

Caldicot Town Council (Cil-y-Coed)

Internal Audit Report 2018-19: Final Update Report

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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 2018-19 financial year: The Interim audit which took place on the 18th September 2018 and the Final Update audit which took place on the 2nd 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 Governance and Accountability Return (AGAR) process, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

During our reviews of the 2018-19 financial year we have followed up the recommendations made in our 2017-18 reports and our Interim Internal Audit report of the 2018-19 financial year and acknowledge that the members have noted and considered these in their deliberations and enacted the recommendations where it has been deemed appropriate. We have made only one recommendation as a result of our work during the Final Update review of the year, detail of which is contained in the main body of this report and in the appended Action plan.

We report that, on the basis of the work undertaken to the 31st March 2019 in the 2018-19 Financial year, the Council continues to operate adequate and effective internal controls in all areas of our review to date.

We are pleased to note, that the Council was awarded the 2019 'The Best Annual Report' by One Voice Wales, which is a testament to the Council's exemplary record keeping and accounting procedures. Once again, we commend the Clerk/RFO for her continued professional management and administration of the Council's finance and governance functions and commend 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 very 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 Caldicot 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 contents or conclusions.

Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The Council currently operates two bank accounts with the Co-op Bank: The Current Account, and a fourteen-day interest account. The Co-operative Bank Bond account and the Instant Access account in use previously have both been closed.

During this period the Council deposited £100,000 with the CCLA Public Sector Deposit Fund for a trial period of 6 months. We note that the Council is now receiving a much higher return on the funds invested in the CCLA PSDF than the previous investment, achieving a better financial outcome both for the Council and the Council's electorate. Caldicot Town Council continues to utilise Edge accounting software to maintain the Council's financial records and assist in the preparation of the year-end Statement of Accounts.

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. We have: -

- We note that the council has received an Unqualified External Audit certificate from BDO;
- Ensured that an appropriate chart of accounts has been established and is being applied on the Edge accounting system;
- Considered the security of the Edge software, as regards back-up and restore capabilities;
- Verified that the closing balances, as reported in the 2017-18 Statement of Accounts and certified Annual Return, have been correctly rolled forward as the opening balances for 2018-19; and
- Examined transactions on the Council's Current account for three months' transactions, May and August 2018, and March 2019, together with the resultant month-end bank reconciliations produced by the accounting software for those same months, agreeing detail to the supporting bank statements, noting that there were no long-standing unrepresented cheques or anomalous entries.

Conclusions

There are no issues 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 documentation and processes 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 Council has actioned all recommendations made in the two Internal Audits conducted during 2017-18;

- Noted that the Council actioned the single recommendation made in the Interim Internal Audit conducted in September 2018;
- Noted that Standing Orders were reviewed in line with the new model from One Voice Wales and were re-approved at the Full Town Council meeting in May 2018;
- Alost noted that the Financial Regulations were reviewed in line with the new model from One Voice Wales, and were re-approved at the Full Town Council meeting in May 2018;
- Examined the Council and standing committee's minutes for the financial year to the 31st March 2019, ensuring that no issues exist or may be being considered by the Council that may have an adverse effect, through litigation or other causes, on the Council's future financial stability, with only one issue arising;
- 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 for the Council's accounting records and General data backup hosted by Apex. The Clerk/RFO and Deputy Clerk have also been responsible for the development and of new Information & Data Protection and Privacy policies, subsequently adopted by members, the provision of dedicated Council e-mail addresses for all council members and administration staff, and the amendment of customer-facing 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; and,
- Noted that the Council was awarded the One Voice Wales 2019 Award for; 'The Best Annual Report' for the 2017-18 Financial Year.

Conclusions and recommendation

We take this opportunity both to congratulate the Members, Clerk and Deputy Clerk on being awarded the 2019 One Voice Wales 'Best Annual Report' and to commend the Council's new strategy of investing its surplus funds with the CCLA, achieving a higher rate of return on its investments for the benefit of its electorate.

We have noted one area of non-compliance in relation to items of business being placed on the Council's Agenda in the minutes of the Full Council of the 31st October 2018, minute reference 10018.

Quoting from Charles Arnold Baker (8th edition), Agenda must be published: 'At least three clear days (not including the days of issue and meeting) before a meeting of the council ... it must specify the business to be transacted at the meeting'. (7.4, page 58).

Quoting from Charles Arnold Baker (8th edition), 'A councillor cannot lawfully decide any matter which is not specified in the summons (Agenda)' (7.5, page 59).

The in-meeting addition of the two items of business to the Agenda, fails to comply with the regulations governing the publication of Agenda, and the discussion and resolution taken pertaining to those items of business in that meeting is therefore unlawful.

R1. Council Meetings must be conducted lawfully, under the Council's Standing Orders, and using only the published Agenda pertaining to that meeting. Ad hoc inclusion of Agenda items for discussion by members outside of the correct process for publishing

the Agenda and issuing the meeting Summons is unlawful, even where members have Resolved to add Agenda items.

Review of Expenditure & VAT

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and approved 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 examining a sample of 40 payments, including all those individually in excess of £2,000 plus every 25th payment: the sample totals £133,881 and equates to 61% of non-pay related payments in the year to the 31st March 2019. We record that all payments in the above sample were supported by an appropriate invoice, receipt or minute approving payment of a grant.

We note that the all four quarterly VAT reclaims have been completed, automatically from the Edge accounting software and submitted to HMRC. The final refund for the 2018-19 Financial Year was received electronically on the 24th April 2019. The detail for all VAT reclaims has been checked and verified against the underlying control account.

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 in order to minimise the opportunity for their coming to fruition.

We have noted that the members revised the Health & Safety and the Financial Risk Registers as required during FY 2018-19. The Financial Risk Register was recommended to the Full Council for re-adoption in the Estimates Committee in November 2018. The Health & Safety Risk Register was recommended to the Full Council for re-adoption in the Health & Safety Committee in November 2018, subsequently both Registers were re-adopted at the Full Council meeting on the 28th November 2018, meeting the Council's statutory requirements in this regard.

We have examined the Council's insurance policy with Royal Sun Alliance (RSA), arranged by WPS, noting that appropriate cover remains in place with Employer's Liability standing at £10 million, Public Liability standing at £15 million, Terrorism at £5 million, Fidelity Guarantee at

£300,000, Business Interruption at £50K and Loss of Money at £2K. This level of cover is considered appropriate for the Council's current requirements.

We note that the Council's play areas are inspected monthly by Monmouthshire Council, which subsequently supplies inspection reports that are forwarded to and maintained by the Clerk. Additionally, daily visual inspections of the play areas are conducted by the contract groundsman with written reports again forwarded to and maintained by the Clerk. RoSPA now undertake an annual inspection of the play areas and open spaces, the resultant report is forward to the Health and Safety Committee for their review.

Conclusions

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

Budgetary Control & Reserves

Our objective here is to ensure that the Council has a robust procedure in place for identifying and approving its future budgetary requirements and level of precept to be drawn down: also, that an effective reporting and monitoring process is in place. Additionally, we aim to ensure that the Council retains appropriate funds in general and earmarked reserves to finance its ongoing spending plans, whilst retaining appropriate sums to cover any unplanned expenditure that might arise.

Subsequent to a robust Budget setting and Precept determination process which was undertaken during October and November 2018. The Town Council Resolved to set the Budget and Precept in the Full Town Council on 28th November 2018, setting the latter at £386,560 (£364,360 FY 2017-18).

We have also reviewed the year-end position, considering the level of retained reserves and their appropriateness to meet the ongoing needs of the Council in relation to routine revenue spending and development aspirations. We note that the General Reserves balance has increased this year to £187,004 as at 31st March 2018, (£94,965 as at 31st March 2018) ***NB: The General Balance Reserve has been included in the General Reserve as it does not pertain to a specifically identified project or planned expenditure.*** The General Reserve equates to approximately seven months' revenue expenditure, somewhat higher than the generally recognised CiPFA guideline of between three and six months. However, I am informed by the Deputy Clerk, that EMRs are due to be established for Christmas decorations and lighting and Youth Events, and that the Play Equipment EMR is due to be increased. We deem this an appropriate use of the Councils Reserves which will return the General Reserve to a level that sits comfortably within the CiPFA guidelines.

Earmarked Reserves are in place totalling £200,000 at the financial year-end.

Conclusion

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

Review of Income

Our objective in this area is to ensure that the Council has robust arrangements in place to identify all income due, to ensure that it is both invoiced (where appropriate) and recovered within a reasonable time frame. The Council's major income sources, apart from the Annual Precept, are burial and memorial fees, allotment rents and hall hire income.

We are pleased to note that members regularly review the level of fees and charges in accordance with the requirements of the adopted Financial Regulations. The Council reviewed its fees and charges in November 2018 as planned, during the Budget setting and Precept determination process, resolving to leave them at the current level.

We have examined a sample of hall bookings and allotment rents from the current year's financial records including the receipt of income and the subsequent banking of the payments noting that all supporting documentation for bookings is filed appropriately with a bookings voucher. No issues were identified.

Conclusions

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

Petty Cash Account

The Council does not operate a petty cash account. Accordingly, there are no issues arising in this area of our review warranting formal comment or recommendation.

Review of Salaries

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 that objective, we have: -

- Noted that the Council continues to outsource its payroll function to 'Playworks' (originally outsourced in November 2014);
- Noted that pay awards were properly approved in the meetings of the Personnel Committee and the full Town Council and the resolutions accurately recorded in the minutes of the respective meetings;
- Examined employees' timesheets and payslips for August 2018 and agreed each employee's basic pay to their terms and conditions;
- For the same month, checked that tax and NI deductions have been made accurately applying the appropriate tax code and NI Table;
- Ensured that the appropriate employee contributions to the pension scheme have been determined and paid over to the Pension Fund Administrators; and,
- We have noted that the Council has recognised the new harmonised NJC SCP scale and that confidential minutes record employees' new scale points effective 1st April 2019.

Conclusion & Recommendation made in the Interim Internal Audit

There are no issues arising in this area of our review warranting formal comment, however, we have made one minor recommendation in relation to the structure of the Timesheet which can be somewhat confusing as, although the current Timesheet records the correct working hours, it does not reflect how the hours are being worked.

R2. *Consideration should be given to developing an excel based spreadsheet which records the hours as worked: i.e. AM start & end time, PM start & end time and evening start & end time. Each sheet is totalled on a weekly basis, then printed off at the end of each month for authorisation and retention by the Clerk/RFO. Response: Implemented.*

Fixed Asset Register / Inventory

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. We are pleased to acknowledge that an appropriate register is in place and consider it to be of high quality including appropriate detail of the Council's asset stock.

We note that the Clerk/RFO has, once again, undertaken considerable work, developing and revising the Asset Register, and that in light of recommendations made in our previous Internal Audit reports, the council now maintains a photographic register which is updated every April after a visual inspection of the assets by the members. The Asset Register has been updated to include additions and disposals during FY 2018-19.

Finally, we note that no capitalisation threshold has been agreed, however, we consider the register to be both robust, accurate, and agree the value of fixed and long-term assets recorded at £417,971 as of the 31st March 2019, contained therein.

Conclusion

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.

We note that members had resolved to adopt an Investment Strategy for 2018-19 in line with the guidance issued by the National Assembly for Wales. Surplus funds are now held in the Co-op 14-day notice account and the CCLA Public Sector Deposit Fund. We have noted the an investment of £100,000, has been invested for a trial period of 6-months in the CCLA Public Sector Deposit Fund and agreed the transfer of funds and current balance on the CCLA fund to prime documentation.

We further note, from examination of the 31st March 2019 CCLA statements, that the investment in the CCLA PSDF has seen an increase in interest payments to the Council of over 300%. Providing an excellent return on investment for the Council's electorate.

The Council has no loans repayable by or to it currently.

Conclusions

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

Statement of Accounts and Annual Return

We are pleased to note that the Clerk has again prepared a detailed Statement of Accounts as in previous years, incorporating the Balance Sheet and Income and Expenditure Account and other financial reports generated by the Edge accounting software.

We have reviewed and verified the detail set out in the Annual Return for 2018-19 confirming its consistency with the underlying financial 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 issues arising.

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 of the Return assigning positive assurances in all appropriate areas.

Rec. No.	Recommendation	Response
Review of Corporate Governance		
R1	<i>Council Meetings must be conducted lawfully, under the Council's Standing Orders and using only the published Agenda pertaining to that meeting. Ad hoc inclusion of Agenda items for discussion by members outside of the correct process for publishing the Agenda and issuing the meeting Summons is unlawful, even where members have Resolved to add Agenda items.</i>	
Review of Salaries		
R2	<i>Consideration should be given to developing an excel based spreadsheet which records the hours as worked: i.e. AM start & end time, PM start & end time and evening start & end time. Each sheet is totalled on a weekly basis, then printed off at the end of each month for authorisation and retention by the Clerk/RFO.</i>	Response: Implemented.