



FINAL

## Annual Internal Audit Report 2017/18

# SWANAGE TOWN COUNCIL

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## **1 Introduction**

- 1.1 Internal audit provides Members and management with assurance that the internal controls required for the proper stewardship of public funds are being adequately maintained. This is a statutory function provided in accordance with Accounts and Audit Regulations. The level of assurance is in accordance with the agreed audit plan (Appendix A), which is designed to ensure that all of the Council's significant finance and governance systems are subject to audit on an annual basis, with less material or inherently risky systems audited periodically in accordance with a strategic audit plan, and with the depth of the audits determined by an assessment of risk and materiality.
- 1.2 The main purpose of this report is to provide an opinion on the assurance that can be placed on the internal control system.

## **2 Audit Objectives and the Internal Control System**

- 2.1 Internal Audit's principal objective is to provide an independent appraisal function for the review of the internal control system as a service to the authority. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.
- 2.2 The internal control system is not fixed but can and should evolve in response to the changing local government environment. It must, therefore, be subject to continual review and it will always be possible to improve on the overall system. The review of the internal control system is encompassed by all of the audit activities listed below.
- 2.3 The main objectives of the internal control system are to:
  - ◆ Ensure adherence to management policies and directives, in order to achieve organisational objectives.
  - ◆ Safeguard assets.
  - ◆ Secure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of the records.
  - ◆ Ensure compliance with statutory requirements.

### **3 Audit Opinion**

Based on the internal audit reviews completed in respect of 2017/18, in accordance with the annual audit plan, Swanage Town Council's central systems and internal control arrangements appear to be effective.

### **4 Summary of Activity**

- 4.1 A total of five audit reports covering six sets of visits have been issued in 2017/18 relating to the standard internal audit programme for local Councils (appendix 9 audits), as supplemented by additional testing specific to Swanage Town Council. There were no additional audits carried out in the year. The audits covered a variety of services and functions, resulting in a range of recommendations, which in the main related to improvements in record keeping and financial procedures. During the course of the audit, each recommendation was discussed with the relevant staff and the Town Clerk.
- 4.2 In addition to the planned audit work set out above, advice was also provided on an ad-hoc basis ranging from systems issues to potential irregularities, and Trust funds and the statements of the Community Partnership were independently examined where required.

### **5 Format of Audit Reports**

- 5.1 Three standard formats are used for reports.
- 5.2 The in-year appendix 9 audit reports identify which systems were reviewed during the audit visits and (in a separate action plan) note the findings, implications and recommendations made in relation to areas of identified control weaknesses. Management responses, responsible officers and due dates are also captured within the action plan.
- 5.3 The end-of-year appendix 9 audit report summarises the audit opinion for the year, in addition to noting findings, implications and recommendations from the final audit visit.
- 5.4 The third audit report format is for non-appendix 9 audits. This report notes the risks being tested by the audit, the audit opinion (where the range of assurance given is full/reasonable/partial/none) and the findings from each of the tests

carried out. Recommendations made during the audit are shown within the report and are summarised in an action table at the end of the report. No such audits were carried out in this financial year.

5.5 Each audit report uses the following grading system for the significance of recommendations made:

<b>Rating</b>	<b>Significance</b>
High	Either a critical business risk is or may not be 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.

5.6 In addition, each audit continues to be supported by detailed working papers for each of the audit tests undertaken.

## 6 Audit Recommendations

6.1 A summary of the number and significance of appendix 9 audit recommendations, is shown below:

Rating	Number					
	Visit 1	Visit 2	Visit 3 & 4	Visit 5	Visit 6	TOTAL
High	1	0	2	0	0	3
Medium	2	4	1	0	0	7
Low	3	6	4	4	2	19
Information	0	0	0	0	0	0
TOTAL	6	10	7	4	2	29

6.2 In total 29 ‘appendix 9’ recommendations were made in 2017/18 (2016/17: 13 ‘appendix 9’ recommendations). Three were graded ‘high’, and 7 ‘medium’ (2016/17: 1H and 2M for appendix 9).

6.3 The high and medium level recommendations (and related management responses) are noted at the end of this report for information.

## **7 Follow-up**

- 7.1 The role of the Policy, Finance and Performance Management Committee continues to be effective in supporting the implementation of audit recommendations and follow-up issues. In addition, a responsible officer continues to be identified for each recommendation. As a result performance on implementing recommendations is very good.

## **8 Conclusions**

- 8.1 The number of recommendations made during the 2017/18 audit is higher, due mainly to the fact that nearly all of the programmes of audit testing for income streams were carried out in-year following discussion with the Clerk. This was following changes in key personnel, and in related systems, and the additional work was designed to give assurance that key controls continued to operate effectively. Overall recommendations remain low for a Council of this size, mainly as a result of the prompt implementation of agreed audit recommendations which improved the control environment.
- 8.2 As agree with the Town Clerk, elements of the detailed audit relating to income and the depot have been moved to a periodic audit review over a four year strategic audit plan. The number of days spent carrying out the core appendix 9 audit was 14.5 days (2016/17: 11.5).
- 8.3 No additional audit work was carried out in 2017/18, leaving the total number of audit days at 14.5 (2016/17: 0 additional days, total 11.5).
- 8.4 Whilst the Internal Audit function is unable to give absolute assurance, the results of the reviews completed during the year have resulted in an overall opinion that: in all material respects:
- Key central systems and internal control arrangements continue to be effective;
  - Agreed policies, regulations and Standing Orders are complied with;
  - Managers are aware of the importance of maintaining internal controls and accept recommendations made by Internal Audit to improve internal controls; and
  - Adequate arrangements are in place to prevent and detect fraud.
- 8.5 The annual audit did not identify any significant control weaknesses for inclusion in the Annual Governance Statement.

I would like to thank the staff at the Town Council for their high level of co-operation during my internal audit work throughout the year.

Rosie Darkin-Miller LLB (Hons) FCA  
Principal  
Darkin Miller ~ Chartered Accountants

**Darkin Miller ~ Chartered Accountants**  
**2017/18 INTERNAL AUDIT OF SWANAGE TOWN COUNCIL**  
**ANNUAL AUDIT REPORT: SUMMARY OF HIGH AND MEDIUM LEVEL RECOMMENDATIONS**

**Appendix 1 – Recommendations and Action Plan**

Recommendation number  [Report number]	Detail	Priority (Low/ Medium/ High)	Management Response	Responsible Officer	Due Date
12.1 – Updating of allotments map [1]	<p>I checked the allotment register details back to the site map and a physical inspection of the allotments. I found that there were differences between the 2017/18 register and the 2017 site map (as the latter had not been updated for the sub-division of two allotment plots, to show plots 4D and 31Ai).</p> <p>I recommend that the allotment site map is updated when plots are sub-divided in order to ensure that the map remains current.</p>	M	Agreed. The map was updated with immediate effect.	TH5	Immediately
12.3 – Identification of allotment sites [1]	<p>I physically inspected the allotment site to confirm that the site map is accurate. I found that the majority of plots appear as per the map, and that many have plot markers (either on a separate sign at the front of the plot, or painted on to sheds etc). However, many plots are without markers and some plots are not clearly defined. This weakens the audit trail and increases the risk that not all allotment users have been identified, and the risk that allotment users are not being charged the correct price for the plot that</p>	M	Agreed to present the recommendations to the General Operations Committee to decide if this recommendation needs to be implemented.	OPS1/TH5	November 2017

	<p>they use, as the extent of the plot is not always clear. There is no requirement under the tenancy agreement for the plots to be identified, but there is a requirement to ‘maintain in decent order all fences and ditches and paths’ bordering their plot (4(g)).</p> <p>I recommend that the Council considers whether to introduce improved delineation or the requirement to identify each plot. This would make it easier to ensure the site map agreed to the actual allotments let, and that charges were being raised for the right amount to the right allotment holder.</p>				
14.1 – Boat Park launch fee receipt books [1]	<p>I requested the receipt books relating to Boat Park launch fees (re-commenced by the Council in 2017/18 following prior year works at the Boat Park). The receipt books could not be located during the first audit visit of 2017/18. There is a risk that a failure to locate the receipt books weakens the audit trail, and does not allow subsequent review to confirm that processes are operating effectively to minimise the risk of fraud and error.</p> <p>I recommend that the receipt books are found as soon as possible, and subsequently stored in an appropriate</p>	H	Although the system is believed to be robust, it is acknowledged that there was a failing to return controlled stationery in order to follow through the audit trail. Controls will be introduced to ensure that this does not happen when the boat park re-opens.	TIC1	Immediately

	location to enable immediate future access.				
20.1 – Rent not charged on Council assets [2]	<p>I compared the Schedule of Fees and Charges 2017/18 to the Debtors' Schedule, and to the nominal activity transaction list for rental income codes, to check that all income due has been invoiced and collected.</p> <p>I found that the majority of income due has been invoiced, but noted the following assets for which rent has not yet been charged this year (annual rent noted in brackets):</p> <ol style="list-style-type: none"> <li>1. Angling Club, hut and land - £1,025</li> <li>2. Prospect Nursery - £600. The rental agreement has been signed but not yet invoiced.</li> </ol> <p>Both items have not been billed as the related rental agreements are outstanding. The first item has been affected by the works carried out by the RNLI.</p> <p>The Finance Manager also identified that rent may be due in relation to a fishermen's hut originally displaced by the RNLI works. The Finance Manager is to check whether the hut is now back in place, in which case rent will be</p>	M	<p>Agreed:</p> <p>The outstanding rent reviews and lease negotiations are generally prioritised by the potential financial impact.</p> <p>The Angling Club agreement is currently held with the other party's solicitor. However, a holding invoice will be raised.</p> <p>An invoice for Prospect Nursery will be raised from the effective date of the agreement.</p> <p>The hut, at Peveril Point, has been placed in situ and the tenant will be invoiced.</p>	TH1, TH3 & TH4	31 <sup>st</sup> January 2018

	<p>charged and a new agreement put in place if required.</p> <p>I recommend that the rental agreements are drafted and signed; and invoices raised for back rent as soon as possible in order to reduce the risk of non-payment.</p>				
<p>20.2 – Lower rent charged due to non-finalisation of rent review agreements [2]</p>	<p>I found that the following tenants are paying rent based on an old agreement, pending the conclusion of a rent review and/or new agreement:</p> <ol style="list-style-type: none"> <li>1. Rent of taxi office at Railway Station (£3,500). The new rental amount is £3,850, but under the terms of the draft lease this is not payable until the lease is signed.</li> <li>2. Hut in North Beach car park (£150). This lease expired in 2002.</li> <li>3. Dorset Police in the annexe (£5k). This lease expired 30/09/17.</li> <li>4. RNLI lease of munitions store (£1.2k). This lease expired 27/01/17.</li> </ol> <p>The first two items were identified as outstanding leases in 2015/16, and neither of the first two tenants have paid the 2017/18 rental invoice.</p> <p>I recommend that the rental agreements are drafted and signed, and invoices raised for back rent as soon as possible in order to reduce the risk of non-payment.</p>	M	<p>Agreed in principle:</p> <p>New leases/licences and rent reviews are prioritised in terms of the financial risk posed to the Council.</p> <p>A report on the progress made with new lease/licence agreements is made to the Policy, Finance &amp; performance Management Committee, so that members are regularly updated. However, the progress of rent reviews are not reported.</p> <p><b>Action Point:</b> to include a report on the progress of rent reviews to the Policy, Finance &amp; Performance Management Committee.</p> <p>The Police and RNLI rent reviews are making progress and any back rent due will be invoiced accordingly.</p>	TH1 & TH3	Ongoing

<p>20.3 – Rental agreements to be finalised [2]</p>	<p>I found that the following tenants are paying rent but that the related agreement has not yet been finalised:  1. Allnat - £1.8k.  2. Bowls Club - £8k</p> <p>I recommend that the rental agreements are finalised as soon as possible.</p>	<p>M</p>	<p>Agreed:  The agreements are prioritised and reported to the Policy, Finance &amp; Performance Management Committee.</p>	<p>TH1</p>	<p>February 2018</p>
<p>20.5 – Database of rental agreements [2]</p>	<p>There are various databases which contain information about the rental properties held by the Council, and the leases in place for them. It would improve the audit trail, and help to ensure that all lease income was invoiced and collected, if the information held was brought together in one place. It is suggested such a schedule might include: the file number, asset number, property address and description, document type, lease in/out, tenant, lease/licence end date, annual rental and rent due dates. It could also be helpful if this schedule contained all of the information that the Council are required to disclose in relation to fixed assets under the Transparency Code 2015.</p> <p>It is recommended that the Council consider compiling all of the rental asset information in one place.</p>	<p>M</p>	<p>Agreed: It is the aim to create a primary database containing all of the information relating to the Council's assets and to link this database to the Council's asset mapping software.</p>	<p>TH1, TH3, TH4 &amp; TH5</p>	<p>Ongoing</p>

<p>2.1 – Authorisation of invoices [3&amp;4]</p>	<p>A sample of payments were selected for detailed testing to ensure that they were supported by invoices, authorised and minuted. A payment slip is attached to each invoice which notes the invoice coding, and has space for relevant officers to initial to confirm goods have been received (where appropriate); and that the invoice has been checked (by one officer), and authorised for payment (by the budget holder). 10/54 invoices were not authorised (signed by the clerk or other budget holder to approve payment), although it is noted that it is highly unlikely that the amounts would be listed for payment in the Council's agenda papers without them having been so checked. One invoice was checked and authorised by the same officer.</p> <p>I recommend that all invoices and supporting documentation are initialled by both the officer who has checked the invoice, and the clerk or budget holder who is approving the payment, in order to certify that the amount being claimed is due.</p>	<p>M</p>	<p>A new system for the approval and payment of invoices is to be introduced as part of the changes introduced to the payment system.</p>	<p>TH3</p>	<p>31<sup>st</sup> May 2018</p>
<p>3.1 – Prompt signing of minutes [3&amp;4]</p>	<p>The Council keeps minutes of its Council and Committee meetings as required by statute, and these are presented to the next monthly meeting for approval. The Council prints formal copies of the</p>	<p>H</p>	<p>Agreed.</p>	<p>TH1/TH7</p>	<p>With immediate effect</p>

	<p>minutes on minute book paper (which is subsequently bound). As at the audit date, there is a backlog of copies that have been printed for the minute book but not yet signed by the Chairman. The minutes are due to be signed by the Chairman of the Council at the earliest opportunity.</p> <p>Minutes should be written-up and signed-off at the next meeting of the relevant body in order to ensure that they are an accurate record of the decisions made by the Council.</p> <p>I recommend that the unsigned minutes are signed off as soon as possible, and that all minutes of future meetings are promptly produced on minute-paper and signed-off at the next meeting.</p>				
3.2 – Handover of statutory duties [3&4]	I further recommend that a formal handover is put in place in future when statutory functions pass from one member of staff to another.	H	This risk is acknowledged in the Council’s Risk Register.	TH1	With immediate effect

**Darkin Miller ~ Chartered Accountants**  
**Appendix 2**

**SWANAGE TOWN COUNCIL: STRATEGIC AUDIT PLAN**  
**2017/18 – 2020/21**

	Days			
	2017/18	2018/19	2019/20	2020/21
	Actual	Planned		
<b>Income</b>				
Allotments	0.75	-	-	0.5
Beach Gardens	1.0	-	1.0	-
Boat Park	0.25	0.5	-	-
Car Parks	1.5	1.0	1.0	2.0
Cash Collection and Bank reconciliation	0.75	0.75	0.75	0.75
Cemeteries	-	-	0.75	-
Debtors	1.0	0.75	0.75	0.75
Market	-	-	0.25	-
Lease Income	1.0	-	-	0.5
TIC Cash Income	0.75	-	0.5	-
TIC Rent Income	-	1.0	-	1.0
<i>Section Total</i>	<b>7.0</b>	<b>4.0</b>	<b>5.0</b>	<b>5.5</b>
<b>Expenditure</b>				
Bookkeeping	0.1	0.5	0.5	0.5
Creditors – payments	1.5	2.0	2.0	2.0
Depot stocks and stores	0	0.5	-	-
Payroll	1.0	1.5	1.5	1.5
Petty cash and imprests	0.5	0.5	0.5	0.5
Bank reconciliation and Treasury management	0.5	0.5	0.5	0.5
Budgetary Control	0.1	0.5	0.5	0.5
Risk Management	1.0	1.0	1.0	1.0
Year end procedures	1.0	1.25	1.25	1.25
<i>Section Total</i>	<b>5.7</b>	<b>8.25</b>	<b>7.75</b>	<b>7.75</b>
<b>Other audit areas</b>				
Trust Funds	0.25	0.25	0.25	0.25
Community Partnership	0.1	0.25	0.25	0.25
Available audit days/contingency	-	4.25	3.75	3.25
<i>Section Total</i>	<b>0.35</b>	<b>4.75</b>	<b>4.25</b>	<b>3.75</b>
<b>Management/planning/reporting</b>	<b>1.2</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>
<b>TOTAL</b>	<b>14.25</b>	<b>18.0</b>	<b>18.0</b>	<b>18.0</b>