Cowbridge (Ancient Borough) with Llanblethian Town Council

Internal Audit 2024/25

Interim Report

JDH BUSINESS SERVICES LTD

Registered to carry on audit work by the Institute of Chartered Accountants in England and Wales

The internal audit of Cowbridge (Ancient Borough) with Llanblethian Town Council is carried out by undertaking the following tests as specified in the Annual Return for Local Councils:

- Checking that books of account have been properly kept throughout the year
- Checking a sample of payments to ensure that the Council's financial regulations have been met, payments are supported by invoices, expenditure is approved, and VAT is correctly accounted for
- Reviewing the Council's risk assessment and ensuring that adequate arrangements are in place to manage all identified risks
- Verifying that the annual precept request is the result of a proper budgetary process; that budget progress has been regularly monitored and that the council's reserves are appropriate
- Checking income records to ensure that the correct price has been charged, income has been received, recorded and promptly banked and VAT is correctly accounted for
- Reviewing petty cash records to ensure payments are supported by receipts, expenditure is approved and VAT is correctly accounted for
- Checking that salaries to employees have been paid in accordance with Council approvals and that PAYE and NI requirements have been properly applied
- Checking the accuracy of the asset and investments registers
- Testing the accuracy and timeliness of periodic and year-end bank account reconciliation(s)
- Review of the year-end financial statements

The interim internal audit provides evidence to support the annual internal audit conclusion on the Annual Return for local councils.

Conclusion

On the basis of the internal audit work carried out, which was limited to the tests indicated above, in our view the council's system of internal controls is in place, adequate for the purpose intended and effective, subject to the recommendations overleaf. As part of the internal audit work for the next financial year we will follow up all recommendations included in the action plan.

JDH Business Services Ltd

ACTION PLAN

	ISSUE	RECOMMENDATION	Management Response
2024/25 Interim Internal Audit			
1	The Accounts and Audit Regulations require the council to conduct a financial year review of the effectiveness of the system of internal control. Although there are internal controls in place as evidenced by the Financial Regulations and member checks, the council has not conducted an annual review of the effectiveness of internal controls and documented this in the minutes. The only information provided to us as evidence of n annual review of the system of internal control; was that the Management Risk Review was approved under minute reference 2024/7.	*The council should conduct an annual review of the effectiveness of the system of internal controls and document this review in the minutes.*	As part of year end procedures a review of internal controls will be undertaken Repotted to council as part of approval of the accounts
2	There are three working groups, the Town Hall Working Group, s106 working group and the events working group. Although there is a terms of reference in place for each of the groups, these do not make it clear that the groups cannot make decisions nor commit the council toe	*The terms of reference for the working groups should be amended to make clear that the groups cannot make decisions, nor commit the council to expenditure, and as such are advisory only and will make recommendations to their parent committee (or full council).*	This has now been completed

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	expenditure if they are not sub-committees of the council. s101 of the LGA 1972 states that 'a local authority may arrange for the discharge of any of their functions (a) by a committee, a sub-committee or an officer of the authority; or (b) by any other local authority.' Therefore, s101 does not permit working groups that are not sub-committees to discharge any council functions, nor to make any decisions or to incur liabilities/expenditure.		
3	The August 2024 payroll total from Scribe of £14,190.97 could not be agreed to the analysis provided in the Employer Summary for August 2024.	*Council should review the August 2024 SCRIBE payroll total and reconcile this to the underlying payroll employer summary to identify why there is a difference between SCRIBE and the payroll summary.*	Currently under investigation and will be reported to F & G committee when resolved
4	For debit card use the Financial Regulations state: *"A pre-paid debit card may be issued to employees with varying limits. These limits will be set by the Council. Purchases made will be reported to the relevant committee and authority for topping-up*	*The council should set a transaction limit in the Financial Regulations for card purchases by officers.* *The council should ensure where fixed assets such as planters are purchased via card purchases, that these are identified and added to the fixed asset register.*	Currently we have two debit card one with the chief officer and one with the amenities supervisor for small day to day purchases and reconciled and approved on a monthly basis further enquires to be had with the bank for purchase cards

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	shall be at the discretion of the Finance & Governance Committee." Therefore, no transaction limits have been set on the use of the debit card. We note there was a debit card purchase of £1130.40 (inc. VAT) in May 2024 for planters.		
5	The Council must have effective procedures in place to prevent any decisions or payments being made that are ultra vires, i.e. that the authority does not have the lawful power to make. We were informed that controls in place to ensure this are that the council follows Financial Regulations, Standing Orders and advice from the Clerk.	*The council could improve procedures to prevent ultra vires payment by ensuing that for significant or unusual payments, the empowering legislation is narrated next to the payment when approved by council.*	Comment noted and will be reviewed in the financial regulations and standing orders
2023/24 Year End Internal Audit			
1	Further to our recommendation in 2022/23 regarding the fixed asset register, the council has implemented as extensive review and reformatting of asset register in 2023/24. However, this has resulted in a substantial increase in fixed asset values,	*The council should ask the external auditor whether they require restatement of the 2023/23 fixed asset values in the 2023/24 Annual Return comparative figures on a consistent basis, due to the substantial changes to fixed assets, including valuation methods and the fact the hall was owned in*	*Had asked the external auditor twice for feedback but no response was ever given not proposing to reinstate the asset register now includes the cost of the memorial and the town hall*

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	from £449,357 to £4,314,427. The major reason for this increase is that the town hall, which has been owned by the council for a significant period of time, has never been included in the asset register. The value ascribed to the hall is £3,689,000. In addition, the valuation method appears to have been changed for some assets eg the war memorial was valued at £55,133 in 2022/23 and at £62 in 2023/24. The Governance and Accountability Guide for local council in Wales states the following: *19.9. Whatever valuation basis the council adopts for accounting purposes, it is essential that it applies the basis consistently. If for some reason the basis of valuation is to be changed, the figures shown for the previous year on the annual return should also be changed to the same new basis and marked as RESTATED.*	*2022/23 and for a very significant period prior to that year.*	
2	Year end accounts: Although the council had been implemented our prior year recommendation of identifying schedules of debtors and creditors at the year end,	*Year end procedures must include a 'sense check' of the completed Annual Return accounts with the SCRIBE balance sheet and the supporting schedules of debtors and creditors to ensure all are consistent.*	*resolved*

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	these had not been carried through to the draft Balance Sheet in the SCRIBE accounting software. This issue has now been corrected for the final accounts. Review of the draft Balance Sheet identified that the VAT balance did not agree to the outstanding VAT return. In addition, we have also raised issues regarding overclaim of VAT in prior periods in the 2023/24 interim report. As a result SCRIBE worked with officers to reconcile VAT and identify an analysis of overclaimed VAT, including VAT overclaimed by classifying Insurance Premium Tax on insurance costs as VAT reclaimable. As a result of this exercise with SCRIBE, the 2022/23 balance sheet/accounts have been restated by the council. However, review of the 23/24 year end VAT debtor indicates that the liabilities for overclaimed VAT in respect of classifying Insurance Premium Tax on insurance costs as VAT reclaimable have still not been incorporated into the carried	*The council need to review HMRC guidance and determine the full period applicable to the overclaimed VAT and ensure all monies due are adjusted for in the next VAT reclaim.*	

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	forward VAT balance.		
3	Reserves have decreased significantly over the prior year to £109,715 and earmarked reserves are disclosed as £70,000 including £40,000 for the replacement of the hall roof. Therefore, the remaining year end general reserves after deducting the £70,000 earmarked reserves if £39,715 which is approximately 16% of the 2024/25 precept level. Sector guidance is that councils should aim for a general reserve level of between 25% and 100% of the precept or net operating expenditure. The Practitioners Guide also notes this recommended level of reserves.	*The council should review the adequacy of the level of general reserves during the next budget setting process with reference to sector guidance.*	*Reserves forecast £118,000 at the end of 2024/25 financial year and the council is developing to restore the reserves to be nearer £150,000 i.e. 50% of precept over the next 2 years*
2023/24 Interim Internal Audit			
1	The SCRIBE VAT126 reclaim form does not contain VAT numbers of all suppliers. Further review of the VAT 126 analysis identified that VAT of £1,247.71 is being reclaimed on the Zurich insurance	The council need to identify VAT numbers for all the supplies with no recorded VAT number in the VAT 126 analysis to reduce the risk of HMRC not reimbursing amounts where no VAT number is recorded.	*resolved*

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	premium (12/04/23). However, there is no VAT charged on the actual insurance premiums so the council need to carry out an exercise to calculate any VAT overclaims for 2023/24 and prior years and adjust the next VAT return.	The council need to identify any overclaims of VAT relating to insurance for the statutory HMRC time period and adjust the next VAT return for any overclaims of VAT.	
2	There is no formal adopted budget timetable in place evidencing the key milestones leading to the agreement of the precept request for the year and approval of the annual budget.	*A comprehensive formal budget timetable should be established annually covering the main elements of the Council's budget setting process together with key dates and responsibilities.*	*Resolved timetable in place*
3	Hire Price Lists: • One of our sample items related to a hire that was outside the two to eight hour hire periods recorded in the hire price lists. Our sample item was for a 10.5 hour hire but this is not covered by the price list so there is no clear guide to officers of hirers as to what the charge should be. • A sample item related to a hire of the council chamber for two hours but the hire of the chamber is not included in the hire price list.	*The council need to review the hire price lists to ensure that:* • *all categories of hire are included* • *pricing reflects all possible hire periods, for instance, by establishing a basic hourly charge that could be applied by officers.*	*Will be covered in price review will be undertaken before the next budget*

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4	Although councillor periodic checks cover expenditure and payroll, the current checks do not review the accuracy of pricing of income invoices.	*Councillor periodic checks should be expanded to cover the accuracy of pricing of income invoices by comparing a sample of sales invoices to price lists.*	*A procedure of correct billing will be undertaken in April 2025*
5	One of our sample items for income (transaction no.105) dated 12/07/2023 for £475.00 hire fees did not agree to the invoice which stated £220 or the cumulative payment recorded on the hire invoice of £640.	*The council should review this income item and ensure that the hire fees have completely and accurately invoiced, received, and recorded in the council ledger.*	*Implemented*
6	We did not receive evidence that the following supplies were procured in accordance with Financial Regulations as the information could not be located by officers. This procurement review will therefore be carried forward to the year end internal audit: • The parks equipment contract for £3007 + VAT. • The Christmas lights contract, which was in excess of the level of £3000 requiring three quotations.	*The council should identify the procurement information and provide this for the year end internal audit.*	***this information was provided for the year-end internal audit with no issues or recommendations to report.***

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2022/23 Internal Audit			
1	The risk assessment was not reviewed, updated and approved during the 2022/23 financial year.	*The risk assessment should be reviewed, updated and approved every financial year.*	*Implemented*
2	Review of the draft accounts provided identified that year end procedures had not been correctly applied to produce income and expenditure accounts as no accruals, creditors, non-VAT debtors, prepayments or receipts in advance had been included in the trial balance and balance sheet. This was rectified by the clerk and the final accounts and the final Annual Return included appropriate debtors and creditors.	*The council is an income and expenditure council and must apply year end procedures to completely and accurately capture all accruals, creditors, non VAT debtors, prepayments and receipts in advance for inclusion in the year end trial balance and balance sheet and income and expenditure accounts.*	*A full year end procedure for 24/25 closure to be developed to ensue accounts are carried out on a income and expenditure basis*
3	A comprehensive asset register is a key management tool for managing fixed assets effectively. The current register does not contain all the information necessary, for instance, there is no information to indicate the valuation method used for each asset or date of acquisition/disposal to enable annual movements on fixed assets to be reconciled, and no custodian or location is identified. The format of the fixed asset register should be improved to include key	*The council should improve the format of the asset register by including at least the following key information where relevant:* • *Valuation method* • *Confirm whether insured or not and insurance value* • *dates of acquisition, upgrade and disposal (it is useful to keep a record*	*Implemented*

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	headings as described in the Practitioners' Guide.	*of disposed assets as an asset management tool);* • *costs of acquisition and any expenditure which increases the life of the asset;* • *if proxy cost is used for first valuation, a note of the method used for valuation and details of any professional advice received;* • *useful life estimate;* • *location;* • *responsibility/custodian);* • *any available indications of asset value and condition; any regular charges for usage or occupancy.*	
4	A £5000 Debit Card fraud was committed against the council during the year but officers are not clear exactly how the fraud was perpetrated. The bank has refunded the monies in full so there has been no loss to the council.	*The council should review the Debit Card fraud prevention actions listed in the Action Fraud website and ensure they are all implemented. As a debit card gives a fraudster direct access to the council bank account to enable fraudulent payments, the council could consider other forms of payment such as a Prepaid card with strict*	*Noted by council*

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		monthly limits or a Credit Card with transactional and monthly limits..	
5	The risk assessment does not address the risks of supplier fraud. Most standard local council insurance policies do not cover third party/supplier fraud. The supplier fraud risks can be managed via appropriately robust policies and procedures. Examples of prevention actions include: - training for staff to alert them to the potential risks of providing sensitive company information, by phone or other means, especially contract and account information. - establish a rigorous change of supplier details procedure - where a supplier has purported to have changed their bank details always call the supplier to check the veracity of a request, using details in your system, rather than those on any associated letter or email. A person should be authorised to approve a supplier bank account change after having reviewed the process undertaken to verify the supplier details change	*The risk assessment should be updated to include supplier fraud including the adequacy of supplier onboarding controls.*	*Recommendation Outstanding* *Will be undertaken when we revisit financial risk of procurement procedure by the end of June to be discussed with the new chief officer*

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	- periodic review of supplier accounts should also be undertaken to remove any dormant accounts. This reduces the likelihood of any old supplier information being used to secure fraudulent payments. - checking address and financial health details with Companies House - checking samples of online payments to supplier invoices to ensure the payment has been made to the supplier bank account		
6	There is no Investment Strategy and Treasury Management strategy established in accordance with the requirements of the LGA 2003 and Welsh guidance regarding investments which states: *'All other town and community councils and charter trustees whose investments are not expected to exceed £250,000 shall have due regard to this guidance and give priority to security and liquidity rather than to yield for any investments they undertake. The level of detail and specific requirements outlined in this guidance will therefore not apply but all Town and Community Councils or Charter Trusts should;* *(i) agree a Capital Strategy before the start of the financial year as a minimum; this can be undertaken as a part of the budget setting process;* *(ii) agree appropriate limits for each category of investments it plans to carry out;*	*The council should consider establishing an Investment Strategy and Treasury Management strategy with reference to the requirements of the Local Government Act 2003 and Welsh guidance regarding investments and strategies.*	*Completed included in the Investment policy recently approved*

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	(iii) agree a process that effectively monitors the strategy in year, and; *(iv) ensure that all investments are in Sterling;*		
7	A checklist review of governance identified that policies for gifts and hospitality, and expenses, have not been adopted by council.	*The council should establish a gifts and hospitality policy, and an expenses policy.*	*Implemented* for *gifts and hospitality policy. expense policy to come to F & G in April*
8	Town Hall hire charges and cemetery fees are reviewed annually by the relevant committees. However, Section 9.3 of the Financial Regulations require that *'The council will review all fees and charges at least annually, following a report of the Clerk\RFO or duly delegated staff member.'*	*Fees and charges should be reviewed and approved annually by council in accordance with the Financial Regulations.*	*Fees and charges to be reviewed with the budget annually*
9	The following established working groups do not have an adopted terms of reference: • Coronation Working Group • Community Plan Working Group	*All working groups should be established with an approved terms of reference, making it clear that the working group has no decision making authority.*	*Implemented*
10	There is no income collection/debt write off policy to ensure there is an agreed consistent approach to income collection and the procedures to follow with older debts including write offs.	*The council should consider establishing an income collection/debt write off policy to ensure a consistent approach to debtors.*	*Implemented*