

## Intermediate Internal Audit Report

Name of council:	Oundle Town Council		
Name of Internal Auditors:	John Marshall Helen Hoier	Date of report:	28.12.2016
Year ending:	31 March 2017	Date audit carried out:	21.12.2016

*Internal audit is the periodic independent review of a council's internal controls resulting in an assurance report designed to improve the effectiveness and efficiency of the activities and operating procedures under the council's control. Managing the council's internal controls should be a day-to-day function of the staff and management and not left for internal audit. This report is based on the evidence examined and made available to us. It would be incorrect to view internal audit as the detailed inspection of every record and transaction of the Council in order to detect error or fraud. Consequently the report is limited to those matters set out below.*

***The council is required to take appropriate action on all matters raised in reports from internal and external audit and to respond to matters brought to its attention by internal and external audit. Failure to take appropriate action may lead to a qualified audit opinion.***

### To the Chairman of the Council:

At the Council's request, my colleague Helen Hoier and I carried out an in-year audit of Oundle Town Council on 21 December. We met both with elected members (Cllrs Roy Sparkes, Malcolm Glen and Val Chesser) and staff (Hanneke Soans, Paul Smith and Tina Sereno); our thanks are due to all concerned for their time and assistance.

The Council, through Cllr Sparkes had requested that the audit be undertaken prior to the newly appointed Clerk, Emma Baker taking up post in January 2017. The request also identified a number of questions and specific issues for attention, viz;

- what financial and other procedures were followed to keep Council and private business monies separate, whether they were adequate, and what measures need to be implemented in future
- procedures and practices relating to the use of Council Debit Cards and reimbursement of money spent by staff, Councillors and others on behalf of the Council
- procedures and practices relating to the cash recording and handling in the Hub cafe

The Council's *rationale* for this work was understood to be the desire to identify weaknesses in internal controls so that the Council can a) address those weaknesses and b) demonstrate to residents, electors and the wider outside world that it is doing so, as well as c) assisting the Council to perform better in the future.

We explained at the outset that as all previous years accounts had been finalised, verified and signed off by the External Auditor BDO, our enquiries would be confined to the current audit year ie 01 April 2016 – 31 March 2017; that is Internal Audit's remit. To that end, we explained that we could not therefore address the additional question posed to us as to whether the figures used in December 2015 to support the Council's case for Level 4 status came from the Accounts.

## **Methodology**

Prior to the visit on 21 December, we perused the Council's website to identify relevant documents. We particularly searched for any policies, protocols and procedures, Agendas, Minutes and financial documentation (including accounting statements) pertaining to the 3 issues identified to us for audit at this time; where such material was identified, we then carried out an initial assessment of the content. This assessment was then used to aid and inform the planning and preparation for our subsequent visit. Through a combination of questioning (both staff and councillors), observation and first-hand examination of hard evidence, we tested both those aspects of the Council's internal controls that are relevant to the 3 issues identified to us for audit as well as wider, related issues that came to light during the audit.

We conducted our enquiries into the 3 identified issues as follows;

### *1. What financial and other procedures were followed to keep Council and private business monies separate?*

We looked into

- whether the Council, through its bank accounts or otherwise handled and transacted any monies in cash or other forms, other than its own monies and if so, how and why
- whether there is a procedure and / or protocol for handling third party transactions and if so, when that was approved by the Council, and if so;
- whether this activity had been risk assessed
- whether any transactions identified were carried out in compliance with that procedure and / or protocol and
- whether these transactions were approved and authorised and if so how and by whom;
- whether any procedure or protocol is fit for purpose

### *2. Consideration of procedures and practices relating to the use of Council Debit Cards and reimbursement of money spent by staff, Councillors and others on behalf of the Council*

We looked into

- whether there is a policy governing the provision of debit cards linked to Council bank accounts
- whether there is a procedure and / or protocol governing their use and if so, when that was approved by the Council,
- whether this activity had been risk assessed
- whether there was any monitoring of usage and if so, when and by whom it was carried out
- by sampling of transactions and entries in the accounts, whether these policies, procedures and / or protocols were complied with during the period covered and
- whether any policy, procedure or protocol is fit for purpose
  
- procedures, if any governing the reimbursement of expenditure incurred by staff, Cllrs and others (?) and
- whether and to the extent this occurred
- whether the reimbursement transactions were correctly managed and recorded
- whether the procedures are fit for purpose

### *3. Consideration of procedures and practices relating to cash handling and recording in the Hub café*

We looked into whether there is a policy governing cash handling and if so, whether it is fit for purpose or whether improvements are required.

#### **Findings**

##### *1. What financial and other procedures were followed to keep Council and private business monies separate?*

We found no evidence of any recorded transactions indicating that the Council had handled 3<sup>rd</sup> party monies. If, as suggested to us, staff had banked deposits on behalf of a 3<sup>rd</sup> party then the only issues that would arise, so far as internal audit is concerned would be the (heightened) risks of theft whilst the cash is on Council premises - a matter for discussion with your insurers - coupled with the personal safety risk from carrying cash. This latter issue was addressed by John Marshall at a previous year-end audit, in relation to cash collected by the Estates Manager from market stall holders and we understood as a result of that, a procedure was put in place to minimise the risk. Whilst the procedure, as verbally described to us by the Interim Clerk would appear to be acceptable, this activity has not apparently been formally documented and / or adopted by the Council, neither has it been risk assessed, insofar as it is not mentioned in the Council's current formal Risk Assessment. We return to these matters later in this report.

##### *2. Consideration of procedures and practices relating to the use of Council Debit Cards and reimbursement of money spent by staff, Councillors and others on behalf of the Council*

Physical access to the Council's one remaining debit card - there were previously two, but now just one - is properly controlled in that it is kept in a safe place, under the control of the Interim Clerk and issued by her to 'authorised users' on request, to enable purchases to be made, primarily by supervisory level staff working in the Hub café. We did however identify significant weaknesses in the ways in which the card may be used that not only have the potential to undermine the certainty of whether a purchase is being made by an 'authorised user' but also give rise to difficulties in the consequent accounting arrangements.

Again, it became apparent that no procedures or protocols for the handling and use of the debit card have been formally established and / or adopted by the Council - hence the placing of 'authorised users' within inverted commas - neither has this been risk assessed, insofar as it is not mentioned in the Council's current formal Risk Assessment. Consequently, unsafe working practices have developed, the most serious of which is the storing of the previously entered login (including debit card) details on the Council's online account with Sainsbury's, thereby weakening the level of security protection and potentially allowing access to unauthorised users.

As mentioned above, purchases made by the Hub staff using the debit card can also give rise to accounting difficulties. The majority of these purchases are from one of 4 suppliers - Sainsbury's, Brake Bros, Blades and Bookers - and the relevant invoice is normally delivered with the order. This results, inevitably in the payment being made before the receipt arrives with the Finance Officer but the time lag between purchase and receipt of the invoice by the Finance Officer can be at best, considerable and at worst, it does not arrive at all. We learned that there are also some local administration procedures carried out by Hub supervisory staff, sometimes off-site ie at home although we could not ascertain whether and the extent to which these procedures included local accounting and if so, whether these were in addition to or instead of the procedures described above.

We learned that the Council is in the process of applying for 4 Waitrose credit cards for individual use by 3 named members of staff and one named elected member; we understood that the *rationale* for this is to facilitate occasional 'top up' purchases of supplies for the Hub, the need for which arises from time to time. For a number of reasons, we have concerns about this decision that presumably arose from a resolution of full Council or a Committee with delegated powers, although we can find no authority for that. The matter was discussed at the Operations Management Committee meeting of 10 March 2015 (Minute OM14.67.04 refers) but we can find no reference since then (NB Minutes of the Operations Management Committee do not appear to have been posted on the website since October 2015).

Firstly, it will not improve the system of financial management and control that we understand the Council seeks, quite the reverse in fact as we believe the proliferation of payment methods can only pose additional risks in terms of internal controls. With that in mind, we question the need for these cards. Ongoing improvements to ordering and stock control being made by the Hub should eliminate acute major shortages and acute minor shortages (eg the purchase of 2 bags of potatoes for £21.95, reimbursed to [REDACTED] by cheque 9726 as part of the June 2016 payments) but we suggest any that do arise should be covered by utilising the £100 (nominal) float held in the till.

Notwithstanding the above, we also need to draw attention to the issue of a credit card to an elected member, because this contravenes the Council's current Financial Regulations, reg 6.20 refers. The Council's Financial Regulations are based on the National Association of Local Council's (NALC) model regulations which, if adopted and followed by a council provide a framework to ensure compliance both with legal obligations, good governance and best practice.

We identified some payments to individuals and for those sampled, we considered the justification for payment to be reasonable and supported by a bill or similar.

### *3. Consideration of procedures and practices relating to the cash recording and handling in the Hub café*

The procedures for cash handling and recording, described verbally to us appear to be fundamentally sound although again, the procedures have not been formally established and / or adopted by the Council, nor has the issue been risk assessed. One working practice that came to light was the overnight storage arrangements for the till drawer and cash. [REDACTED]

[REDACTED] Had proper procedures been derived and codified, this working practice would almost certainly not have arisen; apart from being a legal requirement, this points up the importance and value of the risk assessment process.

There is also a need to clarify the purpose of the £100 (nominal) float. Currently, the totals for each day's takings are obtained as a print out from the till and the card payment slips plus cash to match that amount are set aside and bagged. What remains in the till is deemed to be the float, but this tends to be a slowly decreasing amount due, for example to errors in change given etc. Whilst the 'loss' is small, in strict accounting terms it leads to inaccurate reporting because the error should properly be related to the takings, not the float.

Mention is made earlier in this report about the delays in transferring invoices etc from the Hub to the Finance Officer. Whilst the drive to improve the efficiency and profitability of the Hub is quite proper and justifiable, care needs to be taken to ensure that local procedures in

the Hub do not result in the delayed transfer to the Finance Office of invoices etc and consequently at the expense of proper and efficient financial recording and reporting.

Mention has also been made earlier of the lack of a clearly defined process and procedure dealing with purchasing, including by debit card and now, by credit card. This forms part of our recommendations later in this report, so needs no further mention at this time.

## **Recommendations**

It is very important to understand that what follows relates to the Council, its policies and procedures (or the lack of them) and posts, not individual post or office holders. We are aware that throughout the audit year, the Council has been without a permanent Clerk and that as a consequence, the administration resource has been reduced by one full time staff member; we believe that some of our observations and findings are a direct consequence of that. We draw attention to issues of non-compliance with legal requirements as well as areas of weakness in governance arrangements that we identified during the course of our audit and where appropriate, we make specific recommendations for action and improvement. In this respect, we would also draw attention to the rubric that appears at the head of page 1 of this report, specifically the second paragraph regarding the requirement for the Council to note and respond to the issues and matters that we have identified.

1. The Council's Financial and Management Risk Assessment must be reviewed and updated to take account of at least the following;

- all risks associated with cash handling, both within and outside of Council premises (including staff safety when transporting cash for banking), as well as the potential for loss, whether by fraud, accounting error or otherwise
- all risks associated with the purchasing of and payment for goods and services, to identify risks that may arise from improper or unauthorised purchases, incorrect or non-delivery of goods and services purchased, accounting error or otherwise

2. If, as anticipated this review confirms the absence of policies and procedures dealing with these issues, then policies and procedures that are fit for purpose must be put in place. In doing so, the Council should take particular note of and address the comments regarding the issues and identified weaknesses highlighted earlier in this report but it is also essential that the Council's procedures are in accord with its existing Financial Regulations that lay down requirements governing spending authority and the authorisation and making of payments. It is also important to remember that any procedures the Council puts in place are not 'person dependent' ie they relate to post holders rather than named individuals, are understood by all those who need to operate them and are subject to periodic monitoring and review as part of your internal controls procedures (see below).

There is a wealth of advice and guidance available to assist you with the preparation of the necessary documentation and in this respect we would particularly refer you to the Joint Practitioners' Advisory Group (JPAG) publication 'Governance and Accountability for Smaller Authorities in England' <sup>1</sup> also known as 'The Practitioners' Guide to Proper Practices to be applied in the preparation of statutory annual accounts and governance statements 2016'. This is the definitive guidance that, if followed will ensure that you meet and deliver policies, procedures and working arrangements to the required standard ie the 'proper practices' as defined in the Accounts and Audit Regulations 2015 (AAR)<sup>2</sup>. You should also take heed of appropriate guidance set out in the NALC Topic Notes, access to which is available on request via Northants CALC.

3. Other observations and issues requiring attention are as follows;

a) several of the key and core documents do not appear to have been reviewed and / or

re-adopted by the Council since 2015 or earlier. These include the Effectiveness of Internal Audit Review, the Financial Regulations, the Risk Assessment Policy, the Risk Assessment and Financial Management Policy, Standing Orders and the Terms of Reference Policy (that establishes the role and remit of the Council's committees)

b) whilst we are confident that an acceptable system of Internal Controls has previously been in place, the document setting out the Council's current system of Internal Controls could not be located. The corollary of that is the lack of any evidence of internal controls having been utilised or applied at any time during this audit year; indeed, by way of example the monthly payment sheets (April – July 2016) that are tabled for approval at Council meetings bear either none or one signature rather than the required 2 signatures by councillors. Financial management and oversight is vested in the Operations Management Committee and Minute 14.237.03 of the full Council 17 March 2015 appoints the Deputy Chairman as the Internal Controls Councillor. As an aside, there is also the Finance & General Purposes Committee (FGP) - last meeting, 13 December 2016 - that is not listed in the Terms of Reference document, but appears to transact financial business; this creates confusion, at least in our eyes.

Internal controls procedures lie at the heart of good governance, thus the absence of either codified procedures or evidence of their application give rise to concern. The codified procedures need to be resurrected, reviewed, (re)adopted and implemented; as part of this process, the opportunity should be taken to clarify the respective roles and responsibilities of staff and elected members. To quote directly from the Practitioners' Guide para 1.15 *et seq*, page 8 '*practical and resilient arrangements need to exist covering how the authority orders goods and services, incurs liabilities, manages debtors, makes payments and handles receipts.*' Note that annual review of the effectiveness of the internal control system is a legal requirement (reg 6 of the AAR) and the Council needs to address this issue as a priority, given the imminence of the financial year-end on 31 March 2017. It is self-evident that delivering on this key requirement will go a long way towards restoring public confidence that the Council seeks to achieve.

c) we noted the absence of some Minutes on the website, notably the Operations Management Committee and the F&GP Committee. Whilst we understand that from time to time, these Committees and indeed the full Council conduct some business, the confidential nature of which requires the public to be excluded it is important to remember that it is the *business* that is confidential, *not* the Minutes and there should always be a minute recording the *outcome* of the confidential part of the meeting. Furthermore (and contrary to what is stated in the Terms of Reference for the Operations Management Committee) , it is not legally possible to hold an entire meeting in camera. All Minutes should be properly recorded and, as they are in the public domain made available, ideally on the website.

d) furthermore, the government's Transparency Code<sup>3</sup>, first introduced in 2014 (updated in 2015) is based on the principle that all data held and managed by local authorities should be made available to local people unless there are specific sensitivities eg protecting vulnerable people or commercial and operational considerations. Councils should not withhold information unless absolutely necessary; it appears that the Council is not yet displaying on its website all of the mandatory information listed in the Code that it holds. NB this report to the Council also needs to be made publically available.

e) mindful of the requirements of the Transparency Code, review and updating of the Council's Communications Policy is overdue.

f) we also noted that some meetings do not have a Clerk in attendance for the entire duration of the meeting. Even when Committees and indeed the full Council conduct business, the confidential nature of which requires the public to be excluded, it is important

to remember that given the legal sensitivities, difficulties and pitfalls that the conduct of such business can present, it is prudent to have access to proper advice.

## **Conclusions**

We end as we started and we make no excuse for reiterating our opening remarks, when we said *'The Council's rationale for this work was understood to be the desire to identify weaknesses in internal controls so that the Council can a) address those weaknesses and b) demonstrate to residents, electors and the wider outside world that it is doing so as well as c) assisting the Council to perform better in the future'*. We applaud the Council for taking this stance.

We suggest that once the Council has had the opportunity to consider this report, it draws up an Action Plan setting out how the issues that we have identified and our findings are to be addressed, including timescales for delivery. Clearly, this will take some time and it might well be that the Council needs to consider seeking external advice and assistance, such as that available from Northants CALC.

During the course of our visit we noted the very real desire of the members with whom we met to restore the perceived loss of confidence amongst electors and to be able to respond positively to their questions. We trust that our work and this report helps take the Council further down that road and assists with the achievement of that goal.

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## **References**

Publications referred to in this report can be viewed at and downloaded from;

1. The Practitioners' Guide

<http://www.nalc.gov.uk/Publications>

Click on 'Governance and accountability' and take care to view / download the 3 separate elements ie sections 1-4, the explanatory letter and section 5

2. Accounts & Audit Regulations 2015

[http://www.legislation.gov.uk/uksi/2015/234/pdfs/uksi\\_20150234\\_en.pdf](http://www.legislation.gov.uk/uksi/2015/234/pdfs/uksi_20150234_en.pdf)

3. The Transparency Code 2015 and supporting guidance

<https://www.gov.uk/government/publications/local-government-transparency-code-2015>