

## **Porthcawl Town Council**

*Internal Audit Report 2020-21*

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*Claire Lingard*  
*Consultant Auditor*

*Reviewed by Stuart Pollard*  
*Managing Director*

*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 Welsh Office Annual Return.

This report sets out the work undertaken in relation to the Internal Audit process for the 2020-21 financial year which took place on the 17<sup>th</sup>, 18<sup>th</sup>, 19<sup>th</sup>, 20<sup>th</sup>, 21<sup>st</sup>, 22<sup>nd</sup> and 24<sup>th</sup> June 2021.

## **Internal Audit Approach**

In conducting our review of the year, the first Internal Audit undertaken on behalf of Porthcawl Town Councils 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 and 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 Return process, which requires independent assurance over a number of internal control objectives.

## **Overall Conclusions**

Prior to undertaking the Internal Audit for the financial year, we were made aware, by the Clerk / RFO in post, that the Council is currently under investigation by Audit Wales, and the South Wales Police.

We have noted the findings made in the prior year Internal Audit statement completed by Lyn Llewellyn Internal Audit Services. We have identified major failings of Corporate Governance during the financial year due to the Council's non-compliance with statute and its own Standing Orders and Financial Regulations, and report that, on the basis of the work undertaken in the current year, the Council has failed to operate adequate internal controls in 4 of the 11 Annual Return Internal Audit objectives. We have made twenty-seven recommendations for improvement. These are set out in the main body of the report and the appended Action Plan.

We have noted that the Council has taken all reasonable steps both to comply with both central Government and Welsh Assembly public-health directives in relation to Covid-19, also ensuring that the Council's service provision remained consistent; ensuring both the health and safety of the Employees, Members, and members of the public availing themselves of the Council's services and facilities. There is clear evidence of all modified practices being formally Reviewed, Resolved and Recorded in the Council's Minutes. It should be noted that the Council's Standing Orders had not been amended to accommodate irregular working practices.

We thank the new Town Clerk/RFO, in post from the 08th February 2021, for her professional management and administration of matters pertaining to this Internal Audit process, during what is a obviously a very challenging time for the Council.

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

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## Detailed Report

### Review of Accounting Records & Bank Account Management

Our objective here is to ensure that the accounting records are being maintained accurately and currently and no anomalous entries appear in the financial ledgers. During the 2020-21 financial year, the Town Council had no in house financial accounting systems whatsoever. The Council outsourced the entirety of its Finance and Accounting to PML Accountants Ltd.

From the 1<sup>st</sup> April 2020 to the 08th February 2021 the Council had no Responsible Finance Officer appointed as is required by Statute:

*“RESPONSIBLE FINANCIAL OFFICER*

*Like any other local authority, a local council must arrange for the proper administration of its financial affairs, and secure that **one of its officers** has responsibility for the administration of those affairs. This officer is called the ‘responsible financial officer’ and is almost invariably the clerk. It is his duty to determine the form and content of the accounts and supporting records, subject to any direction from the council and in compliance with the Accounts and Audit (Wales) Regulations 2014 (SI 2014/3362 W.337).*

*He must ensure that the records are maintained in accordance with ‘proper practices’ and kept up to date. the proper practices are prescribed by the Welsh Assembly in Wales. These are contained in governance statements and Governance and Accountability (Wales): Practitioner’s Guide.*

- *Local Government Act 1972, s.151*
- *Accounts and Audit (Wales) Regulations 2014, SI 2014/3362 (W.337) reg 4, Local Government Act 2003, s.21(2).*
- *Local Government Act 1972, s.112(5)*

The contract between PML Accountants Ltd and the Council states that it is responsible for : Posting all business bank transactions, completing monthly bank reconciliations, posting purchase invoices, expenses and cash transactions, credit card transactions, creating a monthly schedule of payments, Managing the electronic payments process on the bank BACS facility, completing monthly purchase ledger reconciliations, completing monthly VAT reconciliation, Completing payroll journals, basic quarterly management reporting, Expense monitoring and advice, precision accounting with accruals and prepayments, maintaining the fixed asset register, monthly management reporting, debt monitoring, completion of VAT S126 returns, Completion of annual accounts.

- Noted that the Council maintains two non-interest bearing bank accounts, one with Lloyds Bank and one with the National Westminster Bank;
- Noted that the Council is not in receipt of the External Auditor’s report for the 2019-20 financial year, due to the Council being under current investigation by Audit Wales and the South Wales Police;
- Noted the content of the 2019-20 financial year Internal Audit statement from Lyn Llewellyn Internal Audit Services which makes several recommendations which had not been implemented;
- Verified detail of the opening balance for 2020-21 financial year, by reference to the prior year-bank reconciliations, the Council’s bank statements and with that in the closing 2019-20 Statement of Accounts;

- Noted that the Council has closed its limited Petty Cash system as at the 31<sup>st</sup> March 2021;
- Noted the members of the Financial Committee amended the nominal ledger coding structure in-year for reporting purposes;
- Noted that the Council's accounting records, were wholly maintained by the Accountant during the 2020-21 financial year.;
- Checked and agreed the line item transactions from the 1<sup>st</sup> April 2020 to the 31<sup>st</sup> March 2021 on both the Council's bank accounts;
- Verified detail in the "current account" monthly bank reconciliations for Lloyds Bank and the National Westminster Bank for the 2020-21 financial year; and,
- Checked and verified the disclosure of the year-end combined cash and bank balances in the year's Town Council Accounts produced by PML Accountants Ltd.

### **Conclusions**

***Due to the failure of the Council to comply with statute, as recorded above, it cannot be deemed to have complied either with its own Standing Orders, or its Financial Regulations. The failure to appoint an officer of the Council as the Responsible Financial Officer to manage and maintain its accounts represents a serious failure of corporate governance.***

***Further it is not appropriate for any Council, in particular a council of the size and complexity of Porthcawl Town Council to fail to maintain its own financial records. The Clerk / RFO and Members are strongly advised to immediately acquire a robust financial accounting system such as Rialtas Business Systems Omega platform which is a fully functional and secure accounting system which manages all reconciliations for all bank accounts internally and automatically produces budget Vs. actual, income & expenditure, trial balance reports, management accounts and the Annual Return automatically.***

***The platform also offers full cemetery, allotment and asset management modules and is in use in over 85% of Council's in England and Wales; including Chepstow Town Council, Llantrisant Community Council, Pontyclun Community Council and Rogiet Community Council.***

***R1. The Town Clerk/RFO and Members should consider the acquisition of a fully functional accounting package, designed specifically for Town and Community Councils, such as Rialtas Business Systems Omega platform, for its current and future financial management and recording needs, including regular financial reporting and budget monitoring.***

## **Review of Corporate Governance**

Our objective is to ensure that the Council has robust corporate governance arrangements 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's Standing Orders and Financial Regulations have not been reviewed for some time and have, in any event, not been properly edited. For example, the Financial Regulations records that both 6.21 "The council will not maintain any form of cash float..." and 6.22 (a) "The RFO shall maintain a petty cash float of £250".

We have also noted that both the published Standing Orders and Financial Regulations record a £25,000 trigger limit for formal tenders to be undertaken;

- Concluded our review of the minutes of Full Council and its Standing Committee meetings (excluding Planning) for the year to identify any issue affecting the Council's financial stability either in the short, medium or long term, noting that there have been unacceptable practices undertaken, including:
  - The convening of a 'Decisions Team' which has met, in-camera, and communicated its decisions pertaining to all aspects of the Council's operation to the Full Council for Ratification – clear evidence of predetermination outside the democratic process permitted in the Standing Orders.
  - The failure to engage in proper tender practices in relation to the Griffin Park Public Toilets project and the appointment of Credu Charity (in liquidation), an organisation which had two members of the Council, now resigned as its officers.
  - The continuous use of Confidential Minutes which is not permitted as it obfuscates the democratic process.
- Noted that the Council's Committees have full Terms of Reference;
- Noted that the Council continues to make Grants and Community Contributions to local organisations using statutory Powers including s.137 Local Government Act 1972 (amended);
- Noted that the Financial Procedures, Internal Controls document and Reserves document do not reflect the Council's outsourced financial operations;
- Noted that the Town Clerk/RFO in post from the 08th February 21 is making strenuous efforts to ensure that the Council is brought into line with proper working practices in compliance with statute and its own Financial Regulations and Standing Orders.

### ***Conclusions and recommendations***

***There is clear evidence that the Council has worked outside its Standing Orders and Financial Regulations during the 2020-21 financial year. The matters identified have been recorded in order of severity:***

***The Council's operations have been otherwise than in accordance with its Standing Orders and Financial Regulations. As such, the Council cannot be said to have operated throughout the 2020-21 financial year, on a lawful basis.***

- 1) ***Failure to appoint an officer of the Council as the RFO from the 1<sup>st</sup> March 2020 to the 08th February 2021.***

***As noted in the Review of Maintenance of Accounting Records and Bank Reconciliations we have noted that the failure to appoint an officer of the Council as the RFO from the 1<sup>st</sup> March 2020 to the 08th February 2021 represents a systemic failure of the Council's Corporate Governance and a failure to comply with its own Financial Regulations and Standing Orders. The outsourced financial account services provider could not, by statute, act as the Council's RFO, yet to all intents and purposes PML Accountants Ltd did as the RFO and undertook all the duties of an RFO throughout the 2020-21 financial year.***

***Due to the lack of transparency in the published Minutes of the Full Council and Finance & Governance Committee it is impossible to ascertain exactly who PML Accountants were reporting to and who was responsible for the Approval of the Council's financial business.***

***Members, failed to record in the Minutes of the Full Council or its Finance Committee and any regular scrutiny of bank statements, bank reconciliations, monthly/quarterly budgetary reports, payment schedules excepting:***

- *10<sup>th</sup> September 2020 Full Council: Approval of the PML August Accounts, Quarterly reconciliation and August reconciliation.*
- *28<sup>th</sup> January 2021 Finance & Governance Committee: Approval of the PML December Accounts.*
- *04<sup>th</sup> March 2021 Finance & Governance Committee: Formal Approval of financial items, listed separately by the new Clerk / RFO in post.*

*We also report that no payment document, payment schedule, bank statement, bank reconciliation, or monthly account produced for the purposes of this Internal Audit bore any evidence whatsoever of formal scrutiny, approval by Members of the Council, or any consideration at all. The only mark applied to any document was an occasional 'received' stamp mark.*

*Whilst we note that PML Accountants prepared all the required financial documentation, in year, accurately and to a high standing, the lack of due diligence by Members is of extreme concern and represents an unacceptably low level of financial management and scrutiny throughout the 2020-21 financial year.*

- R2. *The Clerk / RFO must ensure that the Council's financial matters receive full and transparent scrutiny by Members of the Council, either at Full Council or the Finance & Governance Committee. This must include scrutiny and approval of all Bank Statements along with the corresponding bank account Reconciliations, Schedule of Payments and Budget monitoring reports which should, in a council of Porthcawl Town Council's size and complexity, be presented on at least a quarterly basis.*

2) *The Decisions Team / Delegated Decisions Team / Nominated Decisions Team*

*The Full Council has no power to delegate the proper decision making process of the full council to any group of members. The Decisions Team also recorded as the Delegate Decisions Team, for which no record of Resolution to establish, assign terms of reference or delegated powers has been provided, has met in-camera, made decisions on behalf of the Council and passed those decisions to the Full Council for their Ratification in the form of confidential reports.*

*The Extraordinary Full Council meeting of the 28<sup>th</sup> May 2020 records under Minute Reference 212, that Members decided to ratify all decision made by the 'Nominated Decisions Team' from the 13<sup>th</sup> March 2020 to date. It is unclear how many e in-camera meetings have taken place during the year and how many confidential reports have been circulated. The Clerk/RFO has provided such records as she has been able to identify for the purposes of this Audit.*

*This practice is outside the Council's Standing Orders and is not appropriate as it subverts the Democratic Process and has provided clear evidence of predetermination.*

- R3. *The Clerk / RFO should seek advice from One Voice Wales in regard to the 'Decision Team' situation to determine whether the Council is required to make a report to the Monitoring Officer in respect of the practices detailed above.*

3) *Failure to conform to formal tender and quotation process defined in the Council's Standing Orders and Financial Regulations.*

*a) The Council's Minutes record, in brief, the 'tender' process in relation to the Griffin Park Toilet Project. However, no formal tender process, with the tender registered on the UK*

*Government's 'contractsfinder' portal, or the South Wales Government's tenders portal 'sell2wales'. Resultantly, the Council failed to undertake the tender process correctly as the contract was awarded in a value in excess of £25,000. It appears that a third-party organisation was retained to manage the process, but that a quotation process, rather than a proper tender process was undertaken.*

*b) Credu Charity (in liquidation) is a charity that two members of the Town Council, were respectively a Director and Company Secretary of. Resultantly these Councillors had an Interest which should have been declared in any Agenda Item pertaining to the that Charity. One Declaration of Interest by Cllr M Clarke and Cllr N Clarke has been identified, in the Minutes of the Full Town Council of the 08<sup>th</sup> October 2020.*

*Subsequent to this report being issued we were advised by the Town Clerk/RFO that she has now been advised of other Declarations of Interest which had been made, in Confidential Minutes. We note that these Minutes were not in possession of the Town Clerk/RFO and were not provided for the purposes of the Internal Audit Review we have undertaken, further, we have already advised that Confidential Minutes are not lawful and do not form the permanent legal public record of the Council's business.*

*Further, we note that only one payment made to Credu Charity during the 2020-21 financial year received formal approval for 'costings', in relation to an 'outdoor cinema screening', in the amount of £7,700, at the Full Council meeting on the 30<sup>th</sup> July 2020, under Minute reference 62. We note that Cllr N Clarke and Cllr M Clarke properly recused themselves from the vote in this matter. We further note that the final invoice for this event, in the amount of £7,840.80 was not approved, until all the unapproved payments in the year were approved retrospectively in the Meeting of the Finance & Governance Committee of the 4<sup>th</sup> March 2021.*

*During the 2020-21 financial year, Credu Charity invoiced the Council for in excess of £50,000. It is a requirement of the Council's Standing Orders and Financial Regulations that all procurements in excess of £25,000 excluding VAT, whether as a unique purchase or for the duration of a service provision. The Town Clerk/RFO has been unable to identify any formal Resolution to award a tendered contract to Credu Charity, in excess of £25,000, and no tender for the services provided by Credu Charity has been recorded on UK Government's 'contractsfinder' portal, or the South Wales Government's tenders portal: 'sell2wales' during the 2020-21 or the 2019-20 financial years.*

*Resultantly, the Council failed to undertake the tender process correctly, undertaking a quotation process instead, as the contract awarded was in excess of £25,000. There is added complexity in this situation due to the involvement of the two Council Members.*

*c) The Council's Minutes confirm that quotations for temporary portable toilets were sought by a Member. At the time of this audit, we are advised by the Member in question, that they passed this information to the Clerk for them to facilitate the procurement. However, there is no evidence currently available to support this statement as the previous General Manager's e-mail are not available.*

*R4. The Clerk/RFO must ensure that all Tender and Quotation processes are managed as required by the Council's Standing Orders and Financial Regulations. Members are reminded that they have no authority to seek quotations or place orders for and on behalf of the Council as this process is in the purview of the Clerk / RFO.*

- R5. *With immediate effect, the Clerk / RFO should ensure that all invoices and other payment documents are forwarded to the Attention of the 'Responsible Financial Officer' at the Town Council's permanent address.*
- R6. *With immediate effect, the Clerk / RFO should ensure that the Council's Financial Regulations are amended to require the Payments Approval process to be undertaken by the Full Council. Committee's may continue to endorse a payment document with a Recommendation for Payment made to Full Council, however, the Approval Process, including full scrutiny of all payment documents and the uniquely identified payment schedule and all payment documents listed upon it, must take place at Full Council, and Approval of the payment schedule and individual payments formally recorded in the Council's Minutes.*
- 4) ***In-Camera council meetings convened without Agenda and Confidential Minutes.***

***We have noted the denuded quality of information contained within the Council's Minutes for the 2020-21 financial year. With almost no reference to the Council's finances and little discussion evident concerning Agenda items of business, prior to Resolutions being made.***

***We have also noted that the Council has made significant use of Confidential Minutes during the financial year which is not permitted: A Council must, by statute, record its decisions in Minutes.***

***There is no statutory basis for there being more than a single set of Minutes and legal opinion, based on general advice issued by the National Association of Local councils and a solicitor specialising in local council law states that having more than one set of minutes is not advisable. It is deemed that the Local Government Act 1972 section 228 give electors an absolute right to inspect signed Minutes. There is also a statutory requirement that Minutes be signed promptly, usually at the subsequent meeting of the Council or Standing Committee and not delayed.***

***The Freedom of Information Act is not relevant as the right to inspect Minutes is a specific statutory right. The General Data Protection Regulation (GDPR) is also not relevant as it does not supervene a specific obligation to provide information as in section 228. Permitting the inspection of a Minute, therefore, cannot be a breach of the GDPR.***

***Clearly in sensitive situations it is prudent to be circumspect about the detail recorded in the Minutes. At any time, only the decisions need to be recorded, and not the discussion or any ancillary papers which may be the subject of a Freedom of Information request, but which could be exempted:***

***The Town Clerk/RFO should write the Agenda, with an ancillary report, mentioning the excluded item, the report is the confidential item under the 2000 Freedom of Information Act exemptions, General Data Protection Regulation or be Legal Privilege.***

***The Town Clerk then Minutes in the public domain that decision A, B, or C put to the council was resolved which means there is a minute identifying an action, but not the substance of the action and it keeps the report confidential.***

***The reference guide 'Local Councils Explained' chapter 10 and 11 details this procedure at length.***

- R7. *Council business may only be undertaken at formally convened meetings of the Full Council or its Standing Committees according to the Standing Orders, Financial Regulations and all items*

*of business to be discussed must be published on the corresponding Agenda. In-camera meetings which predetermine the decisions of the Council, and which subvert the democratic process are not permissible.*

- R8. *The Correct procedure for maintaining matters deemed 'Confidential' or sensitive should be treated in the correct manner as indicated above. A detailed explanation of this process is contained within the reference book 'Local Councils Explained' in chapters 10 and 11.*

*The Town Clerk/RFO should familiarise herself with this process, either via reference to the above named book, or by seeking guidance from One Voice Wales, or both.*

***Due to the systemic failures in compliance with the Council's Financial Regulations during the whole of 2020-21 financial year, Annual Internal Audit Report Control Objective 2: "Financial Regulations have been met, payments were supported by invoices, expenditure was approved, and VAT was appropriately accounted for."***

***Accordingly, a negative assertion has been entered into the FY2020-21 Annual Internal Audit report for Objective 2.***

## **Review of Expenditure**

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and 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.

As the Council outsourced all its accounting requirements during the 2020-21 financial year, we have reviewed each schedule of payments with its corresponding invoices for the whole financial year. We noted that apart from the occasional 'received' stamp mark that not one single payment document contained any clear evidence of verification, coding, scrutiny or Approval by the Members. This matter has already been reported in the Review of Corporate Governance.

We have also tested a sample of the years payments for compliance with the above criteria selecting a sample of high value payments individually in excess of £3,000, together with a more random sample of every 20<sup>th</sup> cashbook transaction report entry, irrespective of value for the financial year to 31<sup>st</sup> March 2021. The test sample was comprised of 72 payments with a total value of approximately £356,376.34 equating to approximately 94% of all non-pay payments.

Finally, in this area of our review we have noted that PML Accountant's Ltd made a single s.126 reclaim for the 2020-21 financial year, in the amount of £43,410.49. We have checked and verified the 2020-21 financial year VAT reclaim report and submission with no issues arising.

### ***Conclusions and Recommendation***

***It is not appropriate for Porthcawl Town Council to submit an annual VAT reclaim and should properly perform VAT reclaims on a quarterly basis.***

R9. *The Clerk/RFO should ensure that VAT Reclaims are made on a quarterly basis, rather than annually, as befitting the Council's turnover to ensure that cashflow is optimised.*

## **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 to minimise the opportunity for their coming to fruition. We have: -

Noted that the Council has produced detailed Health & Safety and Financial Risk Assessments and additional Covid related Risk Assessments for the Office, and the John Street toilets. The Council's Risk Registers were adopted at the Full Council meeting of the 30<sup>th</sup> July 2020 under Minute reference 65.

- Noted that the General Manager, Members and the new Town Clerk/RFO in post have responded promptly and professionally to the Central and Devolved government public-health directives, which have been amended from time to time throughout the financial year, and have ensured that risk mitigation strategies and measures have been properly and reasonably deployed after due consideration;
- Examined the Council's insurance schedule to ensure that appropriate cover is in place, noting that cover is provided by Zurich, with a policy for the 2020-21 financial year that ran from the 04<sup>th</sup> June 2020 to the 3<sup>rd</sup> June 2021. We note that Public Liability cover is set at £15 million, Employer's Liability cover at £10 million with Fidelity Guarantee, Libel & Slander, Monetary Loss and Legal Expenses cover at £250,000. Personal Accident cover is provided for with a ceiling limit of £2 million per incident, which we deem an appropriate level of cover for the Council's current needs.
- The Town Clerk/RFO has advised that the Council is responsible for one play areas: Newton Park, and is in the process of acquiring Griffin Park which contains a recreation ground, two bowling greens and a tennis court. However, no evidence of any Independent Annual Play Area inspections or regular play area inspections being undertaken.
- The council does not have either Playground Inspection forms or a Playground Management policy in place, nor are the persons who conduct undocumented inspections from time to time trained to inspect Playgrounds.

### ***Conclusion and recommendations***

***It is a legal requirement for all organisations which own and maintain Playgrounds to maintain them in a safe condition. This requires the organisation to appoint a qualified organisation, such as RoSPA, to conduct an Annual Independent Inspection of all Play equipment and of the area it is sited in. Managing organisations must also conduct regular visual inspections of all playground equipment, the playground environment, general playground conditions and signage. The outcome of these inspections MUST be recorded in appropriately designed Playground inspection forms and passed to the Town Clerk/RFO for retention.***

***It is also considered 'Best Practice' that the person(s) undertaking visual inspections have attended a Playground Inspectors course run by RoSPA or other qualified training organisation.***

*It is a mandatory legal requirement that all inspection reports, including the Annual Independent report are retained for a period of 21 years. Formally 18 years plus three years, as a person is able to bring a claim for injury in a playground, against the organisation responsible for its maintenance and safe operation, up to their obtaining 21 years of age.*

*Due to the fact that the Council has no Playground Management policy or Playground Inspection forms in place and cannot, currently, and is not able to provide any clear evidence of an orderly and well managed inspection and maintenance regime, the Council is at risk of accusations of neglect, should an unfortunate incident take place.*

*R10. The Town Clerk/RFO must develop playground inspection forms to be used by any person responsible for conducting playground inspections on behalf of the council. These forms must be retained for the minimum period required by law (this may be undertaken electronically).*

*R11. The Town Clerk/RFO and Members should consider providing appropriate playground inspectors training to persons responsible for conducting playground inspections on behalf of the Council.*

*R12. The Town Clerk/RFO and Members should establish a reasonable and proportionate playground inspection regime and associated time-based, fault escalation process with the Operations Committee. Both for non-conformities identified in the Annual Independent Inspection and the routine inspections.*

*R13. The Town Clerk/RFO should develop a Playground Management Policy, to be Reviewed and Adopted by Members. (An example of such a document may be found via the following link: <https://tidworthtowncouncil.gov.uk/wp-content/uploads/2020/11/Playground-Risk-Management-v1.pdf>)*

## **Review of Budgetary Control and Reserves**

In this area of review, we are seeking to confirm that the Council has determined its annual budget based on sound assumptions of intended spending, that sufficient funds are available to meet future spending plans and that members are kept aware of actual budgetary performance during the course of the financial year. We also seek to assess the adequacy of retained reserves, be they in respect of specific earmarked funds or the General Reserve fund.

Our aim here is to ensure that: -

- The Council has undertaken a Budget setting and Precept determination exercise, which forms the basis of the annual precept request from the parent Council;
- The Council has received regular reports identifying the budget position throughout the year;
- The Council has formally approved the establishment of specific reserves;
- The utilisation of reserves and the return of unused balances to the General Fund are reported to the Council at regular intervals; and,
- Year-end reserves and General Fund balances are reviewed to ensure that they are both appropriate and are likely to be utilised.

We note that the Minutes of the Full Council and its Standing Committees recorded no clear evidence of regular budgetary reporting being provided to or scrutinised by Members.

The Minutes of the Full Council, provide clear evidence that the Town Clerk/RFO and Members undertook a considered Budget setting and Precept determination process in respect of the 2021-22 financial year requirements. The process was kicked off at a Vision meeting where Members considered new projects which they wanted to undertake and then appears to have been taken forward in informal meetings. Subsequently, both the Budget and Precept were Adopted in the 14<sup>th</sup> January 2021 Meeting of the Full Town Council, in the amount of £435,600 under Minute reference 193.

We note, however, two negative factors which have compromised the Budget setting and Precept determination process. Firstly, members of the Finance & Governance Committee made a number of requests for amendments to financial reports during the 2020-21 financial year. This appears to have involved the outsourced accounting services provider making changes to the Nominal Ledger which meant that like for like budgetary comparisons could not be undertaken.

Secondly, while members focused on the costs required to complete the various projects they put forward, they did not take into consideration the ongoing running costs required during the financial year. This has led to a shortfall in the established budget for the 2021-22 financial year, I am advised by the Clerk/RFO, of approximately £35,000 (in relation to the running costs of the Griffin Park public toilets.)

The Clerk/RFO is currently reviewing the budget and the council's reserves to identify if and where savings can be made, and what monies may have to be viremented from the Council's reserves to balance the budget.

Finally, in this area of our review we have noted the Council's overall reserves as at 31<sup>st</sup> March 2021 noting that they stood at £243,981 (£247,181 prior year as recorded in the 2020-21 financial year Accounting Statements prepared by PML Accountant Ltd) with Earmarked reserves of £64,937 leaving a General Reserve fund of £179,004 equating to approximately four and-a-half months' revenue spending at the average monthly 2020-21 level, which sits comfortably within the generally recognised Chartered institute of Public Finance and Accountancy (CIPFA) guideline of between three and twelve months revenue expenditure at prior year levels.

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

#### ***1) Budgetary reporting***

***The budgetary reporting to Members during the 2020-21 financial year was not at an appropriately acceptable level, as previously reported. At a bare minimum at each meeting of the Full Council, Members should be presented with an Income and Expenditure report and a Budget Vs. Actual report. Members should scrutinise these reports, and formally Resolve to Note and Approve these items in the Minutes of their meeting.***

***We are pleased to note the new Town Clerk/RFO's statements recorded in the Minutes of the Full Council and its Standing Committees that suitable budgetary and financial reporting will be undertaken from 1<sup>st</sup> April 2021.***

***R14. At a bare minimum at each meeting of the Full Council, Members should be presented with an Income and Expenditure report and a Budget Vs. Actual report. Members should scrutinise these reports, and formally Resolve to Note and Approve these items in the Minutes of their meeting.***

***R15. The Budget setting and Precept determination process should be managed by the Clerk/RFO. A schedule of formal budget setting meetings should be published, usually during Finance & Governance Committee meetings which are formally minuted. Response: Implemented.***

- R16. *The first consideration when establishing a draft budget for a forthcoming financial year is to ensure that funds are available to ensure the ongoing operation of basic council functions.*
- R17. *Any new project should be fully costed, including any associated ongoing costs, before it is considered at Full Council, for inclusion in the draft budget.*
- R18. *The draft budget, once finalised, should be Endorsed by the Finance & Governance Committee with the Recommendation for Approval at a meeting of the Full Council.*

***Due to the failure of the Council to undertake a regular budgetary monitoring regime, and to undertake an adequate budget setting process, which has led to a budget deficit of circa £80,000 during the 2021-22 financial year, Annual Internal Audit Objective 4: “The Annual precept/levy/resource demand requirement resulted from an adequate budgetary process, progress against the budget was regularly monitored, and reserves were appropriate” has not been met.***

***Accordingly, a negative assertion has been entered into the FY2020-21 Annual Internal Audit report for Objective 4.***

## **Review of Income**

Our objective here is to ensure that appropriate records are maintained to ensure that all income due to the Council is identified, invoiced accordingly, and recovered within an appropriate time scale. In addition to the Precept the Council receives supplementary income from a relatively limited variety of areas, VAT reclaims, occasional grants and donations, Allotment income from the New Road and Newton Park Allotments and income derived from the Porthcawl Hub.

We have reviewed the Allotment income received for the financial year with no issues arising, noting that members Resolved to approve the Allotment fees and Agreements for both the New Road and Newton Park Allotments for the 2020-21 financial year were not changed.

We do have significant concerns, however, concerning potential income, that has not been reported, in respect of the Porthcawl Hub, which was operated by the Credu Charity (in liquidation).

We are advised by the Clerk/RFO that Porthcawl Town Council lease the Porthcawl Hub from Bridgend County Borough Council. This is used by Porthcawl Veterans free of charge. A member of the veterans club was employed by Credu Charity, funded by the Town Council, to manage the bookings on behalf of the Council for other users of the hub.

The hub did not have access to a PDQ terminal, so all payments must have been taken in cash or cheque.

The Clerk/RFO has been investigation, at our request the situation pertaining to the bookings as there appear to be no extant hire or booking agreements, and no income has been declared for the 2020-21 financial year. The Clerk/RFO has been informed by Cllr B Jones, who has been in contact with the Porthcawl Hub manager, that she was responsible for the initial contact with the hirer and that she would then pass the hirer details over to PTC’s office for the payment to be collected.

The Clerk/RFO has checked with the Assistant Clerk whether this process had ever taken place and she has advised that it had not. For the 2020-21 financial year there are:

- No extant bookings or hire forms
- No notifications of bookings received by PTC

- No funds received by PTC
- No accounting records relation to the Porthcawl Hub
- No reporting from the Porthcawl Hub to the Council
- No evidence of any Council management and oversight of this income stream

The Town Clerk / RFO and Cllr B Jones are continuing to investigate this situation.

Due to the failure of the Council to manage this facility, it is impossible to ascertain, whether any bookings took place during the financial, and if they did, what became of the income from those bookings. This lack of management oversight in this regard, also creates significant issues in relation to the Council's insured risks.

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

***All the Council's income, with the exception of any potential income from the Porthcawl Hub has been correctly received and accounted for. However, the complete lack of oversight of the Porthcawl Hub has placed the Council in the position that it has no records of any person or organisation who has booked the facilities, no record of any income received and no proper records pertaining to the management and operation of this facility.***

*R19. The Clerk / RFO in concert with the Finance & Governance Committee should undertake a formal investigation to ascertain, as far as it is possible to do so, how the Porthcawl Hub was able to operate without any oversight or monthly reporting of bookings and income to the Council.*

*R20. The Clerk / RFO and the Finance & Governance should ascertain, as far as it is possible to do so, if any bookings were made, and if so, what happened to the income from those bookings.*

***Due to the failure of the Council to undertake appropriate management of this Council funded facility, and manage bookings correctly and protect the Council's revenue stream during the 2020-21 financial year, Annual Internal Audit Objective 5: "Expected income was fully received, based on correct prices, properly recorded and promptly banked, and VAT was appropriately accounted for" has not been met.***

***Accordingly, a negative assertion has been entered into the FY2020-21 Annual Internal Audit report for Objective 5.***

## **Review of Petty Cash account and reporting**

Whilst the amount of spending through the petty cash account is minimal, we are required, as part of the internal audit certification process on the AGAR to confirm that all such transactions are appropriately controlled, recorded and that VAT is identified for recovery wherever appropriate.

Due to the remote nature of this review of the 2020-21 financial year it has been impossible to check the physical cash holding, however, we have noted the 2020-21 year-end reconciliation provided by the Town Clerk/RFO for the purposes of this audit, in addition to the March Income and Expenditure report produced by PML Accountants Ltd confirming the repayment of the £4.43 residual Petty Cash balance, back to the General Reserve on the 31<sup>st</sup> March 2021.

The Petty Cash Account was not maintained on an Imprest basis. We have noted the disclosure on the year-end reconciliation as at 31<sup>st</sup> March 2021:

### Porthcawl Town Council Petty Cash holding

Opening balance	£68.24
Less receipted payments	£63.81
Cash at had as at 31 <sup>st</sup> March 2021	£ 4.43
<b>Repaid to General Reserve 31<sup>st</sup> March 2021</b>	<b>£ 4.43</b>

The Clerk/RFO has advised us that the Council's Petty Cash system has now been closed.

### *Conclusion*

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

## **Review of the management & administration of Salaries and Wages**

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 the above objectives, we have: -

- Reviewed the contracts of employment of the Council's current employees Clerk/RFO, Assistant Clerk and the Public Convenience Attendant, noting the terms, conditions and rates of pay recorded therein;
- Noted that there have been significant staff changes during the financial year with three members of staff departing the Council;
- Noted that the Council's payroll is outsourced to professional firm of Chartered Accountants, Baker Knoyle, which produce all payroll reports, payslips and undertake HMRC RTI reporting;
- Noted that the Council's Pension administrator is NEST;
- Noted the payroll production process, which is managed by the Town Clerk/RFO, payment being made to employees by BACS, and currently to the HMRC by cheque;
- Checked the gross salaries paid to individuals for the Months of June 2020 and March 2021 with reference to staff contractual details for 2020-21; and
- Verified the detail of the net salary and third-party payments of PAYE / NI and Pension contributions by reference to payslips and payroll summary reports and the subsequent payments issued.

### *Conclusions and recommendation*

*We have noted that there is no record of the Approval of the payroll in the Minutes of the Full Council during the 2020-21 financial year. As with all other payments made by the Council in the 2020-21 financial year, payroll payments were Approved retrospectively in the 4<sup>th</sup> March 2021 meeting of the Full Council.*

*We have reviewed the detailed payroll report, produced by Baker Knoyle, for the whole 2020-21 financial year, with no issues arising.*

*During our review of staff employment contracts, we have noted that the Clerk/RFO's Job Description is not consistent with her contract, and this should be rectified. We also note that the contracts in use are not the latest One Voice Wales Model Documents.*

R21. *The Clerk/RFO should update the existing and all future employment contracts based on One Voice Wales model documents as soon as is practicably possible.*

R22. *The Clerk/RFO should ensure that her Job Description is updated to correspond to her correct job title.*

## **Review of the Fixed Asset Register(s)**

The Governance and Accountability Manual requires all Councils to prepare and maintain registers of their stock of land, buildings, vehicles, furniture and equipment. The Fixed Asset Register document provided for the purposes of this audit did not meet the requirements of the practitioners guide as it was a word document which contained aggregated detail of the councils assets. There was no way to check and verify in year acquisitions and disposals to the prior year figures.

We note that the Council's Fixed Asset Register was maintained during the 2020-21 financial year by PML Accountants Ltd. We can find no record of the Fixed Asset Register being reviewed and confirmed in the 2020-21 Minutes of the Full Council or its Standing Committees.

The Fixed Asset Value recorded for the 2020-21 financial year is disclosed as £277,251 (£249,542 prior year).

Finally, in this area of our review we note that the Fixed Asset Register is not currently complete. There is an ongoing dispute with the Receiver appointed to administer the liquidation of the Credu Charity concerning the ownership of five media screens.

The Council purchased five media screens, original invoice confirms, to be utilised by the Credu Charity in Porthcawl. One has been installed at the Porthcawl Information Kiosk, and the remaining four, we are informed by the Clerk are in storage at the suppliers.

The Receiver claims that the Media Screens are the property of the Credu Charity in liquidation, however, the Council made no formal Resolution to donate the media screens to the Credu Charity.

As the Invoice for the Media Screens is in the name of the Council, and the Council paid for the Screens in full. The Council should make all possible efforts to recover its property and the items should be placed on the Council's Asset Register.

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

***The Council should make all possible efforts to assert ownership of the media screens which it purchased and recover its property.***

R23. *Members should instruct the Clerk/RFO to enter the media screens on the Council's Fixed Asset Register, showing the one installed screen as 'on loan from' the date installed to the date that the Credu Charity was placed into receivership.*

R24. *Members should take all reasonable efforts to recover the property of the Council.*

R25. *The Fixed Asset Register value stated for the 2020-21 financial year should be updated to include the net cost of the media screens as recorded on the Council's original sales invoice,*

*and the Account Statements updated, prior to the onward transmission of the Annual Return to the External Auditor.*

## **Review of 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 the Council has more than £250,000 retained in its two non-interest bearing bank accounts. It does not have an Investment Strategy in place.

We advise the Council that it is obliged to protect public funds, minimise the risk of the investments as far as it is possible to do so and gain a reasonable return on investment. The Financial Services Compensation Scheme currently covers individuals and organisations with deposits of up to £85,000 in one institution, and with an annual turnover of less than £500,000.

The Clerk/RFO and Council need to identify investment opportunities in order to spread the risk of loss of the Council's funds due to bank failure, with the objective of ensuring that each of the Council's deposits is covered by the government's protection scheme". It is essential, given the volatility in the market and future uncertainty due to the ongoing Covid-19 situation that the Council works towards ensuring that the Council's deposits are de-risked and covered by the government's protection scheme, to the extent that it is possible to do so.

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

### ***Conclusion***

***We take this opportunity to remind the Clerk and Members that a maximum of £85,000, per bank, is protected by the Financial Services Compensation Scheme for organisations with a turnover of less than £500,000. This means that, as of the 31<sup>st</sup> March 2021 the Council continues to maintain at least £250,000 of its funds at Risk.***

***The unprecedented situation caused by the Covid-19 measures, and current economic uncertainty is significantly affecting financial markets, there are also significant geopolitical issues that may impact the reopening and stability of the UK and Global markets which is, in turn, causing stress upon the merchant banking system. The Council are strongly encouraged to take all necessary actions to secure its funds, expeditiously.***

***R26. With over £250,000 pounds of its funds at risk, the Clerk and Members should now, move with all possible haste, to minimise the risk of having all of the Council's funds invested in one financial institution, by investing surplus funds elsewhere.***

***R27. As the Council holds more than £100,000 on deposit it is required to develop and formally adopt an Investment Strategy to secure the public funds which it holds on deposit.***

## **Statement of Accounts and Annual Return**

The Council's financial accounts were managed, and its Annual Accounts produced by PML Accountants Ltd. We have checked and verified the Year End Accounts against supporting prime documentation and have also agreed the Accounting Statements in this year's Annual Return, which we have verified as being consistent with the accounting and other relevant supporting 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 long-standing unpaid accounts or other issues arising.

We note that the 2020-21 year-end accounts have been well prepared by PML Accountants Ltd, however, as mentioned in this report there was a failure of the Council, for a significant period of the financial year, to formally scrutinise the Council's financial management accounts.

### ***Conclusion***

***We record that, as far as it is possible to ascertain, there are no matters arising in this area of review and, on the basis of the work undertaken during the course of our review for the year, we have "signed off" the Internal Audit Certificate in the Annual Return as follows:***

<b><i>Objective 1</i></b>	<b><i>-</i></b>	<b><i>Met</i></b>
<b><i>Objective 2</i></b>	<b><i>-</i></b>	<b><i>Not met</i></b>
<b><i>Objective 3</i></b>	<b><i>-</i></b>	<b><i>Met</i></b>
<b><i>Objective 4</i></b>	<b><i>-</i></b>	<b><i>Not met</i></b>
<b><i>Objective 5</i></b>	<b><i>-</i></b>	<b><i>Not met</i></b>
<b><i>Objective 6</i></b>	<b><i>-</i></b>	<b><i>Met</i></b>
<b><i>Objective 7</i></b>	<b><i>-</i></b>	<b><i>Met</i></b>
<b><i>Objective 8</i></b>	<b><i>-</i></b>	<b><i>Not met</i></b>
<b><i>Objective 9</i></b>	<b><i>-</i></b>	<b><i>Met</i></b>
<b><i>Objective 10</i></b>	<b><i>-</i></b>	<b><i>Met</i></b>
<b><i>Objective 11</i></b>	<b><i>-</i></b>	<b><i>Not applicable</i></b>

***We confirm that all sensitive and confidential information, including Bank Statements and Payroll information supplied electronically for the purposes of this Internal Audit has been permanently deleted from our records in compliance with the General Data Protection Regulation and Auditing Solutions Ltd., Document Retention Policy.***

***Finally, we take this opportunity to remind the Town Clerk/RFO of the requirements in relation to the documentation that should be displayed on the Council's website, together with the need to ensure compliance with the timing requirements for publication of the Notice of Public Rights to examine the Council's documentation for the financial year.***

## ACTION PLAN 2021-21 FINANCIAL YEAR

Rec. No.	Recommendation	Response
<b>Review of Accounting Records &amp; Bank Account Management</b>		
R1	The Town Clerk/RFO and Members should consider the acquisition of a fully functional accounting package, designed specifically for Town and Community Councils, such as Rialtas Business Systems Omega platform, for its current and future financial management and recording needs, including regular financial reporting and budget monitoring.	
<b>Review of Corporate Governance</b>		
R2	The Clerk / RFO must ensure that the Council's financial matters receive full and transparent scrutiny by Members of the Council, either at Full Council or the Finance & Governance Committee. This must include scrutiny and approval of all Bank Statements along with the corresponding bank account Reconciliations, Schedule of Payments and Budget monitoring reports which should, in a council of Porthcawl Town Council's size and complexity, be presented on at least a quarterly basis.	
R3	The Clerk / RFO should seek advice from One Voice Wales in regard to the 'Decision Team' situation to determine whether the Council is required to make a report to the Monitoring Officer in respect of the practices detailed above.	
R4	The Clerk / RFO must ensure that all Tender and Quotation processes are managed as required by the Council's Standing Orders and Financial Regulations. Members are reminded that they have no authority to seek quotations or place orders for and on behalf of the Council as this process is in the purview of the Clerk / RFO.	
R5	With immediate effect, the Clerk / RFO should ensure that all invoices and other payment documents are forwarded to the Attention of the 'Responsible Financial Officer' at the Town Council's permanent address.	
R6	With immediate effect, the Clerk / RFO should ensure that the Council's Financial Regulations are amended to require the Payments Approval process to be undertaken by the Full Council. Committee's may continue to endorse a payment document with a Recommendation for Payment made to Full Council, however, the Approval Process, including full scrutiny of all payment documents and the uniquely identified payment schedule and all payment documents listed upon it, must take place at Full Council, and Approval of the payment schedule and individual payments formally recorded in the Council's Minutes.	

## ACTION PLAN 2021-21 FINANCIAL YEAR

Rec. No.	Recommendation	Response
R7.	Council business may only be undertaken at formally convened meetings of the Full Council or its Standing Committees according to the Standing Orders, Financial Regulations and all items of business to be discussed must be published on the corresponding Agenda. In-camera meetings which predetermine the decisions of the Council, and which subvert the democratic process are not permissible.	
R8.	The Correct procedure for maintaining matters deemed 'Confidential' or sensitive should be treated in the correct manner as indicated above. A detailed explanation of this process is contained within the reference book 'Local Councils Explained' in chapters 10 and 11. The Town Clerk/RFO should familiarise herself with this process, either via reference to the above named book, or by seeking guidance from One Voice Wales, or both.	
<b>Review of Expenditure &amp; VAT</b>		
R9.	The Clerk/RFO should ensure that VAT Reclaims are made on a quarterly basis, rather than annually, as befitting the Council's turnover to ensure that cashflow is optimised.	
<b>Review of Assessment and Management of Risk</b>		
R10.	The Town Clerk/RFO must develop playground inspection forms to be used by any person responsible for conducting playground inspections on behalf of the council. These forms must be retained for the minimum period required by law (this may be undertaken electronically).	
R11.	The Town Clerk/RFO and Members should consider providing appropriate playground inspectors training to persons responsible for conducting playground inspections on behalf of the Council.	
R12.	The Town Clerk/RFO and Members should establish a reasonable and proportionate playground inspection regime and associated time-based, fault escalation process with the Operations Committee. Both for non-conformities identified in the Annual Independent Inspection and the routine inspections.	
R13.	The Town Clerk/RFO should develop a Playground Management Policy, to be Reviewed and Adopted by Members. (An example of such a document may be found via the following link: <a href="https://tidworthtowncouncil.gov.uk/wp-content/uploads/2020/11/Playground-Risk-Management-v1.pdf">https://tidworthtowncouncil.gov.uk/wp-content/uploads/2020/11/Playground-Risk-Management-v1.pdf</a> )	

## ACTION PLAN 2021-21 FINANCIAL YEAR

Rec. No.	Recommendation	Response
<b>Review of Budgetary Controls &amp; Reserves</b>		
R14.	At a bare minimum at each meeting of the Full Council, Members should be presented with an Income and Expenditure report and a Budget Vs. Actual report. Members should scrutinise these reports, and formally Resolve to Note and Approve these items in the Minutes of their meeting.	
R15.	The Budget setting and Precept determination process should be managed by the Clerk/RFO. A schedule of formal budget setting meetings should be published, usually during Finance & Governance Committee meetings which are formally minuted.	<b>Response: Implemented.</b>
R16.	The first consideration when establishing a draft budget for a forthcoming financial year is to ensure that funds are available to ensure the ongoing operation of basic council functions.	
R17.	Any new project should be fully costed, including any associated ongoing costs, before it is considered at Full Council, for inclusion in the draft budget.	
R18.	The draft budget, once finalised, should be Endorsed by the Finance & Governance Committee with the Recommendation for Approval at a meeting of the Full Council.	
<b>Review of Income</b>		
R19.	The Clerk / RFO in concert with the Finance & Governance Committee should undertake a formal investigation to ascertain, as far as it is possible to do so, how the Porthcawl Hub was able to operate without any oversight or monthly reporting of bookings and income to the Council.	
R20.	The Clerk / RFO and the Finance & Governance should ascertain, as far as it is possible to do so, if any bookings were made, and if so, what happened to the income from those bookings.	
<b>Review of the management &amp; administration of Salaries and Wages</b>		
R21.	The Clerk/RFO should update the existing and all future employment contracts based on One Voice Wales model documents as soon as is practicably possible.	
R22.	The Clerk/RFO should ensure that her Job Description is updated to correspond to her correct job title.	

## ACTION PLAN 2021-21 FINANCIAL YEAR

Rec. No.	Recommendation	Response
<b>Review of the Fixed Asset Register(s)</b>		
R23.	Members should instruct the Clerk/RFO to enter the media screens on the Council's Fixed Asset Register, showing the one installed screen as 'on loan from' the date installed to the date that the Credu Charity was placed into receivership.	
R24.	Members should take all reasonable efforts to recover the property of the Council.	
R25.	The Fixed Asset Register value stated for the 2020-21 financial year should be updated to include the net cost of the media screens as recorded on the Council's original sales invoice, and the Account Statements updated, prior to the onward transmission of the Annual Return to the External Auditor.	
<b>Review of Investments and Loans</b>		
R26.	With over £250,000 pounds of its funds at risk, the Clerk and Members should now, move with all possible haste, to minimise the risk of having all of the Council's funds invested in one financial institution, by investing surplus funds elsewhere.	
R27.	As the Council holds more than £100,000 on deposit it is required to develop and formally adopt an Investment Strategy to secure the public funds which it holds on deposit.	