

INTERNAL AUDIT REPORT
COEDPOETH COMMUNITY COUNCIL
2022/23

The internal audit is carried out by the following testing of the internal controls specified on the Annual Return for local councils in Wales:

- 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)
- Year-end testing on the accuracy and completeness of the financial statements
- Where the Council is sole trustee of a charity, checking that the Council has procedures in place to meet its responsibilities as a sole trustee

Conclusion

On the basis of the internal audit work carried out, in our view the council's system of internal controls **is NOT in place**, adequate for the purpose intended and effective, and the issues reported in the action plan overleaf must be addressed.

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 Limited 22/06/2023

**INTERNAL AUDIT REPORT
COEDPOETH COMMUNITY COUNCIL
2022/23**

AUDIT REPORT

	ISSUE	RECOMMENDATION	FOLLOW UP
2022/23 year end internal audit			
1	<p>The council approved a risk assessment in April 2022, however, we are informed this was just a Covid 19 risk assessment. Therefore, no detailed risk assessment of the council financial, governance and operations was carried out. Lack of risk assessment is an area we have qualified the internal audit certificate in the Annual Return in both 20/21 and 21/22.</p> <p>This recurring lack of risk assessment and implementation of mitigating actions is now evidenced in the significant issues that are arising with respect to council services. The clerk has identified issues with the effective administration of burials including inability to locate the burial ground map with the original grave references and the files with all the exclusive rights of burial. The hall has been closed we are informed primarily due</p>	<p><i>The council must implement effective annual risk assessment covering all financial, governance, service and operational risks with effective mitigation actions Implemented on a timely basis . The risk assessment document should be reviewed, updated and approved by council each financial year.</i></p> <p><i>The risk assessment must cover a review of the burial grounds and the hall, and detailed risk mitigation actions implemented to ensure that burials administration is effective, and financial actions are identified to ensure the repair requirements of the hall can be financed.</i></p>	

**INTERNAL AUDIT REPORT
COEDPOETH COMMUNITY COUNCIL
2022/23**

	to a lack of identification and implementation of planned repairs.		
2	<p>The 2023/24 revenue budget set in December 2022 contained a revenue income finance line of £50,000 from the sale of land. The use of a capital receipt in excess of £10,000 for revenue budget financing is not in accordance with Regulation 18(2) of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003. The below extract from the Wales Practitioners guide Capital receipts reserves (p. 111) clearly shows that the capital receipt would have to be included in a separate capital receipts unapplied reserve and only used to finance capital expenditure.</p> <p><i>22.5. Proceeds arising from the sale of fixed assets (property, plant and equipment) are subject to statutory controls. If the total value of the proceeds exceed £10,000, the total proceeds arising from the sale must be treated as a capital receipt. Capital receipts are recorded in Cell 3 Total other receipts, when they are received.</i></p> <p><i>22.6. Capital receipts must not be used to support revenue expenditure. Receipts can only be used for capital purposes as set out in Regulation 18(2) of the Local Authorities (Capital Finance and</i></p>	<p><i>The council must ensure that it complies with Regulation 18(2) of the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003..</i></p> <p><i>The council need to complete a revised 2023/24 budget that clearly evidences that a £50,000 capital land sale receipt is not being utilised for revenue expenditure.</i></p> <p><i>The value of land and property sales included in capital budgets should be underpinned by a professional valuation.</i></p>	

**INTERNAL AUDIT REPORT
COEDPOETH COMMUNITY COUNCIL
2022/23**

	<p><i>Accounting) (Wales) Regulations 2003.</i></p> <p><i>22.7. Councils will need to maintain separate records in order to demonstrate compliance with the statutory rules on use of capital receipts. When capital receipts are applied to finance eligible expenditure, the expenditure itself is recorded in Cell 6 Total other Part 3: Accounting for councils with income and expenditure below £2.5 million Page 112 of 178 - payments and the council will record the payment against the accumulated capital receipts in its memorandum records.</i></p> <p><i>22.8. The capital receipts reserve is included in the total reserves and balances of the council in Cells 7 and 11 in the annual accounts</i></p> <p>In addition, we requested the professional valuation or other information used to value the land at £50000 and were informed there is no independent professional valuation and that currently there is not even any sales process in motion.</p> <p>Therefore, the council faces a substantial shortfall in the 2023/24 revenue expenditure budget due to the above issues.</p>		
3	<p>The 2023/24 Council minutes refer to the closure of the hall due to repairs required, which will result in a significant reduction in hall income. We have not seen a revised</p>	<p><i>The council must revisit the 2023/24 expenditure budgets based on the information above regarding usage of the capital receipt of £50,000 and the fact that</i></p>	

**INTERNAL AUDIT REPORT
COEDPOETH COMMUNITY COUNCIL
2022/23**

<p>budget for 2023/24 that takes into account the income reduction from this closure and potential expenditure impacts of required repairs. The budget for 2023/24 has been calculated as £308,815 with a precept of £230,384 and other income (excluding the capital receipt of £50k described in issue 2. above) of £31,760, of which £24,500 relates to the hall income on the assumption it remained open.</p> <p>Without generating all of this budgeted 'other income' and excluding the capital receipt the remaining general reserves as at 31/3/2024 based on the expenditure budget of £308,815 would be very low and significantly below minimum levels recommended by sector guidance. (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.)</p> <p>NB A review of the budget report for the first two months of 2023/24 indicates an increased level of staff costs (more than 2/12ths of budget) and a reduced level of budgeted income due to the hall closure compared to the budget set.</p>	<p><i>a significant income generating asset, the hall, is closed due to substantive repairs requirements, to ensure adequate levels of reserves are maintained.</i></p>	
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**INTERNAL AUDIT REPORT
COEDPOETH COMMUNITY COUNCIL
2022/23**

4	<p>Fixed Assets</p> <p>We were informed that the detailed inventories to support the groupings of assets in the fixed asset register for instance the Furniture, Fixtures and Equipment cannot be located. In 2021/22 we reported examples of capital expenditure that had not been reflected in the fixed asset register and this recommendation is still outstanding. As noted in issue 2.) above the council has included a land sale receipt of £50000 in the budget but this asset is not separately identified in the asset register currently as an asset set aside for sale.</p> <p>Section 14.3 of the Financial Regulations requires that an appropriate and accurate Register of Assets and Investments is kept up to date, and that the continued existence of tangible assets shown in the Register shall be verified at least annually, possibly in conjunction with a health and safety inspection of assets. This has not occurred in 2022/23.</p>	<p><i>The council must comply with the Financial Regulations governing the management of fixed assets.</i></p> <p><i>The fixed assets register should be updated for all capital additions each financial year.</i></p> <p><i>The council should further develop the format of the fixed asset register to ensure it is more suitable as an asset management tool, by including the following key information for individual assets (rather than groups of assets), most of which is also recommended by the Practitioners' Guide</i></p> <ul style="list-style-type: none"> • <i>Valuation for Annual Return disclosure purposes</i> • <i>Insurance value</i> • <i>Dates of acquisition, upgrade and disposal (it is useful to keep a record of disposed assets as an asset management tool).</i> • <i>Minute reference where council approved disposal or write off of asset.</i> • <i>Costs of acquisition and any expenditure which increases the life</i> 	
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**INTERNAL AUDIT REPORT
COEDPOETH COMMUNITY COUNCIL
2022/23**

		<p><i>of the asset</i></p> <ul style="list-style-type: none"> • <i>If proxy cost is used for first valuation, a note of the method used for valuation and details of any professional advice received</i> • <i>Useful life estimate</i> • <i>Location</i> • <i>Responsibility/custodian</i> • <i>Any available indications of asset condition</i> • <i>Evidence assets have been matched with the insurance schedule to ensure that all assets are appropriately insured</i> 	
5	<p>Budgetary control</p> <p>The first five budgetary control reports for the financial year covering the first five months did not reference to the budget or provide a projected outturn. The quality of the reporting of budgetary control improved with the appointment of the new clerk with clear references to annual budget and budget remaining, however, budgetary control statements were not provided to council for every month as required by the Financial Regulations as no reports were provided for September 2022 and February 2023. Financial Regulation</p>	<p><i>The council must comply with the budgetary control requirements of the Financial Regulations</i></p>	

**INTERNAL AUDIT REPORT
COEDPOETH COMMUNITY COUNCIL
2022/23**

	<p>3.3 requires that : <i>'The RFO shall regularly provide the Council with a statement of receipts and payments to date under each head of the budgets, comparing actual expenditure to the appropriate date against that planned as shown in the budget. These statements are to be prepared monthly.'</i></p>		
6	<p>We reported in the interim internal audit that an individual was being paid on a self employed basis after being selected through an employee recruitment process. The council has responded that applying the HMRC 'Check employment for Tax' process returned an undecided response. This means that the role is currently still being maintained as a contract self-employment and therefore the council has breached the procurement requirements of the Financial Regulations as three quotations were not sought for this contract for services.</p> <p>We noted from the information provided that the current contract of employment could not be located for the community agent and caretaker.</p>	<p><i>The council need to review with HMRC the status of this contract. If the contract is one of employment then payroll back taxes will be due, if the role is confirmed as self-employment then Financial regulations with regard to contracts have not been met.</i></p> <p><i>Up to date contracts of employment should be implemented and retained for all employees.</i></p>	
7	<p>The December 2022 minutes established three new working groups – with a blanket</p>	<p><i>It is important each working group has a formally adopted terms of reference that</i></p>	

**INTERNAL AUDIT REPORT
COEDPOETH COMMUNITY COUNCIL
2022/23**

	<p>terms of reference as follows:</p> <p>‘all working groups Terms of Reference: Each group will be tasked with work associated with named area of operation/service and report back to Council. The purpose of exercise will be to increase income generation and reduce expenditure whilst focussing on opportunities to support community development, promote partnership working, and source external funding opportunities.’</p>	<p><i>makes it clear that the group cannot make decisions nor commit the council to any liability and are just advisory groups.</i></p>	
8	<p>Minutes record that two items from the February 2023 list of payments had to be deferred for payment until April as there were insufficient funds in the current account and bank mandate issues regarding access to the reserve account to make the required transfers.</p>	<p><i>Bank mandate issues must be resolved and effective treasury management applied so that suppliers and other payees can be paid on a timely basis.</i></p>	
9	<p>The fidelity cover of £150k does not cover the maximum projected cash balance as at 31/3/23 calculated as approximately £174k (year-end Bank balance plus first precept instalment).</p>	<p><i>The Council should review the level of fidelity cover.</i></p>	
10	<p>The payroll is operated by an external accountant and the clerk notifies the</p>	<p><i>Either the Chair should email the annual officer pay rise information to the payroll</i></p>	

**INTERNAL AUDIT REPORT
COEDPOETH COMMUNITY COUNCIL
2022/23**

	accountant of any approved pay increases.	<i>agent or the Chair should be copied into the email that notifies pay changes to the agent so they can be verified as correct.</i>	
11	We have not seen evidence that three quotations were obtained for the street lighting maintenance contract as required by the Council's financial regulations.	<i>The Council must ensure that orders for works, goods and services are made as per the financial regulations of the Council.</i>	
12	Burials - There was a delay of over 6 months in updating the burial register for burials after August 2022.	<i>Burial records must be updated on a timely basis.</i>	
13	The March 2023 payments schedule approved at the April 2023 meeting has not been signed by the Chair when approved. The total amount of payments approved has not been recorded in the minutes.	<i>When payments are approved by the Council, the total approved should be recorded in the minutes and the supporting schedule should be signed by the Chair.</i>	
14	Prior years internal audit recommendations are not being implemented on a timely basis.	<i>Internal audit recommendations should be implemented on a timely basis.</i>	
2022/23 interim internal audit			
1	Currently online banking payments are input by the Council's accountant who is not an employee of the Council.	<i>The Council must review the financial regulations and ensure they are updated to include controls over changing supplier details and cover controls over online</i>	

**INTERNAL AUDIT REPORT
COEDPOETH COMMUNITY COUNCIL
2022/23**

	<p>The financial regulations do not allow for a third party to have access to the Council bank account. They also do not state the controls in place for adding new suppliers and amending supplier details within online banking.</p> <p>The Council have fidelity cover to protect against losses caused by fraud of an employee of the Council. As the accountant is not an employee of the Council they may not be covered in this instance.</p>	<p><i>banking. The council should note that current Financial Regulations do not authorise a third party to the council to have access to the council bank account.</i></p> <p><i>The risks of a third-party having access to the Council bank account should be urgently reviewed and the Council should consider what controls are in place to prevent against fraud and error caused by a third party.</i></p> <p><i>The Council need to check that they are adequately insured against fraud.</i></p>	
2	<p>The minutes refer to job interviews for the role of the administration assistant, however the person appointed is paid on a self-employed basis.</p> <p>We have not seen evidence that the Council have completed a 'Check Employment status for Tax' checklist from HMRC to verify that the contractor has the correct employment status.</p>	<p><i>The Council should review as part of their risk assessment relating to payroll, whether the agreement with the administration assistant is in fact an employment agreement rather than a commercial customer/supplier contract for services. If the relationship is identified as that of an employer/employee, then the individual should be included in the council payroll and payroll taxes deducted and remitted to HMRC accordingly.</i></p> <p><i>If the Council are satisfied that the contract is a commercial contract, they must ensure that it is reviewed and awarded as any other contract would be</i></p>	

**INTERNAL AUDIT REPORT
COEDPOETH COMMUNITY COUNCIL
2022/23**

		<i>under the procurement rules in the council Financial Regulations</i>	
3	<p>A review of the Council’s financial regulations identified the following:</p> <ul style="list-style-type: none"> • The financial regulations and standing orders provided for internal audit show an inconsistency relating to the contract’s expenditure level required for a formal tender process. The financial regulations require a tender process for contracts over £5000. The standing orders require a tender process for contract over £25,000. (Recurring issue) • The financial regulations do not detail the controls in place over the use of prepaid cards, such as authorisation limits and who can use the cards. (Recurring issue) • The Financial Regulations relating to the procurement process include accountants, surveyors and planning consultants as specialist services that can be excluded from the Council’s standard procurement processes. We understand that the 	<p><i>The financial regulations and standing orders should be reviewed to ensure that they are consistent with each other.</i></p> <p><i>The financial regulations should include controls in place over the use of prepaid cards.</i></p> <p><i>The Council should amend their financial regulations as per the 2019 model financial regulations issued by One Voice Wales to state the following for section 11.1 a. ii:</i></p> <p><i>‘...for specialist services such as are provided by legal professionals acting in</i></p>	

**INTERNAL AUDIT REPORT
COEDPOETH COMMUNITY COUNCIL
2022/23**

	latest OVW model financial regulations do not accept these services as specialist.	<i>disputes;'</i>	
4	<p>A review of the minutes and schedules of approved payments identified the following:</p> <ul style="list-style-type: none"> • The minutes from September 2022 stated that the payments were approved but did not state the total on the corresponding payments schedule. • The schedule of payments approved by Council for 19/6/22-11/7/22 (approved in September minutes) and payments as at 30/11/22 (approved in December minutes) had not been signed by the Chair when approved. 	<p><i>When payments are approved by the Council, the total approved should be recorded in the minutes and the supporting schedule should be signed by the Chair.</i></p> <p><i>The two payment schedules that have not been signed should be signed retrospectively by the Chair to evidence that these were the payments approved by Council.</i></p>	
Follow up of 2021/22 internal audit recommendations.			
1	The Council did not formally approve the risk assessment in 2021/22.	<i>The risk assessment should be carried out annually and this should be formally approved by Council.</i>	See year end risk assessment issues above – a risk assessment was approved by full Council in April 2022 but this only covered Covid 19 risks.

**INTERNAL AUDIT REPORT
COEDPOETH COMMUNITY COUNCIL
2022/23**

2	<p>The Council did not set a budget for 2021/22 in advance of the 2021/22 financial year and in support of the 2021/22 precept.</p> <p>A budget for 2021/22 was calculated as part of the 2022/23 precept setting process. We have not seen evidence of monitoring of spend against the budget during 2021/22.</p>	<p><i>The Council has set a budget in support of the 2022/23 precept.</i></p> <p><i>The Council must ensure that regular monitoring of spend against the budget takes place.</i></p>	<p>Implemented in that 2022/23 budget set, however, see year end budget issues above in respect of the 2023/24 budget set.</p> <p>See 2022/23-year end follow up issues</p>
3	<p>The March 2022 minutes discuss changes to the standing orders so that the level for a formal tender process is £25k.</p> <p>The most recent financial regulations we have been provided with state a level of £5000 for a formal tender process.</p>	<p><i>The financial regulations and standing orders should be reviewed to ensure they are consistent with each other.</i></p>	<p>Implemented</p>
4	<p>The fidelity cover of £150k does not cover the maximum projected cash balance as at 31/3/22 of approximately £170k</p>	<p><i>The Council should review the level of fidelity cover.</i></p>	<p>Recommendation outstanding</p>
5	<p>The asset register has not been updated for the following assets purchased in 21/22:</p> <ul style="list-style-type: none"> • Laptop • LED lighting 	<p><i>The asset register should be updated for items purchased in year and the balance on the annual return should be amended.</i></p>	<p>Recommendation outstanding - See 2022/23 fixed asset issues.</p>

**INTERNAL AUDIT REPORT
COEDPOETH COMMUNITY COUNCIL
2022/23**

2021/22 interim audit recommendations			
1	<p>Approved minutes were not available for the April 2021 – October 2021 period. We therefore have not seen evidence that there was regular budget monitoring during this period.</p> <p>All payments have been approved for this period retrospectively in the February draft minutes.</p> <p>The financial regulations require the following:</p> <p><i>6.3 If a payment is necessary to avoid a charge of interest under the Late Payment of Commercial Debts (Interest) Act 1998, and the due date for payment is before the next scheduled Meeting of Council, where the Clerk and RFO certifies that there is no dispute or other reason to delay payment, the Clerk may (notwithstanding paragraph 6.3) take all steps necessary to settle such invoices provided that a list of such payments shall be submitted to the next appropriate meeting of Council.</i></p>	<p><i>Any minutes of meeting between April 2021 and October 2021 should be reviewed and approved by Council.</i></p>	Minutes have been approved in 22/23
2	<p>We have not seen evidence that three quotations were obtained for the following contracts as required by the Council's financial regulations:</p> <ul style="list-style-type: none"> - Christmas lights - Street lighting maintenance 	<p><i>The Council should ensure that orders for works, goods and services are made as per the financial regulations of the Council.</i></p>	Outstanding

**INTERNAL AUDIT REPORT
COEDPOETH COMMUNITY COUNCIL
2022/23**

	- Pitch report for Penygelli fields		
3	<p>The Council was without a clerk for some months in 2021/22. The current clerk has made significant progress in addressing the issues raised in previous audits, however there are some items that the Council need to ensure are addressed before the year end audit:</p> <ul style="list-style-type: none"> • The Council must submit the 2020/21 annual return to Audit Wales. • The annual risk assessment must be approved by Council before 31/3/22 	<i>These will be followed up at the year-end internal audit</i>	<p>The risk assessment was not approved by 31/3/22</p> <p>2022/23 – Implemented as a risk Assessment was approved in April 2022, however, see 2022/23 year end internal audit risk assessment issues.</p>
Follow up of 2020/21 internal audit recommendations.			
1	The Council have not carried out an annual risk assessment.	<i>The risk assessment should be carried out annually and formally approved by Council.</i>	Implemented in 22/23
2	<p>Recurring issue: The financial regulations do not detail the controls in place over the use of prepaid cards, such as authorisation limits and who can use the cards.</p>	<i>The financial regulations should be updated to include controls over prepaid credit cards.</i>	Outstanding

**INTERNAL AUDIT REPORT
COEDPOETH COMMUNITY COUNCIL
2022/23**

	Also as with other payments in 2020/21, no payments have been approved by Council.	<i>All payments must be approved by Council.</i>	Implemented
3	<p>The Council have breached their financial regulations as follows:</p> <p><i>5.2 A schedule of the payments required, forming part of the Agenda for the Meeting, shall be prepared by the Clerk together with the relevant invoices, to be presented to Council. If the schedule is in order, it shall be authorised by a resolution of the Council and shall be initialed by the Chair of the Meeting. If more appropriate the details may be shown in the Minutes of the Meeting.</i></p> <p><i>6.3 If a payment is necessary to avoid a charge of interest under the Late Payment of Commercial Debts (Interest) Act 1998, and the due date for payment is before the next scheduled Meeting of Council, where the Clerk and RFO certifies that there is no dispute or other reason to delay payment, the Clerk may (notwithstanding paragraph 6.3) take all steps necessary to settle such invoices provided that a list of such payments shall be submitted to the next appropriate meeting of Council.</i></p>	<i>The Council must ensure that they approve all payments retrospectively.</i>	Implemented for 2021/22

**INTERNAL AUDIT REPORT
COEDPOETH COMMUNITY COUNCIL
2022/23**

	The Clerk informed us that a meeting took place in March 2021 to approve the payments retrospectively. However signed schedules and minutes were not provided for the year-end internal audit. We have not therefore seen evidence that the Council have approved payments retrospectively.		
4	Hall hire and snooker income received in December 2020 amounting to £482.90 was not banked until May 2021. The delay in banking is likely to be due to the COVID-19 lockdown, however this amount does not appear in the bank reconciliation as cash in hand and the income has not been posted in the ledger in 2020/21. We have seen evidence that the income was banked in 21/22 and was entered into the ledger at the date of banking rather than the date of receipt.	<i>Hall income should be entered into the ledger when it is received. Any cash then not banked is a reconciling item in the bank reconciliation.</i>	This has not occurred in 21/22
5	We have not seen evidence in 2020/21 of the amounts held by the Council as ear-marked reserves. In 2019/20 the Council reported £66,100 of ear-marked reserves. If this is still the case, the general reserves of the Council are below the level of 3 months of operating expenditure.	<i>The Council must review the reserves to ensure that the general reserve is sufficient and must be aware of ear-marked amounts being held for specific projects.</i>	The Council have approved a budget for 2022/23. Ear-marked reserves were not identified in 21/22 and balances have increased.

**INTERNAL AUDIT REPORT
COEDPOETH COMMUNITY COUNCIL
2022/23**

2020/21 interim audit recommendations			
1	<p>During the year a duplicate payment was made to the Chair in relation to a refund of expenditure incurred on behalf of the council. We have seen evidence that the amount has now been repaid to the council.</p> <p>A duplicate payment has also been made to the grave digger and from correspondence on file, it appears that the £430 overpayment will be set off against future invoices.</p> <p>Both these instances occurred because payments were set up in online banking by both the Chair and the council accountant. The payments were then authorised by account signatories.</p>	<p><i>Procedures should be in place to ensure that duplicate payments are not made, and payments should only be made when supported by an invoice.</i></p> <p><i>Any balance remaining owed to the council by the grave digger should be included within the year end accounts as a debtor.</i></p>	<p>No evidence of this occurring in 2021/22</p> <p>The balance had been cleared by the year-end.</p>
2	<p>The council have not approved any payments in 2020/21. This is partly due to only having one meeting between April 2020 and February 2021. The council has not taken advantage of the revised regulations that permit councils to carry out meetings remotely.</p>	<p><i>The council should retrospectively approve all payments for 2020/21 and this should be recorded within the minutes.</i></p>	<p>Implemented for payments in 2021/22</p>

**INTERNAL AUDIT REPORT
COEDPOETH COMMUNITY COUNCIL
2022/23**

3	<p>We have seen no evidence that.</p> <ul style="list-style-type: none"> - the council have set a budget in support of the 2021/22 precept. - the council monitored actual spend against the budget during 2020/21. 	<p><i>The council must ensure that a budget is set for 2021/22 and that regular monitoring against this budget takes place.</i></p>	<p>A budget has been calculated for 2021/22 as part of the 2022/23 budget setting process.</p>
4	<p>The council minutes for the meeting on 21/9/20 record that the Council approved the internal audit report but does not record actions to be taken to address the recommendations in the report. A number of recommendations remain outstanding.</p>	<p><i>The minutes should record receipt of the internal audit report and the agreed actions taken to action the recommendations in the internal audit report. The council must address the outstanding internal audit recommendations.</i></p>	<p>Implemented</p>
5	<p>The contract for the insurance exceeds the £5000 level for which council should carry out a formal tender process as per the financial regulations, however, no tender process has been carried out.</p>	<p><i>Contracts must be procured in accordance with the financial regulations of the council.</i></p>	<p>Outstanding</p>
6	<p>A significant number of internal audit recommendations from prior years have still not been implemented.</p>	<p><i>Internal audit recommendations should be implemented promptly. The council should review all outstanding recommendations and ensure these are implemented.</i></p>	<p>Issues relating to budgetary control remain outstanding.</p>