



Annual Return – Ilminster Town Council 2018/19

Draft Audit Report

Issue Date: 18 June 2019

Agenda No 8

Executive Summary

Audit Opinion	Recommendation Summary										
 <p>We are able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively at all times and risks against the achievement of objectives are well managed.</p>	<table border="1"> <thead> <tr> <th>Priority</th> <th>Number</th> </tr> </thead> <tbody> <tr> <td>Priority 1</td> <td>0</td> </tr> <tr> <td>Priority 2</td> <td>0</td> </tr> <tr> <td>Priority 3</td> <td>0</td> </tr> <tr> <td>Total</td> <td>0</td> </tr> </tbody> </table>	Priority	Number	Priority 1	0	Priority 2	0	Priority 3	0	Total	0
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Total	0										

Audit Conclusion

We found the following areas to be well controlled:

- Accounting records are sufficiently maintained on the correct basis.
- The Council maintains Financial Regulations which are fit for purpose.
- The Council maintains Standing Orders that are fit for purpose.
- The Council's expenditure transactions are appropriately authorised and VAT is reclaimed accurately where applicable.
- The Council has assessed the significant risks to achieving its objectives and has reviewed the adequacy of arrangements to manage these.
- The annual precept requirement resulted from an adequate budgetary process and progress against the budget was regularly monitored. Expected income was fully received, based on correct prices, properly recorded and promptly banked.
- Petty cash payments were properly supported by receipts, expenditure was approved and VAT appropriately accounted for.
- Salaries to employees and allowances to members were paid in accordance with body approvals and PAYE and NI requirements were properly applied.
- The Council's Fixed Asset Register was found to be complete and accurate.
- Periodic and year-end bank account reconciliations were properly carried out.
- Year end accounts were prepared on the correct accounting basis and were supported by an adequate audit trail from underlying records.

However, we note the following recent events, which could present future issues if not monitored carefully:

- Although reserves are currently high, significant draws are expected in the near future. It is important that an adequate contingency (enough to cover at least six months' running costs) is maintained throughout this period.
- The Council's staffing levels have changed significantly during the 2018-19 accounting year; meaning it only currently employs three permanent officers. Whilst we understand the reasons for this and suitable temporary arrangements have been implemented for the time being, it is important that permanent staff be appointed as a priority for the Council. Currently, the Town Clerk is the only financially qualified member of permanent staff and so they represent a single point of failure in terms of the Council's long term business continuity capabilities.

Background

SWAP Internal Audit Services have been appointed as Internal Auditor for Ilminster Town Council to conduct 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.

Some high level financial figures are provided below for context:

Year	Annual Precept (£)	Total Income (£)	Total Expenditure (£)	Carried Forward (£)
2018-19	319,312	367,631	254,951	N/a
2017-18	293,720	407,456	290,892	551,946
2016-17	290,468	688,541	627,885	435,382
2015-16	231,223	545,758	536,946	374,726

Corporate Risk Assessment

Objective

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

Risk

Financial management is inadequate or ineffective; resulting in financial loss and reputational damage to SDBC.

Inherent Risk Assessment	Manager's Initial Assessment	Auditor's Assessment
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.

Findings and Outcomes

Summary of Control Framework

- **Proper bookkeeping:** A cashbook is maintained on a Payments and Receipts basis and is converted to the Income and Expenditure basis for year-end reporting purposes.
- **Financial Regulations:** The Financial Regulations have been reviewed in year and cover the expected areas.
- **Payment controls:** Payments must be authorised by an officer and two Town Council members before payment and a schedule of payments is submitted to each Town Council meeting. VAT is reclaimed when applicable.
- **Risk management:**
 - A Risk Management Policy is maintained alongside a Finance Risk Register.
 - A procedure manual has been provided by Ilinster Town Council's accounting software provider, AdvantEdge, which details how each key financial control could be upheld by a novice in the event a knowledgeable officer was not available to do this.
 - A Health and Safety Policy is in place, which is supported by an Annual Risk Report and office risk assessments and play equipment inspections. Open spaces risk assessments, which would normally be performed annually, were last completed in January 2018 as no Open Spaces Manager has been in place to do it. A permanent Open Spaces Manager has since been appointed in May 2019.
 - We confirmed that an annual in-depth play inspection is performed by an independent company. In addition, we have been advised that inspections are performed by qualified staff from South Somerset District Council every one to two weeks as necessary.
 - Public and Employer Liability Insurance is maintained, as well as insurance for all the Council's assets.
- **Budgetary controls:** The Council has published its 2018-19 Budget, along with explanations of each item contained within. The Reserve amount is equivalent to 116% of the Council's Precept amount, which is high. However, sufficient explanation was provided to demonstrate that these reserves are justifiably required for future financing commitments.
- **Income controls:** The Council agrees its precept amount annually and submits its request to South Somerset District Council. The Annual Budget clearly itemises all of its sources of income. Bad debts are rare, so are handled on a case by case basis.
- **Petty cash procedures:** A petty cash float is maintained. As cash purchases are rare, reconciliations are performed as and when is necessary. Three reconciliations were performed in 2018-19 and we reviewed a sample of transactions from each. Each was found to balance, to be supported by receipts and to have been authorised appropriately; with a segregation of duties maintained between two officers in each case.

- **Payroll controls and employment:** Employment contracts exist for all members of staff and the salaries paid are congruent with these. Payruns are raised and authorised by two separate officers within the NatWest banking system.
- **Asset control:** The Council maintains a Fixed Asset Register. A record of additions and disposals is maintained and reported to Town Council.
- **Bank reconciliation:** The Council maintains four bank accounts, which are reconciled by the Town Clerk 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: Income and Expenditure account, 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 Ilminster's size by the Governance and Accountability for Smaller Authorities in England guidance.

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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