
Caldicot Town Council (Cil-y-Coed)

Internal Audit Report 2022-23: Interim

Claire Lingard

Consultant Auditor

*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 Review for the 2022-23 financial year; the first of the which, the Interim review took place on the 17th October 2022.

Internal Audit Approach

In completing our review of the financial 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 is designed to afford appropriate assurances that the Council has appropriate and robust financial systems in place that operate in a manner to ensure effective probity of transactions and to afford a reasonable probability of identifying any material errors or possible abuse of the Council's own and the national statutory regulatory framework. The programme is also designed to facilitate our completion of the 'Internal Audit Report' as part of the Council's Annual Return process, which requires independent assurance over a number of internal control objectives.

Overall Conclusions

We have followed up the recommendations made in our 2021-22 reports and acknowledge that the members have noted and considered these in their deliberations. We note that the Council has continued to make business processes and performance improvements throughout the financial year to date. We report that, on the basis of the work undertaken to date, the Council continues to operate generally adequate and effective internal controls in all areas examined.

However, a significant issue has arisen as a result of the failure of Council Members to properly work within its own budget for the Award of Grant Aid and donations, exceeding the budget ceiling during the first quarter of the financial year, despite the advice given to Members by the Clerk/RFO that this action was not appropriate. This matter has been commented on, in detail in the main body of this report. We have made five recommendations for improvement which are detailed in the main body of the report and the appended action plan.

We note that the previous Acting Clerk/RFO has been appointed to the permanent position of Clerk/RFO and that a new Deputy Clerk/RFO has been appointed. We commend the Clerk/RFO for her efforts and, once again, the exemplary manner in which the documents were presented for this review process.

We have noted that the Council continues to take all possible measures to assist the community as it works towards economic recovery, with the Clerk/RFO, Deputy Clerk and Members have, once again, working tirelessly to ensure that the Council's service provision remains at a consistently high standard.

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

Detailed Report

Review of Accounting Records, Banking & Reconciliations

Caldicot Town Council currently operates two bank accounts with the Co-op Bank: The Current Account, and a Business Select Instant Access account. The Council also has fund on deposit with the Monmouthshire Building Society and the CCLA Public Sector Deposit Fund. 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 currently and that no anomalous entries appear in cashbooks or financial ledgers. We have: -

- Noted that the Council was not in receipt of the External Auditor's report and certificate for the 2021-22 financial year as at the date of the interim audit on the 17th October 2022;
- 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 2021-22 Statement of Accounts and certified Annual Return, have been correctly rolled forward as the opening balances for 2022-23 by reference to the Council's Opening Trial Balance report from Edge;
- Examined transactions on all the Council's financial accounts for two months: April and September 2022, together with the corresponding month-end bank reconciliations produced by the accounting software, agreeing detail to the supporting bank statements, noting that there were no long-standing unpresented cheques or anomalous entries; and,
- Checked and verified the bank reconciliations for all the Council's financial accounts for the period from the 1st April 2022 to the 30th September 2022 with no issues arising.

Conclusions

There are no matters arising in this area of our review warranting formal comment or recommendations.

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 2021-22;
- Noted that Standing Orders were reviewed and formally readopted, amended, at the 27th July Meeting of the Full Council under Minute Reference 10643;
- Noted that the Financial Regulations were formally reviewed and readopted, unamended, at the 25th May 2022 Estimates Committee meeting under Minute Reference 10608 ii;
- Noted that the Council correctly published the Notice for the exercise of public rights in accordance with the requirements of the Accounts and Audit Regulations.

- Commenced the examination of the Council's and its standing committee's minutes for the financial year to 30th September 2022, 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; and,
- Noted that the new Clerk/RFO in post has undertaken all reasonable steps to ensure the Council's continued 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.

Conclusion

There are no matters arising in this area of review warranting 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.

During the Interim review we commenced testing in this area for compliance with the above criteria examining a sample of twenty-three (23) payment documents, including all those individually in excess of £2,000 plus every 25th payment, ensuring that all payments in the above sample were supported by an appropriate invoice, receipt or minute approving payment of a grant.

The total value of the sample reviewed was £97,314.05 equating to 62% of non-pay related payments to 30th September 2022 with no issues arising. We record that all payments in the above sample were supported by an appropriate invoice, receipt or minute approving payment of a grant and have been subject of formal review and authorisation process as defined in the Council's Standing Orders and Financial Regulations. We have noted that whilst all payments were subject to the authorisation process, a number of payments of Grant Aid and Donations were not subject to the correct budgetary approvals process. This matter has been referred to under the Review of Budgetary Control & Reserves section of this report.

We have checked and verified the formal quotations undertaken by the Council in the financial year to the 30th September 2022 with no issues arising and note that the prior year tender for the MUGA facility will need to be reissued due to the amount of time lapsed since the tender and the increase in cost of goods and services in the intervening period.

We have noted that the first two of the council's four quarterly VAT reclaims which are submitted annually have been completed, automatically from the Edge accounting software, and submitted to HMRC. The detail has been checked and verified against the underlying control account.

Conclusions

There are no matters arising in this area of our review requiring 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 in order to minimise the opportunity for their coming to fruition.

We note that the Council's Risk Registers were last reviewed in conjunction with Monmouthshire County Council's Health & Safety Officer, Laurence Dawkins and were Approved at the meeting of the Estimates Committee of the 9th November 2021 under Minute Reference 6.

We have examined the Council's insurance policy, which has been placed by WPS Hallam placed underwritten by The Military Mutual, under a 'Council Guard Policy', No CAL001263CCP which is active from the 1st June 2022 to the 31st May 2023 (in year two of a three-year arrangement).

We note the headline details of the new cover as:

- Employers' Liability £10M
- Public & Products Liability £15M
- Hirers Indemnity £2M
- Fidelity Guarantee £300K
- Libel & Slander £250K
- Officials Liability £250K
- Legal Defence £250
- Business Interruption £50K

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/RFO. 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/RFO.

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 matters arising in this area of our review warranting formal comment or recommendation.

We take this opportunity to remind the Clerk/RFO and Members of the Council's statutory obligation to undertake a review of both its Health & Safety and Business Risk Registers at least once annually, and to formally adopt these registers at a meeting of the Full Council or its standing committees.

Review of 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 the level of precept to be drawn down from the District Council, also, that an effective reporting and monitoring process is in place. We also 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.

Although a well-defined and implemented budgetary reporting protocol is in place at the Council, with Members receiving regular budget monitoring reports with over/under-spends and the level of earmarked reserves the subject of regular review, we are disappointed to note that despite the advice of the Clerk/RFO, as recorded in the Approved and Published Minutes of the Grants Committee of July 2022, Members resolved to ignore the approved budget for the Award of Grant Aid and Donations for the 2022-23 financial year and Resolve to make major Awards of Grant Aid in excess of the budget.

Further, once the budget had been exceeded, Members continued to consider and Award Grant Aid to further applicants. We note and endorse Cllr A Easson's recorded statement in the Approved and Published Minutes of the Full Council of the 28th September 2022, Minute reference 10663 d), but are somewhat concerned by the response which is also recorded therein:

“Cllr A Easson, in presenting the item, raised concerns relating to the level of Council reserves and forward budgeting plans. Recent high level commitments of approximately £30,000 has meant reliance on our reserves. Other recent planned works and commitments will put further pressures on those reserves. Large grant awards to returning groups also have an impact. Cllr Easson proposed that Council places a moratorium on grant applications for the remainder of this financial year to relieve budget pressures.”

Town Council recognised that the budget for grant donations had been overspent for 2022/23. Town Council acknowledged the difficulties and agreed to consider the pressures on reserves and maintaining budget position, when setting the precept for 2023/23.”

We note that the Clerk/RFO and Council members are currently in the process of conducting the Budget setting and Precept determination process in respect of the 2023-24 financial year.

We note that the Council maintains specific funds, set aside in formally Resolved and active Earmarked reserves which, as at the 30th September 2022 stood at:

Active Earmarked reserves

Contingency	£20,000
CCTV	£10,000
Repair & Works	£80,000
Bus shelters	£12,000
Play Equipment	£30,000
Compound	£88,740
Cemetery Land	£75,000
Com Bench Proj.	£ 3,290
Total EMRs	£319,030
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Finally, in this area of our review we have noted that there is clear evidence in the Minutes of the Full Town Council that Members are provided with proper budgetary reports and other financial information at each meeting, this information is sufficient to ensure that there should be no confusion as to the Council's budgetary status, that robust financial management and controls are in place and that the Council's Approved budget is not flagrantly ignored.

Conclusion and recommendations

It is a matter of significant concern that despite receiving detailed budgetary reports and with proper advice of the Clerk/RFO, the Proper Officer of the Council who is required to advise Members on statutory and budgetary matters, that Members proceeded to take a course of action which caused the Approved Budget for Grant Aid and Donations to be substantially exceeded by the end of the first quarter of the 2022-23 financial year.

We are further concerned to note that notwithstanding this situation, Members continued to consider and Award Grant Aid and Donations to new applicants.

We remind the Clerk/RFO and Members that a Council's primary function is to provide direct services to its electorate. Grant Aid and Donations Awarded by the Council are intended to support local not for profit organisations and charities and not to support what may be described as Charitable businesses which have millions of pounds in their own Reserve Funds and indeed are in receipt of significant tax funding direct from Central Government as NGO status Charities.

We take this opportunity to advise Members that they act as custodians of the public's funds, raised by indirect taxation, and that those funds are to be spent only in accordance with the Council's Approved Budget. This is particularly important at this time as the United Kingdom faces an unprecedented financial crisis with inflation running at approximately 18.5% and families are increasingly struggling to make ends meet at home.

We strongly suggest that the Clerk/RFO and Members consider the above both during the forthcoming Budget setting and Precept determination process and particularly when considering what cost will be levied against each household to fund the Council's Grants and Donations strategy. We shall review the appropriateness of the Council's budget, in particular the percentage of funds which the Members have Resolved to levy against its Electorate to be redistributed to charitable or not for profit entities during the year end audit.

We take this opportunity to advise the Clerk/RFO and Members that the failure to properly acknowledge and consider the Council's Approved Budget for the 2022-23 financial year, in relation to the Award of Grant Aid and Donations, a negative assertion will be entered on the Annual Return, Internal Auditor's Report under the appropriate Internal Control objective. This will mean that the Council will not be eligible to readopt the General Power of Competence during the 2023-24 financial year.

R1 As the Approved budget for the Award of Grant Aid and Donations has been significantly exceeded, no further Awards of Grant Aid or Donations should be made in the current financial year. It would not be appropriate to remove funds from dedicated earmarked reserves, or the Council's General Reserve, designated for operational activities, to redistribute as donations or grants.

R2 The Clerk/RFO and Members should ensure that the Approved budget is always taken into full consideration when any and all expenditure is considered.

- R3 To ensure that good value for the Grants and Donations being Awarded by the Council to Corporate Charities such as MIND the Clerk/RFO should request, prior to the financial year end, a schedule of each intervention made (using anonymised data) detailing the total number of services for each member of the electorate to whom they have provided assistance that have not been referred by the NHS or directly by their GP. The same process should be followed, rigorously, should the Council consider making any Award of Grant Aid to any Corporate scale charity or NGO.*
- R4 The Clerk/RFO and Members, when considering the Budget for the 2023-24 financial year, must ensure that they give proper consideration to the current economic circumstances facing the electorate, due to the current national and international instability in financial markets, prior to considering what tax they will levy upon the electorate to redistribute as Grant Aid and Donations, as opposed to funding the Council's core services.*

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 during the prior year Budget setting and Precept determination process, in accordance with the requirements of its adopted Financial Regulations. As in previous years, the Council will formally review its fees and charges at the November meeting of the Estimates Committee.

Due to the minimal level of hall hire income during the financial year, we have again examined the income streams from all Cemetery and Allotment related fees and charges.

Cemetery related income including interment and memorial fees

We have examined this income stream for the financial year to the 30th September 2022, including all statutory certification pertaining to burials and interments. The Clerk/RFO provided all supporting evidence including burial/cremation certificates electronically for the purposes of review.

We have noted the receipt of payments from Invoice/Receipt to the receipt of income, subsequent banking and the recording of these transactions in the Edge cashbooks with no issues arising.

Allotment revenue

We have examined the standard Allotment Contract which remains unamended from the prior review. Additionally, we have examined this income stream for the financial year to the 30th September 2022, cross referencing this to the Allotment Contract via the Allotment Plot control spreadsheet, noting the receipt of the rents from the current year's financial records and confirming the subsequent banking of the payments noting that all supporting documentation for bookings is filed appropriately and transactions recorded in the Edge Cashbooks with no issues arising.

Conclusions

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

Review of Petty Cash Account(s)

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 and payroll

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 one' (originally outsourced in November 2014);
- Noted that the Council now employs four persons: The Clerk/RFO, Deputy Clerk/RFO, Communications & Administration Officer and the Cleaner;
- Checked & Verified the complete payroll for the period from April to September 2022 inclusive;
- Checked & Verified the employees' payslips for September 2022 and agreed each employee's basic pay to their terms and conditions of employment;
- Checked and verified that tax and NI deductions for September 2022 to ensure these 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: Torfaen County Borough Council.

Conclusion

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

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 have reviewed and formally readopted its Investment Strategy in line with the guidance issued by the National Assembly for Wales, at the 9th November 2021 meeting of the Estimates Committee under Minute reference 5, also reconfirming the Council's investments in the Monmouthshire Building Society and the CCLA Public Sector Deposit Fund.

The Council holds its funds in a Co-op Current and Reserve Account, a Monmouthshire Building Society 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 the

30th September 2022 account balances with reference to electronic copies of the prime supporting documentation and cross-checking the disclosed balances in the corresponding Edge account reconciliations.

As at the 30th September 2022, the Town Council held its funds as follows:

Account	Cashbook Number	Reconciled Value as at 30/09/22
Co-op current account		£120,864.14
Co-op (14 day) deposit account		£100,442.16
Monmouthshire Building Society		£102,225.86
CCLA PSDF		£262,802.20
		Total £586,334.36

The detail of each account has been checked and verified against the prime documentation, i.e., bank statements as at the 30th September 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.

<https://www.bankofengland.co.uk/prudential-regulation/authorisations/financial-services-compensation-scheme>

Co-Op 14 day deposit account	£100,442.16
Co-Op current account	<u>£120,864.14</u>
Total	£205,345.08
FSCS guarantee	<u>-£ 85,000.00</u>
Exposure	£136,306.30

Mon'shire BS account	<u>£102,225.86</u>
Total	£102,225.86
FSCS guarantee	<u>-£ 85,000.00</u>
Exposure	£ 17,225.86

Total exposure Co-op	£136,306.30
Total exposure Mon'shire BS	£ 17,225.86
Total exposure as at 30.09.22	£153,532.16

Total exposure as at 31.03.22	£136,809.95
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As at the 30th September 2022 approximately £153,532.16 of the funds under the Council's management were not fully protected by the FSCS. As at the 31st March 2022, the Council held £136,809.95 of unsecured funds. This represents an increase of approximately 12% in funds held by the Council, on deposit, that are not protected by the Government's FSCS in the last six months.

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.

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

Conclusion & recommendation

Given the volatility in the market and future financial and geopolitical uncertainty, 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 repeat the advice given in our FY2021-22 year end audit report and strongly recommend that the Council reviews its current investment holdings and its Adopted Investment Strategy.

R5 The Clerk/RFO and Members should review and readopt its current Investment Strategy, in light of the ongoing financial uncertainty in the national and global financial markets.

R6 The Town Council should expediently consider the level of funds it has invested in its accounts with the Co-op Bank and Monmouthshire Building Society 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.

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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 Budgetary Controls and Reserves		
R1	As the Approved budget for the Award of Grant Aid and Donations has been significantly exceeded, no further Awards of Grant Aid or Donations should be made in the current financial year. It would not be appropriate to remove funds from dedicated earmarked reserves, or the Council's General Reserve, designated for operational activities, to redistribute as donations or grants.	
R2	The Clerk/RFO and Members should ensure that the Approved budget is always taken into full consideration when any and all expenditure is considered.	
R3	To ensure that good value for the Grants and Donations being Awarded by the Council to Corporate Charities such as MIND the Clerk/RFO should request, prior to the financial year end, a schedule of each intervention made (using anonymised data) detailing the total number of services for each member of the electorate to whom they have provided assistance that have not been referred by the NHS or directly by their GP. The same process should be followed, rigorously, should the Council consider making any Award of Grant Aid to any Corporate scale charity or NGO.	
R4	The Clerk/RFO and Members, when considering the Budget for the 2023-24 financial year, must ensure that they give proper consideration to the current economic circumstances facing the electorate, due to the current national and international instability in financial markets, prior to considering what tax they will levy upon the electorate to redistribute as Grant Aid and Donations, as opposed to funding the Council's core services.	
Review of Investments and Loans		
R5	The Clerk/RFO and Members should review and readopt its current Investment Strategy, in light of the ongoing financial uncertainty in the national and global financial markets.	
R6	The Town Council should expediently consider the level of funds it has invested in its accounts with the Co-op Bank and Monmouthshire Building Society 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.	