

**Internal Audit Report Financial Controls 2013/14 Annual Return
Town Council 8 April 2014**

RECOMMENDED that all the recommendations in the report from the Internal Auditor are accepted.

1. South West Audit Partnership (SWAP) was appointed as the Town Council's Internal Auditor for three years starting in January 2014.
2. At the Council meeting on 24 June 2014 a representative from SWAP gave a short presentation about the audit work they had undertaken, their findings and the assurance level they they could give.
3. SWAP have provided a written report which includes their recommendations and is attached. The action plan (starting at p8 of the SWAP report) has columns for the Town Council to provide a response to the recommendations and allocate a responsible officer and implementation date.
4. Where the SWAP recommendation refers to a procedural matter the Town Clerk has inserted a draft response for the Council to consider.
5. The remaining responses (1.2a, 1.3a, 1.3b) involve Councillor training and the handling of reserves and as such require initial consideration by Councillors.

Contact for further information

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Ilminster Town Council

- ▶ Financial Controls – 2013/14
Annual Return

Issued to: Joy Norris
Town Clerk

Gerry Cox
Chief Executive SWAP

Working with



Date of Report: 23 June 2014

Issued by: Chris Plummer
Audit Manager

Charlotte Wilson
Lead Auditor

Key Financial Controls

Management Summary

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

As part of the 2014/15 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.

Summary of Significant Corporate Risks

There were no significant corporate risks identified in accordance with the definitions attached, as a level 'High' or 'Very High' during this review.

Summary of Significant Findings

The following were identified as key findings for the service and therefore categorised, in accordance with the definitions attached, as a level '4' or '5' priority in the action plan.

- The Council do not have a formal approach to Risk Management.
- Expenditure is being incorrectly classified in the accounts.

Further details of audits' findings can be viewed in the full audit report, which follows this Management Summary.

Conclusion and Audit Opinion

★★ Reasonable

I am able to offer reasonable assurance as 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.

Objectives & Risks

The key objective of the service and risks that could impact on the achievement of this objective were discussed and are identified below.

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

Risks:

- Financial management is inadequate or ineffective resulting in financial loss for the council.

Method & Scope

This audit has been undertaken using an agreed risk based audit approach. 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.

Findings

The following paragraphs detail all findings that warrant the attention of management.

The findings are all grouped under the objective and risk that they relate.

- 1. Risk: Financial management is inadequate or ineffective resulting in financial loss for the council.**
 - 1.1** *Key Control: The Council's financial regulations have been met, payments were supported by invoices, expenditure was approved and VAT was appropriately accounted for.*

The Council's Financial Regulations are available to view on the Town Council website.

It is stated within the Financial Regulations that they are to be reviewed on an annual basis, however it would appear that annual review and approval of the Financial Regulations as a whole is not undertaken, amendments were made to the Regulations in 2011 and more recently in September 2013, however, a full review has not taken place. This was also noted by External Audit in their audit report dated 5 September 2013, under the section - 'Other matters not affecting our opinion which we wish to draw to the attention of Ilminster Town Council for the year ended 31 March 2013.'

The Town Clerk advised that the Financial Regulations were due to be reviewed by the Resources Committee on 29 April 2014 in order to consider the adoption of the NALC model financial regulations. However, due to time constraints this report has not yet been presented to the Committee, as such, a low level recommendation has been made that consideration is given to this at the next Resources Committee meeting.

1.1a I recommend that the Town Clerk ensures the Financial Regulations are reviewed on an annual basis, as per section 18 of the Regulations. Further consideration should be given to the adoption of the NALC Model Financial Regulations.

1.2 *Key Control: The Council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.*

The Town Clerk has confirmed that council does not have a Risk Strategy or Risk Register.

Whilst the need for these is understood, these cannot be considered until the Council has an agreed vision, goals and objectives that are to be accomplished over the short to medium term.

Without this clear goal and understanding it is impossible for the council to ensure that priorities and future resources/funding requirements are being met.

Once these have been agreed, the council can then look into the risks (uncertainty) that might impact on achievement of these objectives/priorities and identify steps to control, avoid, minimise or eliminate unacceptable risks and maximise opportunities.

Ordinarily, these risks will be recorded in a Risk Register together with an assessment of the extent of the risk and its implications and the mitigating action to be taken.

It is important that the Risk Register is regularly reviewed and updated to reflect current risks and that actions taken to mitigate risk are appropriate, proportionate and cost effective.

The External Auditor recommended in his last report that the Council should ensure that the internal financial controls are documented and periodically reviewed.

It is understood that work has started on this and these are substantially complete but will need to be considered again following recent staff changes and a review in post responsibilities.

1.2a I recommend that the Council consider the provision of a training workshop for Members on strategic planning / objective setting and risk management and the Town Clerk uses the output from this as the basis for developing a framework approach.

- 1.3 *Key Control: The annual precept requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate.*

The Financial Comparison report provided to the Resources and Open Spaces committees provides members with comprehensive details of income/expenditure incurred to date, further committed/anticipated and in total for comparison with the budget.

This report is not, however, reported to the Town Council. Whilst all members of the Town Council also sit on Resources Committee, this is not a particular issue but should the composition of the committee change, i.e. to only include some but not all members, this report should be introduced into the Town Council agenda.

The Council now holds a significant level of reserves (£284,539) currently showing in the accounts under 4 headings:

- Earmarked Reserves
- General Fund
- General Reserves, and
- Ilminster Sports Initiative.

The accounts as they are presented show that the General Reserves is -£6,857 (negative). This is not standard accounting practice and is an artificial figure derived from the past accounting practices and distribution of surpluses/deficits.

- 1.3a **I recommend that the accounting for reserves is simplified by the amalgamation of the current General Fund & General Reserves headings.**

- 1.3b **I also recommend that the distribution of any surplus/deficit in the Annual Income & Expenditure between reserve headings is explained and supported by appropriate transactions in the accounts.**

- 1.4 *Key Control: Salaries to employees and allowances to members were paid in accordance with body approvals, and PAYE and NI requirements were properly applied.*

Salary payments for all staff were checked for a sample of periods across the year and all were found to be correct and all changes supported by authorising documents.

Expense claims were also checked and in one case the approved claim did not include supporting evidence (receipt).

During testing it was noted that officers had only submitted one claim in year at year end and whilst the amount claimed was minimal this practice can lead to a risk of overspend as no actuals or commitments shown during year. Delays in processing expense claim also diminishes the control as authorising officers may not be able to recall if journey were appropriate, necessary or even incurred.

- 1.4a **I recommend that staff are instructed to submit expense claims monthly for payment and the Town Clerk consider introducing a 'cut-off' date for making claims, e.g. no later than 3**

months after the date expenditure incurred.

- 1.5 *Key Control: Asset and investments registers were complete and accurate and properly maintained.*

In the External Auditor report for the 2012/13 certificate it was noted that the fixed assets had been overstated to the sum of £29,100 and that the assets had been revalued during the year and that this treatment was inappropriate for local councils.

It should be noted that the amount shown to be overstated was the result of a typing error in the list of fixed assets and not as a result of the revaluation. The external auditor did not specify that any adjustment was required in relation to the revaluation.

- 1.5a **I recommend that this year's Annual Return shows the 2012/13 fixed assets value following correction of the error and be clearly marked as 'RESTATED'**

- 1.6 *Key Control: Periodic and year-end bank account reconciliations were properly carried out.*

The Council currently holds 4 bank accounts, these are reconciled on a monthly basis to the Financial Management System.

The June 2013, January 2014 and March 2014 reconciliations were obtained and reviewed to ensure they were properly carried out and independently signed off by a Councillor.

Whilst all 3 reconciliations tested satisfactorily, the January and March reconciliations had not yet been signed off by a Councillor, therefore a low level recommendation has been made to ensure these are independently signed off as soon as possible.

- 1.6a **I recommend that the Town Clerk ensures the outstanding bank reconciliations are independently signed off by a Councillor as soon as possible.**

- 1.7 *Key Control: Year-end accounts were prepared on the correct accounting basis (receipts & payments/income & expenditure), agreed with cash book, were supported by an adequate audit trail from underlying records, and, where appropriate debtors and creditors were properly recorded.*

The accounts agree with the accounting records maintain by the council, however, there are instances where invoices appear to have been split across a number of expenditure codes.

This has occurred where a purchase has been identified that cannot be funded from a single budget line. The Senior Administrative Officer has reviewed the council's budget lines and identified budgets that will not be fully spent and 'earmarked' these amounts to cover the purchase.

Whilst the overall budget is not impacted by this, the accounts are being misrepresented, i.e. the amounts shown against individual budget headings does not reflect the actual expenditure incurred.

There is also a risk that future budgets are being based on incorrect outturn figures, thus perpetuating the problem in future years.

1.7a I recommend that all expenditure is coded to the correct expenditure heading and that the current accounting arrangements should cease and be replaced by a system of virements.

Where there is insufficient budget available to cover the expenditure other budgets can be reviewed as they are now for 'surplus' and this can be vired to the appropriate budget line. Alternatively, if the expenditure is unavoidable, councillors should allow individual budget lines to be shown as overspent whilst ensuring that expenditure is managed within the overall budget.

1.7b I recommend that the Council introduce a mechanism for making virements from one budget heading to another and agree limits on the values that can be approved by the Town Clerk in line with those already established for expenditure.

1.7c I also recommend that a record of all virements is presented to the Council along with all other financial information for formal approval.

The Draft Agreed Action Plan provides a formal record of points arising from this audit and, where appropriate, the action management has agreed to take and the timescale in which the action will be completed. All findings have been given a priority rating between 1 and 5, where 1 is low and 5 is high.

It is these findings that have formed the opinion of the service's control environment that has been reported in the Management Summary.

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
<p>Objective: To provide a selective assessment of the Council's Financial Controls for the Annual Return</p>					
<p>1. Financial management is inadequate or ineffective resulting in financial loss for the council.</p>					
<p>1.1a Review of Financial Regulations</p>	<p>I recommend that the Town Clerk ensures the Financial Regulations are reviewed on an annual basis, as per section 18 of the Regulations. Further consideration should be given to the adoption of the NALC Model Financial Regulations.</p> <p style="text-align: right;"><small>SWAP Ref: 25432</small></p>	<p>2</p>	<p>Recommendation accepted</p>	<p>Town Clerk</p>	<p>Resources Committee 7 October 2014 & Council 21 October 2014</p>
<p>1.2a The Council do not have a formal approach to Risk Management.</p>	<p>I recommend that the Council consider the provision of a training workshop for Members on strategic planning / objective setting and risk management and the Town Clerk uses the output from this as the basis for developing a framework approach.</p> <p style="text-align: right;"><small>SWAP Ref: 25673</small></p>	<p>4</p>			

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
1.3a Accounting for reserves is not in line with standard accounting practice.	I recommend that the accounting for reserves is simplified by the amalgamation of the current General Fund & General Reserves headings. <i>SWAP Ref: 25728</i>	2			
1.3b	I also recommend that the distribution of any surplus/deficit in the Annual Income & Expenditure between reserve headings is explained and supported by appropriate transactions in the accounts. <i>SWAP Ref: 25729</i>	3			
1.4a Expense claims are submitted at year end.	I recommend that staff are instructed to submit expense claims monthly for payment and the Town Clerk consider introducing a 'cut-off' date for making claims, e.g. no later than 3 months after the date expenditure incurred. <i>SWAP Ref: 25574</i>	2	Recommendation accepted and implemented	Town Clerk	Immediate

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
1.5a Last year's Annual Return overstated the fixed assets to the sum of £29,100	I recommend that this year's Annual Return shows the 2012/13 fixed assets value following correction of the error and be clearly marked as 'RESTATED' <i>SWAP Ref: 25675</i>	3	Recommendation accepted	Town Clerk	Immediate (and was implemented on the 12/13 Annual Return)
1.6a Authorisation of Bank Reconciliations	I recommend that the Town Clerk ensures the outstanding bank reconciliations are independently signed off by a Councillor as soon as possible. <i>SWAP Ref: 25434</i>	2	Recommendation accepted	Deputy Town Clerk	August 2014
1.7a Expenditure is being incorrectly classified in the accounts.	I recommend that all expenditure is coded to the correct expenditure heading and that the current accounting arrangements should cease and be replaced by a system of virements. Where there is insufficient budget available to cover the expenditure other budgets can be reviewed as they are now for 'surplus' and this can be vired to the appropriate budget line.	4	Recommendation accepted	Deputy Town Clerk	Immediate

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
1.7b	<p style="text-align: center;"><small>SWAP Ref: 25676</small></p> <p>I recommend that the Council introduce a mechanism for making virements from one budget heading to another and agree limits on the values that can be approved by the Town Clerk in line with those already established for expenditure.</p> <p style="text-align: center;"><small>SWAP Ref: 25677</small></p>	4	Recommendation accepted	Town Clerk	Will be included in the review of Financial Regulations 1.1a above
1.7c	<p style="text-align: center;"><small>SWAP Ref: 25678</small></p> <p>I also recommend that a record of all virements is presented to the Council along with all other financial information for formal approval.</p>	4	Recommendation accepted	Town Clerk	Immediate (agenda item already exists on Council agenda)

Audit Framework Definitions

Control Assurance Definitions

Substantial	★★★	I am able to offer substantial assurance as 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.
Reasonable	★★	I am able to offer reasonable assurance as 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.
Partial	★	I am able to offer Partial assurance 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.
None	▲	I am not able to offer any assurance. 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.

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: Minor control issues have been identified which nevertheless need to be addressed.

Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Definitions of Corporate Risk

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