



FINAL

Internal audit report 2017/18

Visit 1 of 2

PORTLAND TOWN COUNCIL

Date: 24th April 2018

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Introduction

This report contains a note of the audit recommendations made to Portland Town Council following the carrying out of internal audit testing on site on the 12th April 2018.

The audit work has been carried out in accordance with Appendix 9 of the 2014 'Governance and Accountability for Local Councils: A Practitioners' Guide'.

An internal audit covers the review of the operation of the Council's internal control environment. It is not designed to review and give full assurance over every transaction carried out by the Council. Instead it enables the auditor, following the sample testing of a number of different types of transaction, to give an opinion as to whether or not the control objectives are being achieved across a range of financial and governance systems.

Audit Opinion

As this audit report is an interim one, no audit opinion is offered at this stage.

The report issued after the final visit for 2017/18 (which will be in May or June 2018) will contain the audit opinion.

The following areas were reviewed during this audit visit:

1. Proper Book-keeping
2. Risk Management
3. Budgetary Control
4. Income
5. Petty Cash (confirmed not applicable to Council).
6. Payroll
7. Bank Reconciliation

Audit Recommendations

Recommendations made during the audit are shown in appendix one to this report.

Recommendations are graded as follows:

Rating	Significance
High	Either a critical business risk is not being adequately addressed or there is substantial non-conformity with regulations and accepted standards.
Medium	Either a key business risk is not being adequately addressed or there is a degree of non-conformity with regulations and accepted standards.
Low	Either minor non-conformity with procedure or opportunity to improve working practices further.

The number of recommendations made at this audit visit and their priority are summarised in the following table:

Rating	Number
High	2
Medium	1
Low	2
TOTAL	5

I would like to thank Ian Looker, Town Clerk for his assistance during this audit.

Darkin Miller Chartered Accountants
2017/18 INTERNAL AUDIT OF PORTLAND TOWN COUNCIL
FINAL REPORT: 24th APRIL 2018

Appendix 1 – Recommendations and Action Plan

Rec number	Detail	Priority (L/ M/ H)	Management Response	Responsible Officer	Due Date
3.1 – Risk assessment	<p>The Council is required to carry out a risk assessment annually (Accounts and Audit Regulations 2015. The regulations require that the council meeting as a whole has to review their system of internal control including risk management (s.3c and s.6), although it permits the Council to consider the findings of a review carried out by a committee (s.6).</p> <p>Although the Finance Committee carried out a review of the risk assessment in January 2018, this had not been formally approved by Council by the end of the financial year. There is a danger that a failure to adequately review and assess the risks facing the Council will result in additional costs and a failure to achieve the Council’s corporate objectives.</p> <p>It is recommended that the Council reviews the risk assessment as soon as possible, and that risk management is added to the programme of reports that are considered annually by members.</p>	H	<p>The Council was unable to approve the risk assessment because the details needed to be transcribed to the computer-based system and conflicting administrative priorities prevented this.</p> <p>The Clerk has concerns that the risk system requires regular monitoring of different risk issues by both members and staff, which has not been fully carried out in recent times. If the Council is to carry out its full risk responsibilities it need to commit additional resources to the task.</p>		
4.1 – Explicit minute of precept	<p>The Council prepared an annual budget in support of its precept. At the 17/01/18 meeting of Council the budget was reviewed line-by-line, but there was no formal, explicit approval of the amount of the precept.</p> <p>I recommend that the value of the precept set is explicitly minuted at the next Council meeting, and that the value is</p>	H	<p>The auditor’s criticisms are acknowledged and it is hoped they can be partially remedied at the next Council meeting.</p>		

	explicitly minuted when the precept is agreed in future meetings.				
5.1 – Split out CTSG	<p>The precept figure shown in the accounts includes the Council Tax Support Grant. The annual return requires that the amount shown under the precept is only the precept figure.</p> <p>I recommend that the CTSG is transferred into 'Grant' income in order to ensure that the year-end precept figure is not overstated in error.</p>	L	Precept and Support Grant are already separated in the monthly financial reports to Council and were kept separate in the 2016/17 end of year accounts. This should also be the case in the 2017/18 accounts.		
7.1 – Updated contracts of employment	<p>The Council amended the hours and salary scale points for its posts in 2015/16, but has not yet issued fresh contracts of employment. This recommendation was also raised in 2016/17.</p> <p>It is recommended that the contracts of employment for existing post-holders be reviewed and updated where necessary, in order to ensure that they remain appropriate.</p>	M	The new member of staff appointed in 2017/18 had both a contract of employment and job description that had been reviewed and revised prior to the appointment. The Clerk has made Council aware that inadequate staff resources over the past two years have led to a number of administrative tasks not being undertaken.		
7.2 – Council paperwork	<p>The Council employed a new member of staff in the year. I was unable to agree the post-holder's terms and conditions to the signed contract of employment, as the confidential personnel files have been secured at the Clerk's residence. As the Council has its own offices, it is appropriate that all Council files should be secured in the Council offices in a lockable filing cabinet.</p> <p>I recommend that all Council paperwork is stored in the Council offices, with confidential or personnel files secured in a lockable cabinet.</p>	M	The option chosen for keeping sensitive information confidential was an unorthodox response to unorthodox office accommodation.		



FINAL

Internal audit report 2017/18

Visit 2 of 2

PORTLAND TOWN COUNCIL

Date: 31st July 2018

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Introduction

This report contains a note of the audit recommendations made to Portland Town Council following the carrying out of internal audit testing on site on the 22nd June 2018.

The audit work has been carried out in accordance with Appendix 9 of the 2014 'Governance and Accountability for Local Councils: A Practitioners' Guide'.

An internal audit covers the review of the operation of the Council's internal control environment. It is not designed to review and give full assurance over every transaction carried out by the Council. Instead it enables the auditor, following the sample testing of a number of different types of transaction, to give an opinion as to whether or not the control objectives are being achieved across a range of financial and governance systems.

Audit Opinion

The internal audit for 2017/18 has now been completed in accordance with the provisions of the Practitioners' Guide and the CIPFA code of internal audit practice.

Many of the Council's current financial controls are operating effectively. However, following the completion of the testing to date I consider that there is one area of weakness which are sufficiently material to warrant a "no" answer in the Annual Audit Report section on the Annual Return. The report is therefore satisfactory with the exception of the following item:

C: Risk Management Arrangements

- Due to an administrative oversight, the Council did not carry out a risk assessment in the year. The Accounts and Audit Regulations 2015 (s.6) require that the council must carry out a review of the effectiveness of the system of internal control each financial year, and that the findings of the review must be considered by members of the authority meeting as a whole. This review must include the review of risk management arrangements (s.3).

Audit Recommendations

Recommendations made during the audit are shown in appendix one to this report.

Recommendations are graded as follows:

Rating	Significance
High	Either a critical business risk is not being adequately addressed or there is substantial non-conformity with regulations and accepted standards.
Medium	Either a key business risk is not being adequately addressed or there is a degree of non-conformity with regulations and accepted standards.
Low	Either minor non-conformity with procedure or opportunity to improve working practices further.

The number of recommendations made at this audit visit and their priority are summarised in the following table:

Rating	Number
High	3
Medium	3
Low	3
Info	0
TOTAL	9

The number of recommendations made at all of the audit visits in 2017/18 and their priorities are summarised in the following table:

Rating	Number		
	Visit 1	Visit 2	TOTAL
High	2	3	5
Medium	1	3	4
Low	2	3	5
Info	0	0	0
TOTAL	5	9	14

I would like to thank Wayne Lewin, Interim Town Clerk for his assistance during this audit.

Darkin Miller Chartered Accountants
2017/18 INTERNAL AUDIT OF PORTLAND TOWN COUNCIL
FINAL REPORT: 31st JULY 2018

Appendix 1 – Recommendations and Action Plan

Recommendation number	Detail	Priority (Low/Medium/High)	Management Response	Responsible Officer	Due Date
2.1 – Finance system	<p>I tested a sample of payments to ensure that they were correctly coded, and that any VAT had been identified, recorded and reclaimed. I found that a VAT claim was made during the year relating to prior years, but I was unable to agree the coding or VAT treatment of payments made as the Council’s finance system, Quickbooks, was down at the year-end. Note that the system was unsupported and very old (it had not been updated since 2006). The Interim Clerk has created an excel cashbook to record the Council’s receipts and payments for the 2018/19 year, and will manually review the purchase invoices in order to prepare the 2017/18 VAT claim.</p> <p>I recommend that the Council considers how best to record its receipts and payments in future, in order to ensure that the Council has an appropriate finance system for its size.</p>	H	The Council is happy with the current excel system in place. Finance committee will review a different system if I&E increases sufficiently.		
2.2 – VAT claim 2017/18	I recommend that the Interim Clerk processes the VAT reclaim as planned as soon as possible in order to ensure that the Council recovers all monies due.	L	VAT claim has been sent off.		
2.3 – Supporting paperwork for payments	I checked a sample of payments to ensure that that were supported by invoices, authorised (certified by the Clerk to confirm the value was correct and the supply was for genuine council business) and minuted (approved by Council). I found that there were invoices or supporting paperwork for 15/20 payments made. There was no separate credit note relating to a	M	No expenditure will be authorised without supporting paperwork.		

	<p>payment for electricity (the amount was noted on a statement). There was no paperwork on file to support the value being paid for office rental. There was only a quotation for a payment for toilet hire (a VAT invoice is required to recover the related VAT). A payment for window cleaning was supported by a note which did not contain any details of the date or value of supply. There was no paperwork on file in relation to an honorarium paid.</p> <p>I recommend that paperwork is retained for all payments made by the Council in order to improve the audit trail, and ensure the Council can reclaim all VAT to which it is entitled.</p>				
2.4 – Minute of payment approvals	<p>I was unable to agree that 4/20 payments (across three sets of payment schedules) were minuted for approval by Council. The totals shown on the payment schedules do not appear in any of the Council minutes for the period under review.</p> <p>I recommend that the Clerk ensures that either the value of payments being approved is accurately recorded, and/or that a copy of the payment schedule is appended to the minutes. This will ensure that there is a clear record of payments approved.</p>	M	All payments are approved by Full Council. An annex will be attached to the minutes.		
2.5 – Council credit card	<p>Councillors and Officers incurred expenditure on behalf of the Council which was reimbursed via expense claims. This leads to a time delay for individuals waiting for monies to be reimbursed.</p> <p>Some suppliers will only make supplies on receipt of a card payment. The inability of the Council to access these suppliers may mean that they cannot obtain best value for some types of supplies.</p>	L	Current bank too expensive. Finance committee to explore options. A limit is to be placed on individual Councillors expenditure.		

	<p>I recommend that the Council considers whether or not to obtain a Council credit-card. The card could be used for the types of purchases which Councillors and Officers are currently having to buy themselves, and enable the Council to obtain goods from suppliers who only take card payments. If the Council was to obtain a card, I recommend that it puts controls in place in its Financial Regulations (e.g. the card is issued to the Clerk, has a limit (e.g. £500), is cleared by direct debit to the Council's main bank account every month, is secured when not in use (in the Council's safe), and all payments made on the card are detailed on the Council's payment schedule as part of the normal reporting of payments).</p>				
3.1 – Review of fidelity insurance cover	<p>Guidance for the level of fidelity insurance cover suggests the value should be broadly equivalent to the amount of cash held and 50% of the precept. This gives a value of just over £150,000 for 2017/18. The current level of fidelity cover is £100,000.</p> <p>It is recommended that the Council consider whether to increase the level of fidelity insurance cover.</p>	L	This is a short term issue and levels are likely to reduce upon completion of BEACH project		
8.1 – Fixed asset register	<p>The Fixed Asset Register still contains a single value for some pooled assets (the most significant one being office equipment). This makes it more difficult to ensure that the register correctly reflects the value of assets held by the Council. This recommendation was made in 2016/17.</p> <p>It is recommended that the Council make a new listing of the office equipment held by the Council, valued in accordance with the Practitioner's Guide, in order to improve the accuracy of the asset register and its usefulness for the recognition and management of assets.</p>	H	Completed		

<p>10.1 – Earmarked reserves</p>	<p>The Council has reserves of £111k at the year-end. This represents 124% of in-year expenditure for the year. Guidance indicates that the Council should hold between 25%-100% of expenditure as a general reserve in case of contingencies. Part of the funds held related to CiL monies (Community Infrastructure Levy), which should be shown separately as they are not available for general expenditure. The Council also holds funds in relation to its upcoming office move, and in relation to the work on the Neighbourhood Plan.</p> <p>I recommend that funds held for specific purposes should be separately identified as earmarked reserves, in order to ensure that there is clarity over what funds are held, and to ensure that no ring-fenced monies are misapplied.</p>	<p>M</p>	<p>Completed</p>		
<p>10.2 – Implementation of audit recommendations</p>	<p>I made a number of medium and high level recommendations in the 2016/17 audit which were not implemented during the financial year. High level recommendations relate to potentially significant control weaknesses, medium level recommendations indicate a degree of non-conformity with good practice. Where agreed, both should be implemented as soon as possible in order to improve the control environment and reduce the risk of fraud and error.</p> <p>I recommend that all agreed audit recommendations are implemented within the agreed timescales.</p>	<p>H</p>	<p>This year's recommendations are actions. I will look back to 2016/17. I have recommended they review SO's and FR's soonest.</p>		