

# Final Report



# SWAP

SOUTH WEST AUDIT PARTNERSHIP

Delivering Audit Excellence

## ► Ilminster Town Council – Financial Controls – 2014/15 Annual Return

**Issued to:** Joy Norris  
*Town Clerk*

Gerry Cox  
*Chief Executive - SWAP*

### *Working with*



**Date of Report:** 06 July 2015

**Issued by:** Fiona Case  
*Assistant Director*

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*Lead Auditor*

## Financial Controls – 2014/15 Annual Return

### 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 2015/16 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

There were no significant findings identified during this review.

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.

We are pleased to report that the majority of recommendations from the 2013/14 audit report have been completed. There are two areas where recommendations have been previously made where work is still in progress. Our key findings for this year relate to:

- Development of risk management strategies and processes – the training workshop planned has been delivered. The development of a risk management strategy and more detailed processes to regularly appraise key risks for the Council is to be developed. This is seen as a priority for the coming year. We have made a recommendation relating to this issue as it is important to have such a framework to ensure processes are in place to mitigate against key risks.
- Asset register – we have recommended that a Fixed Asset Register be developed, which will allow for identification of all Council assets to ensure that theft does not go undetected and the assets remain fit for purpose.

## Detailed Audit Report

### 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. 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 Risk management was discussed with the Town Clerk as part of the 2014/15 audit. Dave Hill, Executive Director and Chris Plummer, Audit Manager from SWAP completed a workshop with the Town Council to help lay the foundations for its risk management processes. The Council's overall strategic direction has not been set and as such we are not formally able to appraise the Council's approach to risk management just yet.

The process for strategic direction and risk management has been delayed due to the recent

elections which were completed the week prior to the 2015/16 audit and the composition of the Council has altered significantly as a result. The Town Clerk envisages moving on to setting the strategic direction for the Council in the autumn 2015, which will lead to establishing a Risk Management Strategy. However it is felt by the Town Clerk that there is a more heightened awareness amongst Councillors following the risk management workshop completed by SWAP in 2014. Health and Safety risk assessments are completed and the Town Clerk provided an example following the audit.

**1.1a I recommend that, following the recent elections, the Town Clerk and Councillors put into place a risk management framework, which includes risk register(s) and mitigating actions as appropriate and is 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.**

**1.2 A Fixed Asset Spreadsheet is currently in use and the total asset value is reflected in the Council's Annual Return to the Audit Commission. We note that depreciation has not been considered as per the External Auditor's comments from the 2013/14 Annual Return. For the largest purchase and disposal in year, testing of approval was undertaken and the minutes of the Council meeting on 18 November 2014 provide Council approval for both the disposal of the gang mowers and the purchase of the Trimax Snake.**

Whilst we recognise due to changes taking place both in staffing and to Council composition following the recent election, this has led to a delay in compiling a comprehensive Fixed Asset Register. We were informed this is due to be completed by the recently appointed Senior Administration Officer, Finance during 2015/16. This was also discussed with the Town Clerk and the Vice Chair of the Resources Committee during our audit. As such, to ensure focus, a recommendation has been raised for the Council to compile a Fixed Asset Register, which will allow for identification of all Council assets, such as security tagging, with the details recorded with the asset information (e.g. purchase amount, date, location) to allow for asset verification to take place to ensure theft does not go undetected and the assets remain fit for purpose.

**1.2a I recommend that the Town Clerk ensures the Council compiles a Fixed Asset Register, which will allow for identification of all Council assets, and include security tagging / labelling, e.g. assets are given a specific identity number which is included in the Register with the details recorded with the asset information (e.g. purchase amount, date, location) to allow for annual asset verification to take place to ensure that theft does not go undetected and the assets remain fit for purpose.**

**1.3 The Town Council had 4 bank accounts held with NatWest at the start of the 14/15 financial year:**

- Current Account
- Business Reserve Account
- ITC Bonus Saver Account
- Bonus Saver Account

All 4 accounts are reconciled to the finance system on a monthly basis and a Councillor has oversight and authorises these on a quarterly basis. This process has changed in year as this was completed monthly but it was extremely difficult to obtain Councillor signature in a timely manner. The ITC Bonus Saver and Bonus Saver accounts were both closed in December 2014 as part of streamlining the Council's reserves and due to the bank paying minimal interest and withdrawing the availability of these accounts.

The reconciliations for May, September and December 2014 were reviewed and these were all found to reconcile and were signed off by a Councillor in each instance.

It is worthy of note however, that, although not part of my sample testing, reconciliations have not been signed off by a Councillor since January 2015. Whilst this could reflect the move to quarterly sign off, this still should have been completed prior to the start of the audit, particularly given that it is year-end. The bank reconciliations are still completed monthly by the Deputy Clerk however in the meantime are not subject to secondary review. There is a risk that unauthorised transactions could be undertaken and could go undetected for several months and a recommendation has been raised accordingly.

**1.3a I recommend that the Town Clerk ensures that bank reconciliations are signed off by a Councillor on at least a quarterly basis and subject to interim independent review.**

1.4 During the audit we observed that invoices raised were not consecutively numbered. As the Senior Finance Officer agreed to immediately rectify this, we have not made a recommendation for this action. Having consecutively numbered invoices will ensure that all income raised is accounted for.

The 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.

**Appendix 1: Financial Controls – 2014/15 Annual Return**

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**Final Action Plan**

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
<b>Objective: To provide a selective assessment of the Council's Financial Controls for the Annual Return</b>					
<b>1. Financial management is inadequate or ineffective resulting in financial loss for the council.</b>					
<p>1.1a Risk Management – development of risk management framework</p>	<p>I recommend that, following the recent elections, the Town Clerk and Councillors put into place a risk management framework, which includes risk register(s) and mitigating actions as appropriate and is 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.</p>	<p>3</p>	<p>Recommendation Accepted</p>	<p>Town Clerk</p>	<p>October 2015</p>
<p>1.2a Fixed Asset Register – development of a register to include all Council assets</p>	<p>I recommend that the Town Clerk ensures the Council compiles a Fixed Asset Register, which will allow for identification of all Council assets, and include security tagging, with the details</p>	<p>3</p>	<p>Recommendation Accepted</p>	<p>Town Clerk</p>	<p>October 2015</p>

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date
	<p>recorded with the asset information (e.g. purchase amount, date, location) to allow for annual asset verification to take place to ensure that theft does not go undetected and the assets remain fit for purpose.</p> <p><i>SWAP Ref. 29254</i></p>				
<p>1.3a Secondary Review of Bank Reconciliations</p>	<p>I recommend that the Town Clerk ensures that bank reconciliations are signed off by a Councillor on at least a quarterly basis and subject to interim independent review.</p> <p><i>SWAP Ref. 29166</i></p>	<p>3</p>	<p>Recommendation Accepted</p>	<p>Town Clerk</p>	<p>Immediate</p>



**Appendix 2 : Final Report 2013/14**

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**Agreed Action Plan**

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date	Follow Up Response
<b>Objective: To provide a selective assessment of the Council's Financial Controls for the Annual Return</b>						
<b>1. Financial management is inadequate or ineffective resulting in financial loss for the council.</b>						
1.1a Review of Financial Regulations	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.  <small>SWAP Ref: 25432</small>	2	Recommendation accepted	Town Clerk	Resources Committee 7 October 2014 & Council 21 October 2014	<u>Completed</u> Responsible Officer – Town Clerk – 4 June 2015.
1.2a The Council do not have a formal approach to Risk Management.	I recommend that the Council consider the provision of a training workshop for Members on strategic planning / objective setting and risk management	4	Recommendation accepted	-	-	<u>In Progress</u> Responsible Officer – Town Clerk – training workshop has

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date	Follow Up Response
	and the Town Clerk uses the output from this as the basis for developing a framework approach.  <i>SWAP Ref: 25673</i>					been completed, risk management strategy is still to be developed. See recommendation 1.1a
1.3a Accounting for reserves in 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	Recommendation accepted	Deputy Town Clerk		<b>Completed</b> Responsible Officer – Town Clerk – 4 June 2015.
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	Recommendation accepted			<b>Completed</b> Responsible Officer – Town Clerk – 4 June 2015.
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	2	Recommendation accepted and implemented	Town Clerk	Immediate	<b>Completed</b> Responsible Officer – Town

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date	Follow Up Response
	introducing a 'cut-off' date for making claims, e.g. no later than 3 months after the date expenditure incurred.  <i>SWAP Ref: 25674</i>					Clerk – 4 June 2015.
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)	<u>Completed</u> Responsible Officer – Town Clerk – 4 June 2015.
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	<u>In progress</u> – Responsible Officer – Town Clerk – See recommendation above in 1.3a
1.7a Expenditure is being incorrectly	I recommend that all expenditure is coded to the correct expenditure heading	4	Recommendation accepted	Deputy Town Clerk	Immediate	<u>Completed</u>

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date	Follow Up Response
classified in the accounts.	<p>and that the current accounting arrangements should cease and be replaced by a system of virements.</p> <p>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.</p> <p style="text-align: right;"><small>SWAP Ref: 25676</small></p>					Responsible Officer – Town Clerk – 4 June 2015.
1.7b	<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: right;"><small>SWAP Ref: 25677</small></p>	4	Recommendation accepted	Town Clerk	Will be included in the review of Financial Regulations 1.1a above	<u>Completed</u> Responsible Officer – Town Clerk – 4 June 2015.
1.7c	<p>I also recommend that a record of all virements is presented to the Council along with all other financial</p>	4	Recommendation accepted	Town Clerk	Immediate (agenda item)	<u>Completed</u> Responsible Officer – Town

Finding	Recommendation	Priority Rating	Management Response	Responsible Officer	Implementation Date	Follow Up Response
	<p>information for formal approval.</p> <p>SWAP Ref: 25678</p>				<p>already exists on Council agenda)</p>	<p>Clerk – 4 June 2015.</p>

## Audit Framework Definitions

### Control Assurance Definitions

<b>Substantial</b>	★★★	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.
<b>Reasonable</b>	★★	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.
<b>Partial</b>	★	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.
<b>None</b>	▲	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.

<b>Very High</b>	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
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