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| Caldicot Town Council (Cil-y-Coed)***Internal Audit Report 2017-18: Interim Report*** |

**Prepared by Claire Lingard**

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# *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.**

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

**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. 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 several internal control objectives.

**Overall Conclusion**

We have concluded that, since the programme of work we have undertaken to date, the Council continues to maintain adequate and effective internal control arrangements. We ask that members consider the content of this report and acknowledge that the report has been reviewed by Council.

We are also pleased to record that, in the areas examined to date, no major issues or concerns have been identified and that we wish to commend the Clerk, her deputy and support staff for her continued and exemplary management of the Council’s administration and the effective control procedures in each relevant area.

**Detailed Report**

**Maintenance of Accounting Records & Bank Reconciliations**

The Council currently operates three bank accounts with the Co-op Bank: The Current Account, Instant Access Account (residual £2.75 balance due to be closed) and a fourteen-day interest account. The six-month Bond account has been phased out by the Co-op Bank and will be closed in due course. 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.

We note that the council had not yet received the external audit certificate from BDO at the time of this interim visit and will review any feedback from the external auditor at our final review.

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: -

* 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; and
* Examined transactions on the Council’s Current account for two months’ transactions, April and August 2017, 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 unpresented cheques or anomalous entries.

***Conclusions and recommendation***

***We are pleased to record that no significant issues have been identified in this area. We shall undertake further work a tour final visit including checking at least one further month’s transactions and verifying the accuracy of the year-end bank reconciliations and ensuring the accurate disclosure of the year-end combined cash and bank balances in the year’s Annual Return.***

**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 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 2017 without amendment;
* 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 2017 without amendment; and
* Examined the Council and standing committee’s minutes for the financial year to the 31st August 2017, 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

***Conclusions***

***We are pleased to record that no significant issues arise in this area currently: we shall continue to monitor the Council’s approach to governance at future visits, also extending our review of minutes for the remainder of the financial year at our final visit.***

**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 19 payments, including all those individually in excess of £2,000 plus every 25th payment: the sample totals £56,229 and equates to 55% of non-pay related payments in the year to the above date. 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.

We note that the first quarterly VAT reclaim has been completed and submitted to HMRC and have verified the detail to the underlying control account.

***Conclusions***

***No issues arise requiring formal comment or recommendation. We will extend our test sample for the remainder of the year at our final visit, also ensuing the accuracy of the remaining three quarters’ VAT reclaims.***

**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 examined the Council’s insurance policy with Aviva, arranged by WPS, noting that appropriate cover remains in place with Employer’s 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 and note that the Clerk and Deputy Clerk are in the process of developing the Council’s new Financial and Health & Safety Risk Assessments at the time of this interim review and that the new Assessments are due to be reviewed by members and subsequently adopted at the meeting of the full Town Council in December 2017.

We also 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.

***Conclusions***

***We have taken examined the playground reports produced by Monmouthshire Council and the contract groundsman both of which are in tick-list format. These are not detailed risk-based reports with photographic evidence and we consider that inspections should be undertaken by a qualified independent inspector at least once annually.***

***We also take this opportunity to remind the Clerk and members of the mandatory requirement for both financial and associated risk registers to be the subject of at least annual review and formal adoption by the Full Council in line with the criteria set out in the Governance & Accountability Manual.***

*R1. A qualified, independent Playground inspection organisation, such as RoSPA, should be retained to conduct periodic, at least annually, risk-based inspections of all Play areas and recreation facilities operated by the Council.*

**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.

We are pleased to note that members continue to receive regular budget monitoring reports with over/under-spends and the level of earmarked reserves the subject of regular review.

***Conclusions***

***This interim visit occurred too early for the Council to have formally considered its budget and precept requirements for 2018-19: consequently, we shall ensure that a proper and appropriate exercise has been undertaken and that the levels of closing reserves for the year remain “fit for purpose” at our final visit. We shall also review the year-end outturn following up any significant variances in existence and seeking appropriate explanations.***

**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, bowling green 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 examined a sample of hall bookings and allotment rents from the current year’s written records and wall planners 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***

***We are pleased to report that no significant matters arise in this area: we shall review a sample of burial and memorial fees at our final visit ensuring that the appropriate records are being maintained and that income is recovered and banked in a timely manner.***

**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 most recently revised effective 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 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; and
* Ensured that the appropriate employee contributions to the pension scheme have been determined and paid over to the Pension Fund Administrators.

***Conclusions***

***We are pleased to record that no issues have been identified in this review area this year.***

**Investments and Loans**

Due to the Co-op Bank’s decision to phase out the Bond account, all the council’s funds (approximately £250,000 at the time of this interim visit) are held in current and 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.

In discussion with the Clerk we have noted her 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. Whilst we cannot act as financial advisors, we draw attention to the CCLA Deposit Account, which several of our clients are using to place surplus funds.

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

***Conclusions and recommendation***

***As indicated above, 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](http://www.ccla.co.uk)***. Information concerning the Financial Services Compensation Scheme may be found at*** [www.fscs.org.uk](http://www.fscs.org.uk) ***with 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 though 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.*

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| Rec. No. | Recommendation | Response |
| Assessment and Management of Risk |  |
| R1 | A qualified, independent Playground inspection organisation, such as RoSPA, should be retained to conduct periodic, at least annually, risk-based inspections of all Play areas and recreation facilities operated by the Council. |  |
| Investments and Loans |  |
| R2 | Consideration should be given to developing an investment strategy which minimises the council’s risk of losing funds though 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. |  |