deal with the matter.	***Response: Noted.***
R2	The record of the Committee's meetings should be Minuted exactly as detailed and required in Charles Arnold-Baker. The Minutes, once approved by the Committee, should be placed before the Full Town Council for scrutiny of content and recommendations and Resolution thereon.	***Response: Implemented.***
R3	As the ICO directive potentially supervenes the Local Government Act 1972 (Amended), the matter should be raised directly with Audit Wales for consideration, further direction and ruling in the matter.	***Response: Noted.***
R5	The Clerk and Members must ensure that Minute references are recorded correctly, not reused or omitted.	
R6	The total value of the Precept by the Council must be formally Approved, and Adopted by the Members and the full value of the Precept established formally recorded in the Council's Minutes.	
R7	The person(s) responsible for uploading public documents to the Council's website should test each hyperlink when the upload has been completed to ensure that the link does launch the correct document for the viewer.	
Review of Expenditure & VAT		
R8	All procurements in excess of £25,000.00 net of VAT (the current trigger value for mandatory tender), including multi-year contracts and partnership agreements must be registered as formal tenders on the Government's Contracts Finder web portal.	***Response: Noted.***
R9	The Council should give formal consideration to the powers relied on for the issue of grants and donations, specifically in relation to Covid support matters, as The "General Power of Competence" is, as yet, not available to councils in Wales and "The General Power of Wellbeing" is restricted to the Section 137 expenditure limit per elector. Guidance should be sought from One Voice Wales on the potential powers that might correctly be applied for Covid support.	