
Caldicot Town Council (Cil-y-Coed)

Internal Audit Report 2017-18: Final update

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For and on behalf of

Auditing Solutions Ltd

Background

All town and parish councils are required by statute to make arrangements 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. Auditing Solutions Ltd has provided this service to Caldicot Town Council since 2009-10.

This report sets out the work undertaken in relation to the 2017-18 financial year, during our visits on the 20th September 2017 and the 16th April 2017, together with the matters arising and recommendations for action, where appropriate.

Internal Audit Approach

In undertaking our review for the year, we have 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. We have employed a combination of selective sampling techniques (where appropriate) and 100% detailed checks in a number of key areas in order to gain sufficient assurance that the Council's financial and regulatory systems and controls are appropriate and fit for the purposes intended.

Our programme of cover has been designed to afford appropriate assurance that the Council's financial systems are robust and 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 'Annual Internal Audit Report' in the Council's Annual Return, which requires independent assurance over a number of internal control objectives.

Overall Conclusion

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 during the year.

We are also pleased to record that, in the areas examined, no major issues or concerns have been identified and that we consider the Clerk and her staff continue to operate effective control procedures in each relevant area.

We have completed and signed the 'Annual Internal Audit Report' in the year's Annual Return, having concluded that, in all significant respects, the control objectives set out in that report were being achieved throughout the financial year to a standard adequate to meet the needs of the Council.

Finally, we are pleased to acknowledge the continued high quality of records maintained by the Clerk/RFO and thank her for her assistance, and that of her colleagues, which has ensured the smooth progress of our review process. We once again ask that members consider the content of this report and acknowledge that the report has been reviewed by Council.

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 instant access account was closed in October 2017 with the residual £2.75 transferred to the current account. The six-month bond account has been closed by the Co-op Bank and the residual value transferred into the fourteen-day interest account. The 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 that no anomalous entries appear in cashbooks or financial ledgers. We have: -

- 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 2016-17 Statement of Accounts and certified Annual Return, have been correctly rolled forward as the opening balances for 2017-18;
- Examined transactions on the Council's Current account for three months' transactions, April and August 2017 and March 2018, together with the corresponding month-end bank reconciliations produced by Edge, agreeing detail to the supporting bank statements, noting that there were no long standing unpresented cheques or anomalous entries;
- Noted that the council received a qualified audit report from the External Auditors as the Annual Return had included transactions and cash balances held on behalf of a registered charity. The Council has now ensured that all transaction relating to the charity have been recorded separately and in accordance with proper practices for the administration of charitable money as set out in 'Governance and Accountability for Local Councils in Wales – A Practitioners' Guide 2011' paragraphs 54 to 65.

Conclusion

We are pleased to record that no issues exist in this area currently that warrant formal comment or recommendation.

Review of Corporate Governance

Our objective here is to ensure that the Council has a robust regulatory framework in place; that Council and Committee meetings are conducted in accordance with the adopted Standing Orders and that, as far as we are able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation.

- We are pleased to note that Standing Orders were reviewed in line with the new model document from One Voice Wales, and were re-approved at the Full Town Council meeting in May 2017 without amendment;

- We also note that the Financial Regulations were reviewed in line with the new model document from One Voice Wales, and were re-approved at the Full Town Council meeting in May 2017 without amendment; and
- We have examined the council and standing committee minutes for the financial year to the 31st March 2018, 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

Conclusion

We are pleased to record that no issues exist in this area currently that warrant formal comment or recommendation.

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 total sample of 41 payments, including all those individually in excess of £2,000 plus every 25th payment, with the sample totalling £108,435, and equating to 54% of non-pay related payments. We are pleased to record that all payments in the above sample were supported by an appropriate invoice, receipt or minute approving payment of a grant and that all invoices were properly authenticated, and approved for payment.

We note that the first three quarters VAT reclaims have been submitted to and settled by HMRC. We have verified the detail of these returns, and the pending return for the Year End VAT reclaim to the underlying control account.

Conclusion and recommendation

We noted that VAT returns are not produced directly from Edge, as the various current VAT rates have not all been input, resulting in the Council's VAT reports not being produced fully automatically. Currently, manual intervention by the Clerk/RFO is required to amend the report and obtain the correct values for VAT submissions. This is both time consuming and may result in unnecessary errors being made, that would need to be corrected subsequently.

R3. *All the current VAT rates should be input into Edge to facilitate fully automatic production of VAT returns, directly from the accounts software.*

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 of their coming to fruition.

We have examined the Council's insurance policy with Aviva, arranged by WPS, noting that appropriate cover remains in place with Employers and Public Liability standing at £10 million and Fidelity Guarantee at £300,000.

We also examined the Council's arrangements for the regular inspection of Playgrounds and playing fields.

- We noted that the Clerk and Deputy Clerk were in the process of developing the Council's new Financial and Health & Safety Risk Assessments at the time of the interim audit. The revised Risk Assessments were reviewed by members and subsequently approved in the meeting of the Estimates Committee in November 2017; and
- We also noted that Caldicot Town Council's play areas are inspected on a monthly basis by Monmouthshire Town Council, which subsequently supplies inspection reports that are forwarded to and maintained by the Clerk. Additionally, visual inspections of the play areas are conducted on a daily basis by the contract groundsman. Written reports are again forwarded to and maintained by the Clerk.

Conclusions

During our Interim Audit visit we noted that the playground reports which were produced by Monmouthshire Town Council and the contract groundsman were both tick-list reports. No detailed risk-based reports with photographic evidence, undertaken by a qualified independent inspector, on an annual basis, were being undertaken. A requirement of all bodies with responsibility for managing play grounds and recreation facilities. The following recommendation was made:

R1. A qualified, independent Playground inspection organisation such as RoSPA should be retained to conduct a risk-based annual inspection of all Play areas and recreation facilities operated by the Council. Response: members resolved to appoint RoSPA to conduct a detailed Annual examination of the Council's playground facilities.

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.

The budget and precept were agreed at a meeting of the Full Town Council on 29th November 2017, for submission to Monmouth County Council for 2018/19 for a sum of £364,360.

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 reduced this year to £94,965 as at 31st March 2018, (£144,799 as at 31st March 2017), due to the addition of new EMRs for repair and development projects. The General Reserve equates to approximately four months' revenue expenditure and although this is at the lower end of the scale, it is in line with the generally recognised CiPFA guideline of between three and six months such spending and appropriate for this Council.

Earmarked Reserves are in place totalling £220,000 at the financial year-end.

Conclusion

We are pleased to record that no issues exist in this area currently that warrant 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 associated fees, allotment rents and hire income from various sources.

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.

We have tested a sample of allotments from the current year's records including the receipt of income and the subsequent banking of the payments with no issues arising. We also note that Council maintain copy electronic burial records using Epitaph software.

Conclusion

We are pleased to record that no issues exist in this area currently that warrant formal comment or recommendation.

Petty Cash Account

The Council does not operate a petty cash account.

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, as further revised from 1st April 2017 in relation to employee percentage bandings. To meet that objective, we have: -

- Noted that the Council contracted out the payroll function with effect from 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' payslips for August 2017 and agreed basic pay to each employee's agreed 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; and
- Ensured that the appropriate employee contributions to the pension scheme have been determined and paid over to the Pension Fund Administrators.

Conclusion

We are pleased to record that no issues exist in this area currently that warrant formal comment or recommendation.

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 2017-18.

We also note that all Trustee assets pertaining to the King George V Playing Fields have been removed from the Council's Asset Register and are now maintained separately.

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 £416,755 as of the 31st March 2018, contained therein.

Conclusion

We are pleased to record that no issues arise in this area warranting formal comment or recommendation.

Investments and Loans

Due to the Co-op Bank's decision to phase out the bond account, all of the council's funds, approximately £317,395, are held in the current and fourteen-day deposit accounts with the Co-op Bank. In the event that a bank becomes insolvent, deposits made by any small business or other authorised organisation are protected by the Financial Services Compensation Scheme to the maximum value of £85,000.

As of the 31st March 2018, £232,395 of the Council's funds would not have been protected by the FSCS.

We noted in our Interim Audit report the Clerk's intention to examine other "investment" opportunities in order to spread the Council's funds and reduce the risk of lost funds through a bank's failure, with the objective of ensuring that each of the Council's deposits is covered by the government's protection scheme. At that time we made the following recommendation:

Interim Audit Conclusion and recommendation

Specialist advice for councils wishing to de-risk their investment strategy can be obtained from the CCLA / Public Sector Deposit Fund at www.ccla.co.uk. Information concerning the Financial Services Compensation Scheme may be found at www.fscs.org.uk and there a number of options available for councils wishing to create an investment strategy that de-risks their organisation from the potential loss of funds.

R2. Consideration should be given to developing an investment strategy which minimises the council's risk of losing funds through a bank failure. The Clerk should, in the first instance, investigate this with the CCLA. Perhaps arranging for an adviser to visit the Council's premises and make a presentation to the members. Response: The Clerk has developed an Investment Strategy which has subsequently been approved and adopted by the members. Members have also received a presentation from the CCLA but have not reached a decision on investments.

At our Final Update Audit visit, we noted that the Clerk/RFO is still giving verbal instructions, via phone, for the transfer of funds to be made between the Council's two bank accounts and that the Council's funds remain deposited in the current and fourteen-day interest accounts.

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

Conclusion and recommendation

We are pleased to note the progress that the Council has made in this regard, however, we encourage members to decide how the Council's funds should be invested, both to achieve a good rate of return on its investment and to de-risk the Council from any potential loss of funds. It is also somewhat concerning that the Clerk is still having to issue verbal instructions to the bank, to transfer funds, as this could lead to unwarranted allegations of impropriety, should any detail anomaly or erroneous transfers occur.

R4. Members should review investment opportunities, in accordance with its adopted Investment Strategy, to de-risk the Council from any potential loss of funds and to reduce the risks associated with the Clerk continually having to issue verbal instructions to the Bank to make funds transfers between the Council's accounts.

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 2017-18 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.	Recommendations made during the Interim Audit	Response
Review of Assessment and Management of Risk		
R1	A qualified, independent Playground inspection organisation such as RoSPA should be retained to conduct a risk-based annual inspection of all Play areas and recreation facilities operated by the Council.	<i>RoSPA has been retained by the Council to conduct a detailed inspection of its playground facilities in June of each year.</i>
Review of Investments and Loans		
R2	Consideration should be given to developing an investment strategy which minimises the council's risk of losing funds through a bank failure. The Clerk should, in the first instance, investigate this with the CCLA. Perhaps arranging for an adviser to visit the Council's premises and make a presentation to the members.	<i>The Clerk has developed an Investment Strategy which has subsequently been approved and adopted by the members. Members have also received a presentation from the CCLA but have not reached a decision on investments.</i>
Rec. No.	Recommendations made during the Final Update Audit	Response
Review of Expenditure and VAT		
R3	All the current VAT rates should be input into Edge to facilitate fully automatic production of VAT returns, directly from the accounts software.	
Review of Investments and Loans		
R4	Members should review investment opportunities, in accordance with its adopted Investment Strategy, to de-risk the Council from any potential loss of funds and to reduce the risk associated with the Clerk continually having to issue verbal instructions to the Bank to make funds transfers between the Council's accounts.	