

Annual Return 2019/20

Final Report

Issue Date: 19 May 2020

Executive Summary

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

Audit Conclusion

We are generally satisfied that the Council maintains a high standard of risk management. We award this opinion on the basis that we observed all controls listed in the Annual Internal Audit Report 2019/20 section of the Annual Governance and Accountability Return (AGAR) to be operating and effective.

All recommendations for improvement made in last year's report have been sufficiently implemented. The Follow Up of Recommendations Made in 2018/19 Internal Audit Report section below details the two formal recommendations and five suggestions for improvement we made in the 2018/19 Internal Audit Report. The Follow Up Action box under each explains our rationale for concluding that it has now been completed.

We identified one instance where the Council accepted a donation from Exeter Running Club and awarded them a grant at the same meeting. Having looked into the matter, we are satisfied that there is no conflict of interest and that the Council have been transparent in their recording of the transactions.

Our checks included a high-level review of the following:

- Grants Policy.
- Grants awarded processes.
- Grant Application Form from Exeter Running Club.
- Audit trail of charitable donations made to its Charity of the Year during 2019/20.
- Finance and Personnel Committee meeting minutes. These are published on its website and recorded both the donation and the award of the grant in this instance.

We were satisfied that a formal process is in place with which to safeguard against conflicts of interest in this regard.

We note that the Council is offering more invoiceable services this year. Some aged debts exist, exceeding the maximum 20-day credit term set by the Council's Credit Control Policy. These are being monitored and we acknowledge that they were incurred during the global turbulence caused by the COVID-19 Pandemic and are being monitored.

We have raised no recommendations this year.

Background

SWAP Internal Audit Services were appointed as Internal Auditor for Cranbrook Town Council on 22 October 2018 and completed this audit of the 2019/20 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 Annual Internal Audit Report 2019/20 section of the AGAR form 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. A copy of the signed Internal Audit Declaration has been provided separately.

Corporate Risk Assessment

Objective

To provide a selective assessment of the Council's key controls for the Annual Governance and Accountability Return.

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

Scope

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

- Joint Panel on Accountability and Governance Practitioners' Guide March 2020 guidance and;
- the AGAR's Annual Internal Audit Report 2019/20 section;

for the 2019/2020 accounting year.

Findings and Outcomes

Summary of Control Framework

- **Proper bookkeeping:** A cashbook is maintained on a Payments and Receipts basis, except at year-end when it is converted to Income and Expenditure. It is submitted to Finance and Personnel Committee quarterly and is published online for the Public to see.
- **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.
- **Payment controls:** A Schedule of Payments is submitted to Town Council every month for their approval and VAT is reclaimed after every financial quarter end. In addition, a list of Regular Payments is submitted to the annual meeting of the Council in May of each year.
- **Risk management:**
 - A Risk Management Policy and Risk Register are reviewed twice per year by a safety working group which reports to Full Council.
 - The Financial Regulations detail the financial controls in place. The Council has appointed a Deputy Town Clerk, who can maintain these controls in the Town Clerk and Responsible Financial Officer's absence.
 - A Health and Safety Policy is in place; supported by eleven risk assessments. The Town Clerk and Responsible Financial Officer maintains these and submits them 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 2019/20 Budget, along with explanations of each item contained within. In particular:
 - The Contingency amount allocated satisfies the agreed Contingency Principle; which requires it to be set at approximately 3.5% of budgeted Total Expenditure for the year.
 - Total Reserves amount to approximately 43% of the Annual Precept amount. The Council is therefore compliant with the Governance and Accountability for Smaller Authorities in England guide's recommendation to maintain Total Reserves between 30% and 50% of the Annual Precept amount.
- **Income controls:** The Council:
 - Agrees its Annual Precept amount and submits its request to East Devon District Council annually.
 - Clearly itemises all its sources of income within the Annual Budget.
 - Maintains a Credit Control Policy
 - Invoices customers and has a Credit Control Policy for managing debts.
- **Petty cash procedures:** No petty cash float is maintained. Officers do, however, handle cash. A Cash Handling Procedure has been implemented and is followed in practice for these situations.

- **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 expense payments are exclusively paid by BACS. Expense payments which are processed by one of the duly authorised “view and submit” signatories (members of staff) must be approved by two of the three duly authorised “view and authorise” signatories (councillors) before the bank will release the funds. This is the case for all the Council’s payments.
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.
- **Bank reconciliation:** The Council maintains three bank accounts which are reconciled by the Town Clerk and Responsible Financial Officer after every month-end and are approved by the duly authorised Town Councillor after every financial quarter end in accordance with the Council’s Financial Regulations.
- **Year end procedures:** The Council produces all the key year-end financial documents as expected, including:
 - Balance Sheet.
 - Trial Balance.
 - VAT Return.
 - Records of Accruals, Pre-payments and Debtors.

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.

Follow Up of Recommendations Made in 2018/19 Internal Audit Report

1.1 Finding and Action		
Issue	Management Action Plan	
<p>There are no operational procedures for maintaining the Council's financial controls.</p> <p>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.</p> <p>The Council currently has no such procedures in place. The Town Clerk and Responsible Financial Officer agreed that these could be written up and implemented in support of the Business Continuity Plan which is currently being developed.</p>	<p>We recommend the Town Clerk and Responsible Financial Officer create operational financial procedures for maintaining each of the financial controls detailed in the Financial Regulations.</p>	
Management Response		
Agreed.	Priority Score	3
Follow Up Action	Follow Up Status	Complete
We agreed that, with the addition of the Deputy Town Clerk and the Cash Handling Procedure, the key controls are now sufficiently resilient.	Revised implementation date	N/a
	Revised responsible officer	Town Clerk and Responsible Financial Officer

1.2 Finding and Action	
Issue	Management Action Plan
<p>There is no formal procedure for handling cash.</p> <p>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.</p> <p>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.</p> <p>Through discussion with the Town Clerk and the Administrative Assistant, we arrived at two potential scenarios which need to be accounted for:</p> <p><i>An officer or member of the Council collects monies from multiple contributors through fundraising:</i> 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.</p> <p><i>Monies are handed to office staff directly:</i> 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.</p> <p>We note that the Town Clerk and Responsible Financial Officer has submitted a Cash Handling Procedure to the Finance and Personnel Committee alongside this audit report. We were asked to review this procedure before it is submitted to Members for approval. We have therefore reviewed the procedure and provided some advice to ensure it is fit or purpose.</p>	<p>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.</p>

Management Response		
Agreed.	Priority Score	3
Follow Up Action	Follow Up Status	Complete
A Cash Handling Procedure has now been approved and implemented. We observed this to have been adhered to in practice.	Revised implementation date	N/a
	Revised responsible officer	Town Clerk and Responsible Financial Officer

1.3 Finding and Action		
Issue		
The information shown in the Cashbook could potentially be improved by including the Payer's details under the Receipts section.		
Management Response		
Agreed.	Priority Score	N/a
Follow Up Action	Follow Up Status	Complete
The Town Clerk and Responsible Financial Officer investigated the possibility of introducing this, but found that the software used would now allow it.	Revised implementation date	N/a
	Revised responsible officer	Town Clerk and Responsible Financial Officer

1.4 Finding and Action		
Issue		
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).		
Management Response		
Agreed.	Priority Score	N/a
Follow Up Action	Follow Up Status	Complete
Section 20, Point b) has been amended to make clear which version of the Transparency Code the Council conforms to. The reference to 'Data Protection Legislation' forms part of the Model Standing Orders, prescribed by Central Government.	Revised implementation date	N/a
	Revised responsible officer	Town Clerk and Responsible Financial Officer

1.5 Finding and Action		
Issue		
There is 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 Joint Panel on Accountability and Governance Practitioners’ Guide March 2020, and can only continue its work to build them up to a more comfortable level.		
Management Response		
Agreed.	Priority Score	N/a
Follow Up Action	Follow Up Status	Complete
The Council now sits comfortably within the recommended 30% to 50% of the Annual Precept amount reserve level recommended by the guidance at 43%.	Revised implementation date	N/a
	Revised responsible officer	Town Clerk and Responsible Financial Officer

1.6 Finding and Action		
Issue		
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.		
Management Response		
Agreed.	Priority Score	N/a
Follow Up Action	Follow Up Status	Complete
A review was performed within 2019/20.	Revised implementation date	N/a
	Revised responsible officer	Town Clerk and Responsible Financial Officer

1.7 Finding and Action		
Issue		
The Fixed Asset Register was due for review at the time of the audit.		
Management Response		
Agreed.	Priority Score	N/a
Follow Up Action		Follow Up Status
The Fixed Asset Register was reviewed and updated on 31 March 2020.		Complete
	Revised implementation date	N/a
	Revised responsible officer	Town Clerk and Responsible Financial Officer

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

Authors and Distribution

Please note that this report has been prepared and distributed in accordance with the agreed Letter of Engagement. The report has been prepared for the sole use of Cranbrook Town Council. No responsibility is assumed by us to any other person or organisation.

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