

Chepstow Town Council

Internal Audit Report 2021-22: (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 for the 2021-22 financial year: the interim review which took place on the 3rd & 6th December 2021, and supplemented by the final update review which took place on the 27th April 2022.

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, 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 Annual Governance and Accountability Return process, which requires independent assurance over a number of internal control objectives.

Overall Conclusions

We have followed up the recommendations made in our 2020-21 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, with the exception of Corporate Governance where one specific issue has required a negative assertion to have been made this year. We have made two recommendations for improvement, which are recorded in the main body of this report and the appendix to this report.

We have noted that the Council has taken all reasonable steps both to comply with both central devolved government public-health directives, which have been amended from time to time, 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 and facilities. All modified practices being formally Reviewed, Resolved and Recorded in the Council's Minutes.

Once again, we recognise the Clerk/RFO's 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. 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.

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 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 has received an Unqualified External Auditor's certificate for the 2020-21 financial year;
- Verified detail of the opening trial balance for 2021-22 on the financial ledger with that in the closing 2020-21 Statement of Accounts and Annual Return;
- 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;
- Checked and agreed detail of four sample months' cashbook transactions: April, September & December 2021, and March 2022 to supporting bank account statements; and,
- Verified detail in the "current account" bank reconciliations as at the 30th April, 30th September 2021 and 31st December 2021 and March 2022.

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 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, noting that a significant breach of the Council's Standing Orders, policies and procedures occurred at the Extraordinary Meeting of the Full Town Council of the 3rd February 2022, which is commented on below;
- Noted that the Council continues to make Grants and Community Contributions to local organisations using appropriate Powers; and,

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

Finally, in this area of our review we have noted that the Council has maintained a high level of service provision throughout the 2020-21 and 2021-22, during the central and devolved government public health directives:

Public Toilets

All the toilets under the council's control have remained open to support the community and visitors to Chepstow.

Weekend street cleaning

This service has been maintained throughout all the public-health lockdowns.

Administration Offices

The Town Council Officers were closed to members of the public in March 2020 until Government guidance changed. The offices were reopened in accordance with the relaxed public health directives.

Town Council Meetings

The Council commenced holding all Council and Committee meetings 'virtually' rather than in person in accordance with legislation. The use of technology to facilitate and enable virtual meetings has ensured that the Council has been able to continue its work within the community. The Council continues to review its arrangements for physical meetings to ensure that the democratic process is made as widely available and accessible as possible.

Town Council Projects

The Council has pursued a pragmatic approach to projects and has focused on delivering existing and agreed projects with the expectation that many of these will be completed by the end of the 2021-22 financial year.

Communications

The Town Council continues to engage in communications with the community directly and via social media, making full use of the Town Council's website to provide essential information.

Conclusion and recommendations

During the Extraordinary Meeting of the Full Town Council of the 3rd February 2022, It is a matter of significant concern that Minute reference 161 records the following:

“Resolved to reject the report and recommendations of the Internal Investigation on the following grounds:

- The draft report was flawed and had not been reviewed as intended.***
- The deliverables of the Scoping Document were not met.***
- Communications were inadequate.***

On reviewing the report, Town Council agreed to the following recommendations going forward:...”

We have noted with growing concern, for some years, the strangely protracted investigation into this ‘confidential matter’. We have further noted that the investigation has not been undertaken

according to the Council's published policies and procedures and has been unnecessarily prolonged because these have not been adhered to.

We advise the Council that it has now acted in an unlawful manner: outside of its Standing Orders, published policies and procedures:

Minute 161 clearly states that the Members Resolved to reject the report. To reject the Report means to reject it wholly and in its entirety. The Minute clearly records the reasons for the rejection.

I remind the Clerk/RFO and Members that once a general matter of business has been subject to formal Resolution, it cannot be reviewed or discussed again for a minimum of six months. The report into the 'Confidential Matter' however, was a discrete piece of work undertaken for and on behalf of the Council, which was emphatically rejected by Members: The Resolution of Rejection is formally recorded in the Council's Minutes of that date.

As the Report was rejected in its entirety, no Member of the Council had the power, or authority to the move to accept the recommendations of the Rejected report.

It is our opinion that the Council has not managed, what can only be described as an inexplicably and unnecessary protracted investigation, correctly. It is our opinion that:

- *That the said investigation was not undertaken in accordance with the Council's published policies and procedures;*
- *That the Council was in breach of its Standing Orders; and,*
- *That the Council has failed to properly consider its duty of care to its current employees.*

It is our opinion that this matter should now be formally concluded and a lined drawn under the matter. It is critical that the Council focus on its proper business and ensure that it does not place itself at risk of being targeted with unwarranted accusations of following a particular or partisan Agenda rather than due process.

Resultantly, we advise the Clerk/RFO that a negative assertion should be recorded in Box 3 of the Annual Governance Statement and make comment referring to this report.

R2. The Clerk/RFO and Members must ensure that all future investigatory process is managed, absolutely and confidentially, under the Council's Standing Orders, published policies and procedures.

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 2022. Our test sample comprises 68 payments (39 interim) totalling £482,521 (£238,491 interim) and equating to 73% (72% interim) 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 two tenders during the financial year to date. The first tender was in relation to the Drill Hall Community Asset Transfer works and the second in relation to the 1st year's works at the Gatehouse. Minutes confirm that both tenders were managed in accordance with the Council's Standing Orders and Financial Regulations and the tenders were correctly registered on the devolved government's 'Sell2Wales' business portal.

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.

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 noted at the 9th February 2022 meeting of the Finance, Policy & Administration Committee, under Minute reference 52 of that meeting;
- has not yet been presented to the Full Council for scrutiny and subsequent adoption in the 2021-22 financial year;
- Noted that the council has no playgrounds or playing fields; and,
- Examined the Council's extant insurance policy to ensure that appropriate cover is in place, noting that the Council's insurance requirements have now been placed with WPS Hallam on a Council Guard Policy, underwritten by The Military Mutual on a rolling three year contract, expiring 31st May 2024, to obtain best value. We note that Employer's Liability is set at £10 million, Public & Products Liability at £10 million, Hirers Indemnity at £2 million, Fidelity Guarantee at £350,000, Officials Liability at £250K and Legal Defence at £250K all of which we deem an appropriate level of cover for the Council's current needs. We note that members have reviewed its content 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, the Clerk/RFO and Members have undertaken a detailed and robust Budget setting and Precept determination process in respect of the Council's expenditure requirements for the 2022-23 financial year, at the Finance Policy & Audit Committee. The draft budget and precept were endorsed prior to being submitted to the Full Council for scrutiny and onward Approval which occurred at the Extraordinary Meeting of the Full Town Council of the 5th January 2022:

Members Resolved to Approve the 2022-23 financial year budget under Minute reference 139(4a), and to Establish the Precept, in the amount of £657,533, under Minute reference 139(4d), unchanged from the previous year.

We have noted the Council's overall reserves as at the 31st March 2022 have reduced to £1,046,294 (£1,121,453 prior year) with Earmarked reserves of £750,963 (£819,273 prior year) leaving a General Reserve fund of £295,331 (£302,180 prior year) equating to approximately 5 months' revenue spending at the average monthly 2020-21 level, and sitting comfortably at 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.

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 two Lease Rental agreements in place in respect of the Gatehouse and the Old Library. Both agreements terminate in 2025.

We note that Members Resolved to maintain the Council's Schedule of Fees for 2021-22 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 2022-23 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 November, and December 2021 and March 2022, against the reconciliation reports certified by the Clerk/RFO with no issues arising.

Finally, in this area of our review, we checked the physical cash balance as at the 27th April 2022 and report that it stood at exactly £250.00 as required.

Conclusion

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 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 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 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 July 2021 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 16th June 2021 meeting under Minute reference 12. 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 (£1,280,649 prior year) which has been correctly disclosed in the AGAR Section 2 – Accounting Statements for the 2021-22 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, and that this strategy continues to be maintained with Members Resolving to Adopt the Council's Reserves Policy, Investment Policy and Annual Investment Strategy 2021-22 during the 16th June 2021 meeting of the Finance Policy & Audit Committee under Minute Reference 14.

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 2022 the Town Council held funds as follows:

Account	Cashbook Number	Reconciled Value as at 31-03-22
Unity Trust Bank Current Account	CB1	£599,018.94
CCLA PSDF		£406,393.21
Gateway Credit Union		£22,193.43
		Total £1,027,605.58

The detail of each account has been checked and verified against the prime documentation, i.e. bank statements as at the 31st March 2022, 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.

Resultantly, as of the 31st March 2022, approximately £514,019 (*£654,086 September 2021*) of funds invested in the Unity Trust Bank, under the Council's management, were unprotected by the FSCS.

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 instalment, repaid to PWLB this year, to their third party "demand" under the review of payments sample testing.

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 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.1 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 Governance & Accountability 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 Accounts and the supporting Statement of Accounts prepared by the Clerk/RFO, against prime documentation, and consider that the Council's Accounting reports accurately record the 2021-22 financial year's transactions, and the detail for inclusion in the year's Annual Governance & Accountability Return, which we have also verified as being consistent with the accounting and other relevant supporting records.

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 and that summarised detail set out in the AGAR, we have signed off the Internal Audit Report of the AGAR 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		
R2	The Clerk/RFO and Members must ensure that all future investigatory process is managed, absolutely and confidentially, under the Council's Standing Orders, published policies and procedures.	
Review of Investments & Loans (interim)		
R1	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>