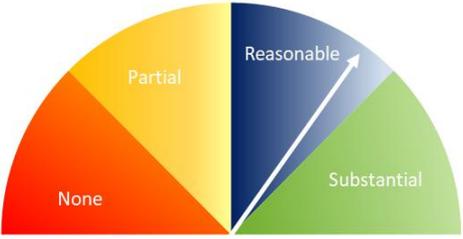


Annual Return 2018/19

Final Audit Report

Issue Date: 12 April 2019

Executive Summary

Audit Opinion		Recommendation Summary	
	<p>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.</p>	Priority	Number
		Priority 1	0
		Priority 2	0
		Priority 3	2
		Total	2

Audit Conclusion
<p>We are generally satisfied that the Council maintains a high standard of risk management.</p> <p><i>We did, however, identify some opportunities for improvement:</i></p> <ul style="list-style-type: none"> • There are no operational procedures for maintaining the Council's financial controls. • There is no formal procedure for handling cash. <p><i>We also raised the following minor suggestions to the Town Clerk and Responsible Finance Officer directly:</i></p> <ul style="list-style-type: none"> • The information shown in the Cashbook could potentially be improved by including the Payer's details under the Receipts section. • The Standing Orders Section 20, Point b), could be made clearer by stating exactly which version of the Transparency Code the Council conforms to. They also refer to 'Data Protection Legislation', so it should be amended to refer to the new General Data Protection Regulations (GDPR). • The IT Support item of expenditure within the annual Regular Payments report could be broken down into its constituent expense payments to provide greater transparency to the approving committee. The Town Clerk and Responsible Finance Officer has since amended the May 2019 report accordingly. <p><i>Finally, we note:</i></p> <ul style="list-style-type: none"> • The ongoing concern over reserve levels in relation to capital risk. The Council is, however, technically compliant with Central Government's recommendation regarding reserve levels, stated within the "Governance and Accountability for Smaller Authorities in England 2018", and can only continue its work to build them up to a more comfortable level. • That no Annual Review of Risk Management Arrangements was performed within the 2018-19 period. A review is, however, due to be reported to Town Council in May 2019, so we did not believe it was necessary to make a recommendation regarding this. • That the Fixed Asset Register was due for review at the time of the audit. It had been updated mid-year and we understand that the approval for the addition of bus shelters will take place at the next scheduled committee.

Background

SWAP Internal Audit Services were appointed as Internal Auditor for Cranbrook Town Council as of 1 April 2019; commencing with an audit of the 2018-19 accounting year. The purpose of this audit was to assess the adequacy and effectiveness of the financial controls and operating procedures. This work will support and inform the Internal Auditor declaration of the Annual Return submitted to the Council's External Auditor.

This report provides the Town Clerk and the Council with a summary of the audit findings and assurance that each of the expected key controls are operating and effective. Where expected controls are not met, a recommendation for improvement has been made. A copy of the Annual Governance and Accountability Return document has been provided separately to the Town Clerk and Responsible Finance Officer.

Some high level financial figures are provided below for context:

Year	Annual Precept (£)	Total Income (£)	Total Expenditure (£)	Carried Forward (£)
2019-20 (Budget)	409,648	474,068	474,068	N/a
2018-19 (Actual)	388,398	413,010*	333,182*	151,788*
2017-18 (Actual)	112,935	207,541	131,760	76,814

* Pending year end accrual and pre-payment adjustments.

Corporate Risk Assessment

Objective

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

Risk	Inherent Risk Assessment	Manager's Initial Assessment	Auditor's Assessment
Financial management is inadequate or ineffective; resulting in financial loss and reputational damage to the Council.	High	Medium	Low

Scope

To achieve the objective of this audit, we assessed the Council's compliance with the:

- "Governance and Accountability for Smaller Authorities in England 2018" and;
- Annual Governance and Accountability Return's "Internal Control Objective" section;

for the 2018-19 accounting year.

As an added value effort, we reviewed the proposed Cash Handling Procedure, submitted to committee alongside this report, to ensure it is fit for purpose.

Findings and Outcomes

Summary of Control Framework

- **Proper book keeping:** A cashbook is maintained on a Payments and Receipts basis. It is submitted to Finance and Personnel Committee on a quarterly basis and is published online for the Public to see. We have made a suggestion that the Cashbook could be altered to include the payer's details for each receipt, as is already displayed for payments.
- **Financial Regulations:** The Financial Regulations have been reviewed in year, cover the expected areas and explain the key financial controls in place. The Standing Orders are robust, although we have made a suggestion to amend one section to better clarify the Council's transparency compliance efforts.
- **Payment controls:** A Schedule of Payments is submitted to Town Council annually for their approval and VAT is reclaimed when applicable.
- **Risk management:**
 - A Risk Management Policy and Risk Register are maintained. An Annual Risk Report is also made to Town Council each year, although one has not actually been produced since 2017; due to the Town Clerk and Responsible Finance Officer being on Maternity Leave. One is due to be produced in May 2019.
 - The Financial Regulations detail the financial controls in place. However, no operational procedures exist to guide an officer in implementing these controls. We have therefore recommended some be written up.
 - A Health and Safety Policy is in place and six risk assessments are maintained by the Town Clerk and Responsible Finance Officer; which are submitted to a Health and Safety Group for approval on a biannual basis.
 - Public and Employer Liability Insurance is maintained, as well as insurance for all assets for which the Council has assumed responsibility.
- **Budgetary controls:** The Council has published its 2018-19 Budget, along with explanations of each item contained within. The Contingency amount allocated satisfies the agreed Contingency Principle. The Reserve amount is now equivalent to one third to one half of its annual precept amount, as recommended by the Governance and Accountability for Smaller Authorities in England guide. The Council is steadily building up its reserves to a more comfortable level.
- **Income controls:** The Council agrees its precept amount annually and submits its request to East Devon District Council annually. The Annual Budget clearly itemises all of its sources of income. It maintains a Credit Control Policy and has the facility to invoice customers. However, it only issued one sales invoice during the 2018-19 accounting year and it had no formal customers.
- **Petty cash procedures:** No petty cash float is maintained. Officers do, however, handle cash. No procedure is in place for this and therefore no segregation of duties nor reliable record of transactions made. The Council does retain the paying-in book stubs within its paying-in book, which records the amount paid in, who it was from and the purpose of the payment.

- **Payroll controls and employment:** Employment contracts exist for all members of staff and these are congruent with the agreed respective job descriptions. An Expenses Policy is maintained and all payments submitted by the Town Clerk and Responsible Officer to the bank must be approved by two of the three duly authorised Town Council members before the bank releases the funds. An external provider is used to process payroll, but the Schedule of Payments includes a breakdown of salary, National Insurance and Local Government Pension Scheme contributions.
- **Asset control:** The Council maintains an Asset Policy and Asset Register; which are reviewed bi-annually. The assets recorded are insured, in addition to some assets the Council does not yet own, but has assumed responsibility for. The Fixed Asset Register was due for review at the time of the audit. It had been updated mid-year and we understand that the approval for the addition of bus shelters will take place at the next scheduled committee.
- **Bank reconciliation:** The Council maintains two bank accounts, which are reconciled by the Town Clerk and Responsible Finance Officer every month and are approved by the duly authorised Town Council member.
- **Year end procedures:** The Council produces all the key year-end financial documents as expected, including: Balance Sheet, Trial Balance, VAT Return and records of accruals and pre-payments. Accounts are maintained on a Payments and Receipts basis throughout the year and are converted to the Income and Expenditure basis for year-end reporting purposes. This is recognised as a conventional and acceptable practice for an authority of Cranbrook's size by the Governance and Accountability for Smaller Authorities in England guidance.

1	Financial management is inadequate or ineffective; resulting in financial loss and reputational damage to the Council.	Low
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1.1 Finding and Action		
Issue	Risk	
There are no operational procedures for maintaining the Council's financial controls.	Without a framework of operational financial procedures in place, there is a risk that the Council's key financial controls could not be performed in the absence of an officer; resulting in financial loss and reputational damage.	
Findings		
Best practice is to maintain written procedures for maintaining key financial controls. This would ensure that, in the absence of an officer, their responsibilities could be efficiently and effectively covered by another officer.		
The Council currently has no such procedures in place. The Town Clerk and Responsible Finance Officer agreed that these could be written up and implemented in support of the Business Continuity Plan which is currently being developed.		
Recommendation		
We recommend the Town Clerk and Responsible Finance Officer create operational financial procedures for maintaining each of the financial controls detailed in the Financial Regulations.	Priority Score	3
Agreed Action	Timescale	30 September 2019
Agreed.	Responsible Officer	Town Clerk and Responsible Finance Officer

1.2 Finding and Action

Issue	Risk
There is no formal procedure for handling cash.	Without a clear Cash Handling Procedure, there is a risk that monies are lost or stolen; which would result in financial loss and reputational damage to the Council.

Findings

Throughout the 2018-19 accounting year, the Council did not invoice the Public for any services. It also does not promote the use of cash to make payments to the Council and does not maintain a cash float. Nonetheless, some occasions arise whereby member(s) of the Public will pay cash to an officer of the Council directly. For convenience, they will accept cash in these instances.

The Council does not, however, have a formal procedure in place to guide officers in minimising the risk of theft or loss of this cash occurring.

Through discussion with the Town Clerk and the Administrative Assistant, we arrived at two potential scenarios that need to be accounted for:

- 1) *An officer or member of the Council collects monies from multiple contributors through fundraising:* In this instance, we recommend that one person counts the monies and signs and dates a record to confirm. Another person signs and dates to confirm they agree/have witnessed the count and, as a minimum, the second person takes custody of the monies and banks them.
- 2) *Monies are handed to office staff directly:* A receipt, signed by the officer receiving the money, should be given to the payer of the monies to confirm the amount received and the purpose of the monies paid. The money is then stored in the office for a second officer to review and bank. The second officer should record the date of review and their signature; to confirm agreement with the first officer.

We note that the Town Clerk and Responsible Financial Officer has submitted a Cash Handling Policy to the Finance and Personnel Committee alongside this audit report. We were asked to review this policy before it is submitted to members for approval. We have therefore reviewed the Policy and provided some advice to ensure it is fit or purpose.

Recommendation

We recommend the Town Clerk and Responsible Financial Officer create a Cash Handling Procedure, reflecting the points made in this finding, and submit it to members for their approval.

Agreed Action

Agreed.

Priority Score	3
Timescale	15 April 2019
Responsible Officer	Town Clerk and Responsible Financial Officer

Other Suggestions

1. The Council maintains a cashbook showing all individual payment and receipt transactions processed. The Cashbook is submitted to the Finance and Personnel Committee every quarter and is available to the Public to review. We noticed that the Payees of payments the Council makes are recorded, but the Payers of receipts the Council receives are not. We suggest that the Town Clerk and Responsible Finance Officer investigate whether the Omega e-financials system could include this information within the Cashbook.
2. The Standing Orders Section 20, Point b) is currently unclear as to whether the Council seeks to comply with the Local Government Transparency Code or the Transparency Code for Smaller Authorities and what the difference is between the two. We have established that the Council adheres to the Local Government Transparency Code and so suggest that reference to the Transparency Code for Smaller Authorities is removed; to avoid confusion. In addition, the Standing Orders currently refer to 'Data Protection Legislation'. We suggest amending the Standing Orders to refer to the new General Data Protection Regulations; considering how much more severe the potential penalties are for a data breach under the new legislation.
3. The Town Clerk and Responsible Finance Officer submits a Regular Payments report to the annual meeting of the Town Council. In the last Regular Payments report, an annual £79.99 Microsoft 365 subscription payment was included within the item covering IT Support. To provide greater transparency to the Town Council when approving spend decisions, we suggested breaking down the IT Support figure into its constituent payments. The Town Clerk and Responsible Finance Officer has since provided evidence that this suggestion has been implemented in the Regular Payments report due to go to the May 2019 annual meeting of the Town Council.

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

In addition to the corporate risk assessment it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:

Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

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