

## **Caldicot Town Council (Cil-y-Coed)**

*Internal Audit Report 2020-21: Interim 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 interim Internal Audit for the 2020-21 financial year, which took place on the 09<sup>th</sup> November 2020.

## **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 2019-20 reports and acknowledge that the members have noted and considered these in their deliberations but have not yet Resolved to implement these. The Council has continued to make business processes and performance improvements, even in these challenging times and we have reviewed the Council's modified practices implemented to comply with the Government's Covid-19 directives, and report that, on the basis of the work undertaken to date in the current year, the Council continues to operate adequate and effective internal controls in all areas examined to date. Resultantly, only one recommendation for improvement have been made in the Review of Salaries

We have noted that the Council has taken all reasonable steps both to comply with both central Government and Welsh Assembly Covid-19 directives, also 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.

We commend not only the Clerk / RFO for her 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. Once again, the manner in which the requested electronic documents and backup files were presented by the Clerk / RFO and Deputy Clerk 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.

# Detailed Report

## Review of Accounting Records, Banking & Reconciliations

The Council currently operates two bank accounts with the Co-op Bank: The Current Account, and a Business Select Instant Access account. The Co-operative Bank Bond account and the Instant Access account in use previously have both been closed. The Council has deposited £100,000 with the Monmouthshire Building Society and also holds deposits with the CCLA Public Sector Deposit Fund. 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: -

- Noted that the council received the External Auditor's report and certificate, with one matter raised on the 11<sup>th</sup> November 2020 (submitted post internal audit and report amended);
- 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 2019-20 Statement of Accounts and certified Annual Return, have been correctly rolled forward as the opening balances for 2020-21 by reference to the Council's April bank reconciliations, the Month Zero report being unavailable due to a software issue; and,
- Examined transactions on the Council's Current account for two months' transactions, April and June 2020, 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 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 not actioned all recommendations made in the two Internal Audits conducted during 2019-20, in particular the recommendations made in the prior year Interim Audit;
- Noted that Standing Orders were last re-approved at the Full Town Council meeting in July 2019;

- Noted that the Financial Regulations were last re-approved at the Full Town Council meeting in April 2019;
- 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.
- Examined the Council and standing committee's minutes for the financial year to the 30<sup>th</sup> September 2020, 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 Clerk/RFO has undertaken all reasonable steps to ensure the Council's continuing 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.

### **Conclusions**

*There are no matters arising in this area of our 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.

We have completed testing in this area for compliance with the above criteria examining a sample of 14 payments, including all those individually in excess of £2,000 plus every 25<sup>th</sup> payment: the sample totals £30,369.81 (Approximately 40% of the prior year total) and equates to 31% of non-pay related payments in the year to the 30<sup>th</sup> September 2020. 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 first two quarterly VAT reclaims 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 are in the process of being reviewed and updated at the time of this Interim Internal Audit.

We have examined the Council's insurance policy, which continues to be placed with Royal Sun Alliance (RSA), arranged by WPS in the final year of a three-year arrangement, 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/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.

The Council's Minutes confirm that it took all reasonable actions to comply with Public Health Wales directives concerning Covid-19 and play area management.

### ***Conclusions***

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

## **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.

We note that the Clerk/RFO and the Council Members are currently in the process of undertaking robust Budget setting and Precept determination process in respect of the 2021-22 financial year. It is anticipated that the Budget setting and Precept determination process will be concluded by December 2020.

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***

***There are no matters arising in this area of our review warranting formal comment or recommendation. We shall extend this area of our review to examine the year-end outturn, the***

*level of the Council's Reserves and to follow up any significant variances, seeking appropriate explanations should such variances exist.*

## **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 Budget setting and Precept determination process, in accordance with the requirements of its adopted Financial Regulations.

During this review we would usually 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. We have not done so at this point due to the remote nature of this audit and the significant reduction in the Council's income in the period to 30<sup>th</sup> September 2020.

### **Conclusions**

*There are no matters arising in this area of our review warranting formal comment or recommendation: It is our hope that we shall be able to conduct a physical, onsite audit for the 2020-21 financial year, where we shall conduct a confirmatory review of all income sources and in particular the burial and memorial fees and the allotment fees and contracts.*

## **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**

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 National Pay Awards for the 2020-21 financial year were not Approved and Adopted until the 30<sup>th</sup> September 2020 meeting of the Town Council, under Minute reference 10318 iii), with the award to be made retrospectively, effective of 1<sup>st</sup> April 2020. The Clerk has advised me that the calculations have now been made and will be applied in the November 2020 payroll;
- Noted that the Minutes of the single Personnel Committee meeting of the year to date detail an exceptional Covid-19 related staff payment made to two members of staff. Subsequently, the Recommendation of the Personnel Committee was formally approved at Full Council;

- Examined the complete payroll for the period from April to September inclusive due to anomalies in the processing of the Pension contributions and the major payroll variance in July 2020;
- Examined employees' payslips for July 2020 and agreed each employee's basic pay to their terms and conditions, excluding the exceptional Covid-19 related staff payments, noting that all payments made during that period were based on the 2019-20 National Pay Award;
- For the same month, verified 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. We have noted that the Employer Pension contribution reduced in April 2020 from 20.8% to 17.9%, this was reduced in August 2020. Torfaen CBC documentation confirms that the initial overpayment has now been rectified.

### ***Conclusions and recommendation***

***We have noted that the Employer Pension contributions were not correctly administered during the period from April to September 2020 inclusive.***

*R1. Close attention should be paid to the correct processing of the Council's Pension contributions with prompt remedial action taken when an error is identified.*

## **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 continue to maintain an appropriate Investment Strategy in line with the guidance issued by the National Assembly for Wales. Surplus funds are now held in the Co-op Business Select Instant Access account, the CCLA Public Sector Deposit Fund (PSDF) and in the Monmouthshire Building Society.

We have noted that the Minutes of the 30<sup>th</sup> September 2020 meeting of the Full Council, reference 10318 ii), confirm that Members have Resolved to reinvest the Monmouthshire Building Society Business 90 fund upon maturation on the 7<sup>th</sup> October 2020 with a Projected value of £101,100.60 at that time.

We have confirmed the balances of both the CCLA PSDF and the Monmouthshire Building Society, as at the 30<sup>th</sup> September 2020 to prime documentation.

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.***

Rec. No.	Recommendation	Response
<b>Review of Accounting Records, Banking and Bank Reconciliations</b>		
R1	Close attention should be paid to the correct processing of the Council's Pension contributions with prompt remedial action taken when an error is identified.	