


Key Controls - Annual Return

Final Report


Issue Date: 14 July 2016

Working in Partnership to Deliver Audit Excellence




Executive Summary

-  This section provides an overview for senior management to understand the main conclusions of this audit review, including the opinion, significant findings and a summary of the corporate risk exposure.

Findings and Outcomes

-  This section contains the more detailed findings identified during this review for consideration by service managers. It details individual findings together with the potential risk exposure and an action plan for addressing the risk.

Appendices:

-  Audit Framework Definitions
-  Support and Distribution
-  Statement of Responsibility

Executive Summary

Overview

South West Audit Partnership was appointed as Internal Auditor for Ilminster Town Council for three years starting 20 January 2014.

As part of the 2016/17 audit plan agreed with the Town Clerk, a review has been undertaken to assess the adequacy of the financial controls and procedures operated. This work will support and inform the Internal Auditor declaration of the annual return submitted to the Council's External Auditor, Grant Thornton.

This audit focuses primarily on the Council's financial operations and systems and compliance with the guidance described in "Governance and accountability for Local Councils - A Practitioner's Guide" and covered the following areas :

- Accounting arrangements & bank reconciliations
- Corporate Governance
- Expenditure
- Assessment & management of risk
- Budgetary control & Reserves
- Income
- Petty Cash
- Salaries
- Asset Management
- Year-end procedures

This report provides the Town Clerk with a summary of the audit findings and assurance that, in no order of priority, each of the expected key controls are in place and managing the associated risk in a 'satisfactory' manner. Where expected controls are not met, a recommendation for improvement is offered to assist in managing the risk. Where a control is not referred to in the audit findings, I have found the effectiveness of this control to be operating satisfactorily.

Objective

To provide a selective assessment of the Council's Financial Controls for the Annual Return.

Significant Findings

Risk:	Impact
Annual assessment of risk to address all key risks has not taken place.	There is a risk that if this process is not carried out, the Council may not be addressing or managing all the risks it is subject to and may leave itself exposed to a higher level of risk than it is willing to accept.

Audit Opinion:**Reasonable**

Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Well Controlled Areas of the Service

The majority of the areas reviewed were found to have adequate controls in place but a number of recommendations have been made to further strengthen these controls. On the whole officers are following the procedures as set out in the Financial Regulations and finances are being managed adequately. The Administrative Officer (Finance) has undertaken a significant amount of work setting up and maintaining the asset register which had been raised as a recommendation in the previous years' audit report.

Corporate Risk Assessment

Risks	Inherent Risk Assessment	Manager's Initial Assessment	Auditor's Assessment
1.1. Financial management is inadequate or ineffective resulting in financial loss for the Council or risk of fraud.	High	Medium	Medium

Findings and Outcomes

Method and Scope

This audit has been undertaken using an agreed risk based audit. This means that:

- the objectives and risks are discussed and agreed with management at the outset of the audit;
- the controls established to manage risks are discussed with key staff and relevant documentation reviewed;
- these controls are evaluated to assess whether they are proportionate to the risks and evidence sought to confirm controls are operating effectively;
- at the end of the audit, findings are discussed at a close-out meeting with the main contact and suggestions for improvement are agreed.

1.1 Financial management is inadequate or ineffective resulting in financial loss for the Council or risk of fraud.

1.1.1 Finding and Impact

Although a brief Health & Safety Policy is included in the staff handbook, a more detailed policy should be developed which sets out all responsibilities and arrangements and nominates a Health & Safety Officer. It should cover all aspects of Health & Safety including, but not limited to, Welfare Arrangements, Personal Safety, Homeworking, Hazardous Substances Handling, Stress Management and Risk Assessment. It should be subject to regular review. There is a risk that without this in place, the Council may not be meeting statutory Health & Safety requirements. Following the completion of audit testing, the Town Clerk subsequently located a Health & Safety Policy. However, this is not dated, does not appear to have been approved by the Council, and does not include all the necessary detail and information. The Council still need to develop a more comprehensive policy as outlined above.

An annual assessment of risk to assess all key risks has not taken place. The Clerk is in the process of implementing a new risk management process which should also include financial risk management, risk register(s) and mitigating actions as appropriate and which should be subject to regular review and update. In addition, the Council's Risk Management Strategy needs to include the procedures already in place for assessing and managing health and safety risks. There is a risk that if this process is not carried out, the Council may not be addressing or managing all the risks it is subject to and may leave itself exposed to a higher level of risk than it is willing to accept.

1.1.1a Agreed Outcome:

Priority 4

The Council has agreed to implement a new risk management process which should also include financial risk management, setting up a risk register(s) and mitigating actions as appropriate and which should be subject to regular review and update. In addition, the Council's Risk Management Strategy needs to include the procedures already in place for assessing and managing health and safety risks.

Action Plan:			
Person Responsible:	Town Clerk	Target Date:	December 2016
Management Response:	<p>Work on risk management strategy is ongoing and is linked to the development of strategic objectives and a 3 year financial plan, A risk matrix was compiled and presented to Council as part of the 2016/17 budget setting process and some individual decisions have included consideration of a risk matrix.</p> <p>Resources Committee on 14.06.16 approved a risk register for Financial Procedures</p>		
1.1.1b Agreed Outcome:			Priority 3
<p>The Town Clerk has agreed to ensure that a detailed Health & Safety Policy is drawn up with sets out all the responsibilities and arrangements for Health & Safety at the Council and also nominates a Health & Safety Officer. It should be reviewed regularly to ensure it is up to date.</p>			
Action Plan:			
Person Responsible:	Town Clerk	Target Date:	December 2016
Management Response:	Accept		

1.1.2 Finding and Impact			
<p>The Town Council minutes approving the budget set for the year does not detail the total amount requested from South Somerset District Council however it does include the breakdown between the precept and Council Tax Reduction Grant. There is a risk that the minutes could be misleading and are not a true reflection of the budget requested.</p> <p>During the budget setting process for 2016/17, the Council decided not to increase rents or Cemetery fees. All fees should be reviewed annually as part of the budget setting process and it is prudent to increase these, even if only by a small amount, to ensure that other uplifts have been covered. There is a risk that if this does not take place, the Council may not be maximising income that could be received which would result in an increase in the precept year on year.</p>			
1.1.2a Agreed Outcome:			Priority 3
<p>The Town Clerk has agreed to ensure that the Town Council minutes state clearly the total budget requirement that is requested from the District Council.</p>			
Action Plan:			
Person Responsible:	Town Clerk	Target Date:	February 2017
Management Response:	<p>This will be borne in mind for the 2017/18 budget setting; however it must be remembered that the District Council tell the Town Council the amount of Council Tax Reduction Grant that will be paid.</p>		

1.1.3 Finding and Impact

Although invoices which are sent out are consecutively numbered, there are two different numbering systems set up for the Cemetery fees and for all other invoices. All invoices, no matter what type of income they relate to, should be consecutively numbered otherwise there is a risk that ghost invoices could be sent out or that invoices go missing, with gaps difficult to identify. The Council's computerised finance system, AdvantEdge, does have the capacity to raise invoices that would be automatically numbered so the Council may wish to consider using this facility.

Currently, the Administrative Officer (Finance) is responsible for sending out some of the invoices and is also responsible for receipting and banking the income. There should be a segregation of duties between these processes so that not one member of staff is responsible for this. Otherwise there is a risk that fraud may take place.

The Administrative Officer (Finance) currently receipts all the market trader fees as separate transactions on the Council's finance system. This is a time consuming process and as long as a spreadsheet is maintained that lists all the fees separately and individual receipts are given to all traders, the fees could be receipted in one transaction each week.

1.1.3a Agreed Outcome:

Priority 3

The Town Clerk has agreed to ensure that all invoices that are sent out are consecutively numbered and that there is only one numbering system.

Action Plan:

Person Responsible:	Town Clerk	Target Date:	June 2016
Management Response:	Already Implemented		

1.1.3b Agreed Outcome:

Priority 3

The Town Clerk has agreed to ensure that there is a segregation of duties between the raising of invoices and the receipting and banking of sums received as payment.

Action Plan:

Person Responsible:	Town Clerk	Target Date:	June 2016
Management Response:	This has been implemented as best we can bearing in mind the limited number of staff.		

1.1.4 Finding and Impact

When the petty cash is replenished, it is not currently checked by an independent officer or Councillor. A secondary check of the cash held and receipts should be carried out regularly and this check should be evidenced.

1.1.4a Agreed Outcome:

Priority 3

The Town Clerk has agreed to ensure that a secondary independent check of the petty cash is carried out periodically. This should involve reconciling the cash and receipts held and the check should be evidenced.

Action Plan:			
Person Responsible:	Town Clerk	Target Date:	June 2016
Management Response:	Implemented		

1.1.5 Finding and Impact

The Council's Staff Handbook states that if an employee's performance is satisfactory, they should progress up the salary scale to the top of their designated grade. It further states that additional incremental awards will be awarded if certain qualifications are gained, for example, the CiLCA qualification. However, the Financial Regulations state that no changes may be made to any employee's pay, emoluments or terms and conditions of employment without the prior consent of the Resources Committee. Although it was reported to the Resources Committee that the Clerk had gained the CiLCA qualification, there was no resolution by the Resources Committee for the additional increment awarded to the Clerk. There is a risk that without the approval of the appropriate Committee, the Council may not be acting in accordance with the Financial Regulations.

1.1.5a Agreed Outcome:

Priority 3

The Town Clerk has agreed to ensure that, in line with the Financial Regulations, all grade and salary increments are approved and clearly minuted by the Resources Committee prior to implementation to demonstrate transparency.

Action Plan:

Person Responsible:	Council & Town Clerk	Target Date:	June 2016
Management Response:	<p>Standing Orders & Financial Regulations have been amended by Council (21.06.16) (following recommendation by the Resources Committee to allow payments relating to contractual payments to be authorised by the Town Clerk)</p> <p>Standing Order 15 now includes "xix Implement any nationally agreed Pay Awards where sufficient budget allowance has been made xx Implement any salary scale increments that are conditions within employment contracts"</p> <p>Financial Regulation 7.3 now reads "No changes shall be made to any employee's pay Salary Scale, emoluments, or terms and conditions of employment without the prior consent of the Resources Committee"</p> <p>For reasons of transparency and accountability, any changes to the Town Clerk's annual salary which are part of the Town Clerk's contracted terms and conditions, for example, spinal point increments, will be approved by the Resources Committee before being actioned by the Deputy Clerk.</p>		

1.1.6 Finding and Impact

When the bank reconciliations are completed, the statements and the reconciliation report are not signed by the officer carrying out the process. Without this, there is a risk that the reconciliation has not been checked back to source documents, i.e. the bank statements. Further, there is no secondary check of the reconciliation by an independent officer. This should be completed monthly by either the Clerk or another officer and both the report and bank statements should be signed as evidence of review. As Responsible Officer, it is the Clerk's responsibility to ensure that the reconciliations are fully completed in accordance with procedures.

Although a Councillor checks the reconciliation and signs the reconciliation report, the bank statement is not signed. The Councillor should sign the bank statement as evidence that the report has been checked back to the statements. Otherwise there is a risk that the reconciliation may not have been checked back to the bank statements to verify the supporting information.

1.1.6a Agreed Outcome: **Priority 3**

The Deputy Clerk has agreed to sign the original bank statements as evidence of the bank reconciliation procedure.

Action Plan:

Person Responsible:	Deputy Clerk	Target Date:	June 2016
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Management Response:	Accepted: to be implemented wef banks statements dated 30 April 2016		
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1.1.6b Agreed Outcome: **Priority 3**

The Town Clerk has agreed to ensure that a secondary check of the bank reconciliation is carried out by an officer and that the original bank statements and reconciliation report should be signed as evidence of this check.

Action Plan:

Person Responsible:	Town Clerk	Target Date:	June 2016
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Management Response:	Accepted: to be implemented wef banks statements dated 30 April 2016		
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1.1.6c Agreed Outcome: **Priority 3**

The Town Clerk has agreed that the Councillor undertaking the check of the bank reconciliation will sign the original bank statement as evidence of completion.

Action Plan:

Person Responsible:	Councillor	Target Date:	June 2016
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Management Response:	Accepted: to be implemented wef banks statements dated 30 April 2016		
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Audit Framework and Definitions

Assurance Definitions

None	The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	In relation to the areas reviewed and the controls found to be in place, some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Reasonable	Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Substantial	The areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.

Definition of Corporate Risks

Risk	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.

Priority 5	Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.
Priority 4	Important findings that need to be resolved by management.
Priority 3	The accuracy of records is at risk and requires attention.

Priority 2 and 1 Actions will normally be reported verbally to the Service Manager.

Report Authors

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Support

We would like to record our thanks to the following individuals who supported and helped us in the delivery of this audit review:

Joy Norris, Town Clerk
Deborah Speed, Deputy Town Clerk

Distribution List

This report has been distributed to the following individuals:

Joy Norris, Town Clerk

Working in Partnership with

Dorset County Council	Somerset County Council
East Devon District Council	South Somerset District Council
Forest of Dean District Council	Taunton Deane Borough Council
Herefordshire Council	West Dorset District Council
Mendip District Council	West Somerset Council
North Dorset District Council	Weymouth and Portland Borough Council
Sedgemoor District Council	Wiltshire Council

Statement of Responsibility

Conformance with Professional Standards

SWAP work is completed to comply with the International Professional Practices Framework of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Auditing Standards.

SWAP Responsibility

Please note that this report has been prepared and distributed in accordance with agreed Audit Charter and procedures. The report has been prepared for the sole use of the Partnership. No responsibility is assumed by us to any other person.