



FINAL

Annual Internal Audit Report 2018/19

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 2018/19, 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 have been issued in 2018/19 relating to the standard internal audit programme for local Councils (appendix 9 audits per the 2014 Practitioner's Guide, plus two additional tests introduced by the 2018/19 AGAR), 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.

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

Rating	Significance
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			
	Visits 1 and 2	Visit 3 & 4	Visits 5 & 6	TOTAL
High	4	0	3	7
Medium	2	5	5	12
Low	1	4	3	8
Information	1	0	0	1
TOTAL	8	9	11	28

6.2 In total 28 ‘appendix 9’ recommendations were made in 2018/19 (2017/18: 29 ‘appendix 9’ recommendations). 7 were graded ‘high’, and 12 ‘medium’ (2017/18: 3H and 7M 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 is consistent year on year. The number of medium and high recommendations is higher following audits of the Boat Park (which had re-opened following a programme of works) and of the Depot (where there had been a change in staff resulting in changes to the controls operated). 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 agreed 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 15 days (2017/18: 14.5).
- 8.3 No additional audit work has been carried out in 2018/19 to date, but up to 3 days of testing are due to be carried out before 30 June 2019 in relation to a review of the Fishermen's Huts and Slipway Project, leaving the total number of audit days at 18 (2017/18: 0 additional days, total 14.5).
- 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.

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2018/19 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
7.2 – Net under-time off, or variable hour contracts [1&2]	I found that one seasonal member of staff had been paid overtime for the sample month, and had been allowed to carry forward a small amount of under-time (where insufficient hours were worked in one week). The member of staff did not subsequently make up the time before leaving the Council. The Finance Manager has confirmed that an adjustment was made in the final salary to recover the amount owed; and noted that, following this occurrence, seasonal posts are likely to be advertised as variable hours in future, in order to ensure that the Council only pays for hours worked. I recommend that either all seasonal workers are engaged on variable hours, or that the Finance Manager is authorised to deduct any time owed from overtime due before the net overtime is paid for the month.	M	The hours worked during the 2018 season by some seasonal employees often varied from contract. It was agreed that moving onto 2019 that all seasonal employees would be issued with variable hours contracts.	TH3	April 2019
14.1 – Boat park grid lines [1&2]	I checked to see that grids are clearly marked and that the boat park area is maximised. I found that the area was not maximised, and that there are two sets of lines on some rows. This is due to the fact that the original plan was not available when the grid lines were due to be re-painted following the resurfacing work. As a result, the grid markings initially set down did not maximise the area, and made some spaces difficult to access. Some corrections have since been made to the grid	H	A meeting of the Boat Park Working Group will be held on 28th November 2018 to discuss the new lining arrangement. The previous lines are not necessarily suitable due to the installation of fencing on the C and G rows, a new 'Information Point'	TIC1	April 2019

	<p>markings in order to improve the allocation of grids. A complete refresh of the grid markings, in line with the original plans (since located) will be carried out once the lower boat park rows are freed up (they are currently housing the contractor's compound for the Council's slipway works). I recommend that the grid markings are re-done in accordance with the original plans, as planned, at the earliest opportunity.</p>		<p>along the bottom section of the boat park and increased safety margins around some of the F row to ensure a free flow of boats and traffic. The re-lining will be undertaken during the winter/early spring of 2018- 19.</p>		
<p>14.2 – Map of the boat park [1&2]</p>	<p>As the current grid layout is due to change, there is no up-to-date map of the boat park layout. This makes it more difficult to monitor the current usage, and to confirm that Season ticket holders are parked where they should be, and that all users have paid the appropriate charge for parking their boats. I recommend that a map is drawn up as soon as the new layout is marked, and that the map is then updated for changes in the allocation of bays. This will help to improve the audit trail and enable better management of the boat park.</p>	H	<p>Due to the movements around the boat park to accommodate the Fishermans Slipway, it has been a challenge to provide a clear and up to date map. However this does exist in spreadsheet form. Once the work is completed we will produce an up to date map which will be maintained.</p>	TIC1	April 2019
<p>14.3 – Notice of charges [1&2]</p>	<p>I checked that procedures exist to monitor and prevent avoidance of charges. I found that the boat park noticeboard (next to the trailer row) contains a schedule of fees and charges, and notes that users should pay at the TIC if no attendant is present, that charges apply 24 hours per day, and that the area is covered by CCTV and by Enforcement Officer patrols. However, the fact that there is only</p>	H	<p>The sign was temporarily sited in the middle of the boat park while the work on the Fishermans slipway was being undertaken. Usually it is sited by the slipway, however we will</p>	TIC1	April 2019

	one sign, and that it is located in the middle of the boat park, might mean that users may be unaware of the charges. I recommend that a sign is also placed at the entrance to the Boat Park, advising that charges apply 24 hours per day and that enforcement action will be taken for non-payment.		also add a sign near the vehicular entrance.		
14.4 – Season ticket display [1&2]	Customers are required to fix the boat park season ticket to the trailer in a prominent position. Of the 11 boats I checked across 7 bays and the former trailer row (now due to be used for manoeuvring only), I found only 4 had a sticker displayed as required. I discussed the findings with the Visitor Services Manager (VSM), who confirmed that there should be 5 boats with a sticker, but that the remaining boats were held by fishermen displaced from the slipway during works. I recommend that all season ticket holders are reminded on the requirement to prominently display the season ticket, and that the VSM considers a form of temporary identification for the displaced boats in order to ensure greater clarity over which boats should be parked in the boat park.	M	The auditor attended the boat park during rough weather, when fishing boats are temporarily lifted out of the water to avoid damage. A temporary identification will be considered by the Working Group for these displaced fishing boats. Once the slipway works are complete a review of all boats and tickets will be undertaken to ensure full compliance.	TIC1	April 2019
14.6 – Aged debt report on bookings system [1&2]	The VSM has a spreadsheet which records the use to which each bay has been put (whether in use by a boat park customer, or temporarily re-housing one of the fishermen displaced from the slipway). The spreadsheet also notes where any season ticket monies have not yet been paid, as it is not possible to run an aged debt report from the bookings system. The VSM confirmed that the bookings system is being developed in order to enable the	H	Agreed	TIC1	December 2018

	<p>staff to run an aged debt report, which will show any bookings on which monies have not been received, enabling staff to take action to collect the debt, or to terminate the booking and re-let the pitch. The system upgrade is due to be in place by Christmas. Until that point, the boat park monitoring spreadsheet is updated by the VSM every 2 or 3 days. I recommend that the ability to run an aged debt report is added to the bookings system as soon as possible to improve the audit trail and enable better management of debtors.</p>				
<p>2.3 – Refund of beach hut hire to original source [3&4]</p>	<p>Refunds issued for beach hut bookings are currently paid via BACS regardless of how the original payment was made. There is no legal requirement to refund to source (the original payment method, e.g. a credit card), but not doing so increases both the risk of fraud (as buying on one card and refunding to another or to cash is a classic money laundering technique), and the risk of inadvertently breaching anti-money laundering regulations.</p> <p>I recommend that the Council issues refunds using the same medium as the original payment. This may require an amendment to the refund process for customers who paid by debit or credit card (as refunds still need to be authorised so cannot be processed immediately). Customers could submit an application for a refund and, once the refund is approved in the normal way, the customer would</p>	M	<p>The risk of money laundering is considered to be low as each refund will incur an administration fee of 15%.</p> <p>Generally, customers are content that the refund is done via BACS. The issue that customers have is around the time it takes refunds to take place.</p> <p>It is proposed that we continue the current arrangement, but provide payments back to cards if a customer particularly requests it.</p>	TIC1	Completed

	need to re-present the original card to receive the repayment.				
14.7 – Use same process to record launch fee sales [3&4]	<p>I checked a sample of daily launch fees back to supporting documents and to the ledger, to ensure that monies collected by attendants are fully accounted for.</p> <p>I found that the amount of income banked according to the Collection Sheets (the summaries which are produced to inform the amounts posted to Sage for the month) did not always agree to the receipt books (from which individual receipts are issued) or the summary record for the day (on which the totals of each type of launch fees sold are recorded).</p> <p>I noted differences on 06/08/18, 20/08/18, 27/08/18 (£49, £56 and £91 banked respectively per the summary sheet and bank statements; no receipts in the receipt book); 24/08/18 and 07/09/18 (£189 and £177 banked respectively; but the summary record for the day shows £119 and £149 respectively).</p> <p>The Visitor Services Manager confirmed that, until late in August 2018, any ticket sales made by the TIC were recorded on the till, rather than in the Boat Park receipt book.</p> <p>I checked the till readings for the period and</p>	M	The process for taking payments at the TIC and Boat Park should have been the same and will be for the future.	TIC1	1 st May 2019

	<p>confirmed that all of the 'missing' income had been put directly through the till, and that all boat park launch fee income was supported either by receipts issued by the attendant, or by till receipts at the TIC.</p> <p>I recommend that the same process is used by the TIC and Boat Park Attendant to log Boat Park launch fee income. This will improve the audit trail and ensure that all customers receive a Boat Park receipt to evidence their payment of the launch fee.</p>				
<p>14.8 – Record ticket range on daily summary records [3&4]</p>	<p>I further recommend that daily summary records are completed by the TIC as well as the Boat Park Attendant, and that the receipt range is recorded on both (instead of just the number of the final receipt issued) in order to ensure that there is a full audit trail running from the receipt books through the daily summary records, the Information Centre Collection Sheet and onto Sage.</p>	M	This will be implemented for the 2019 season.	TIC1	1 st May 2019
<p>14.9 – Attach voided receipt to receipt book [3&4]</p>	<p>I noted that two of the carbon copies in the receipt book had been crossed through and noted 'void'. It is good practice to attach the voided receipt to the carbon copy in order to prove that the receipt was not subsequently issued, and money taken but not banked.</p> <p>I recommend that any voided receipts are stapled to the carbon copy.</p>	M	This will be implemented for the 2019 season.	TIC1	1 May 2019

<p>15.2 – ECN collection</p> <p>From report 3&4 deferred</p>	<p>I tested a sample of 5 Excess Charge Notices (ECNs) to see that income is received in respect of tickets raised. I found that income was promptly received for the correct amount for 3/5 samples.</p> <p>I recommend that action is taken more promptly to follow up non-payment following the dismissal of an appeal, and that the Council considers whether or not to review its practice in respect of unpaid ECNs.</p>	<p>M</p>	<p>Agreed.</p>	<p>TH1/TH3/TH6</p>	
<p>10.1 – James Day Trust – associated Trust fund valuation</p> <p>[5&6]</p>	<p>The Council is Trustee for the James Day Trust. In 2017/18, the bank which operated the Trust bank account closed the account and issued a cheque. As the cheque is made out to the Trust, and the Trust does not hold any other bank accounts, the Council is unable to bank the funds.</p> <p>The Trust receives income from the J Day Will Trust, and pays the fees of the Trustee of that Trust (Lloyds Bank - Private Banking service). Over the last few years, the income generated by the J Day Will Trust has been less than the amount charged for the administration of the Trust. The bank has written indicating that it would like to step down as Trustee.</p> <p>The annual fee charged by the bank is based on 1.1% of the fund value as at 30th March of the previous year. The calculation for the year ended 31/03/19 notes a fund value of £17,016 as at</p>	<p>H</p>	<p>Agreed.</p>	<p>TH1 & TH3</p>	<p>31st July 2019</p>

	<p>30/03/18. The reconciliation of the Trust Fund report notes a fund value of £7,016 as at the 30/03/18 (a difference of £10k compared to the administration fee calculation value), with a value of £7,046 as at 29/03/19.</p> <p>I recommend that the Council asks the J Day Will Trust trustee to explain the difference in valuations per the two documents, to confirm why the fund value appears to have fallen by £10k, and to ensure that the correct basis is used for the administration charge levied by the bank.</p>				
<p>10.2 – Investigate closure of both trusts</p> <p>[5&6]</p>	<p>I further recommend that the Council investigates whether it would be appropriate to dissolve both Trusts and to bring the remaining balance into its accounts as an earmarked reserve, with funds applied to the original purposes of the Trust.</p> <p>This would save considerable administration fees and could mean that the remaining funds are applied in accordance with the wishes of the settlor.</p>	H	<p>Officers will seek advice/clarification from the Charity Commission regarding the possible dissolution of the James Day Trust.</p> <p>Officers will also discuss with Lloyds Bank the possibility of them dissolving the James Day Will Trust.</p>	TH1 & TH3	31 st July 2019
<p>21.2 – Update records to ensure complete</p> <p>[5&6]</p>	<p>I found that the most recent kit issued to staff according to the records of goods out were not shown on the personal clothing records of the staff for two employees. One member of staff had been issued with ear defenders; another with protective coveralls. I also found that the kit</p>	M	<p>All PPE and clothing both pre and post start are now recorded. Records have been updated accordingly. Consumable and perishable items of</p>	OPS1	7 th May 2019

	<p>issued to a new member of staff was not reflected on the goods out record (but that the goods out record is only used to record post-start issues); and that a stihl harness shown on the clothing record was not reflected in the goods out record.</p> <p>I recommend that the operations manager confirms what kit should be included in the goods out record (i.e. all kit except gloves and dust masks, which are perishable and wear out quickly), and that the goods out record and personal clothing records are updated and maintained to ensure that they contain a complete record of all post-start kit issued to staff.</p>		low value are currently not recorded.		
<p>21.3 – Petrol stock records – officer review and signature</p> <p>[5&6]</p>	<p>Petrol stock records are maintained. These record the quantities of petrol stock purchased and issued, along with a note of the officer to whom the stock was issued, the quantity and the job number. Of the five sheets that cover the financial year to the start of March 2019, most records appeared to be correctly maintained.</p> <p>I found two small (1litre) casting errors for fuel stock used 04/06/18 and replaced 14/12/18.</p> <p>I found a note on 16/07/18 that a new method of control was put in place, against which 30 litres of fuel were deducted. The Deputy Operations Manager had investigated discrepancies in the</p>	M	We now operate a far more diligent system for the recording of petrol, the stores officer records all usage and ensures correct reporting.	OPS1	7 th May 2019

	<p>amount of fuel held against what had been issued (there was less fuel than there should have been). He adjusted the records to reflect the amount held and changed the locks to restrict access. Access has been further restricted following the move to the new depot - only a handful of people have the ability to access the Council's fuel store, and the Deputy Operations Manager confirmed that fuel records tally to what is held at the Council's depot.</p> <p>Job numbers were not in place for three of the approximately 100 entries.</p> <p>Only one of the fuel sheets (the oldest) was signed and dated by an officer to evidence that it had been checked for accuracy and completeness.</p> <p>I recommend that the Stores Manager checks each finished sheet for accuracy and completeness and signs to evidence the check, in order to ensure that errors are identified and addressed at the earliest opportunity.</p>				
<p>21.5 – Completion of gas oil records [5&6]</p>	<p>Records of diesel usage are maintained on gas oil sheets. The sheets note the date of usage, meter reading before and after, quantity used and vehicle registration. The driver who fills up the vehicle is required to sign the sheet. The majority of records in the year appear to be correctly maintained, but there the following issues were</p>	M	<p>Diesel storage is now located at the new depot and this provides us with much greater control over use. Refuelling is metered and each diesel fuel fill is</p>	OPS1	7 th May 2019

	<p>identified: The sheets add up overall, but there are small errors noted for the quantity used on individual lines. Note that these balance out and the records appear complete overall (for the period 24/05/18 to 01/03/19, which is the latest entry). On one occasion the driver has not signed the sheet against the usage record. None of the sheets were counter-signed by the Stores Manager.</p> <p>I recommend that all sheets are fully completed and properly filed.</p>		recorded and monitored by the stores officer.		
21.6 – Process notes for stock sheet completion [5&6]	<p>I also recommend that a set of process notes be created for each stock sheet to explain how the sheet is to be completed by the works team and their supervisor. This will help to ensure that stock sheets continue to be correctly completed even when less experienced staff are required to complete them.</p>	M	Noted. We will address this issue within our regular tool box talks and provide regular reminders of best practice.	OPS1	20 th May 2019
21.8 – Locate missing records [5&6]	<p>I tested Hand Held Equipment issue sheets to confirm that they had been correctly completed and that equipment was being properly signed in and out.</p> <p>I found that records were not held for the period from 12/04/18 to 09/10/18. These appear to have been mislaid during the depot move.</p> <p>I found that most of the sheets still held were</p>	H	Noted, we will endeavour to find the missing records	OPS1	20 th May 2019

	<p>completed correctly, but that on occasion staff had either not signed out some equipment (1 instance out of 5 sheets) or not signed something back in (5 instances).</p> <p>I recommend that the missing sheets are located if possible, in order to ensure a complete audit trail of equipment issued and any performance issues noted.</p>				
<p>21.9 – Completion of records [5&6]</p>	<p>I recommend that staff are reminded to fully complete the sheets, and that the Stores Manager checks the sheets once complete and signs and dates the sheet to evidence that check.</p>	M	<p>Noted. Now that we are firmly settled in the new depot we are able to diligently record and file.</p>	OPS1	<p>20th May 2019</p>

Darkin Miller ~ Chartered Accountants
Appendix 2

SWANAGE TOWN COUNCIL: STRATEGIC AUDIT PLAN
2018/19 – 2021/22

	Days			
	2018/19	2019/20	2020/21	2021/22
	Actual	Planned		
Income				
Allotments			0.5	
Beach Gardens (c/f from 15/16))		1.0		1.0
Boat Park	1.5	0.5	0.5	
Car Parks	1.5	1.0	2.0	1.0
Cash Collection and Bank reconciliation	0.75	0.75	0.75	0.75
Cemeteries		0.75		
Debtors	0.75	0.75	0.75	0.75
Market		0.25		
Lease Income			0.5	
TIC Cash Income		0.5		0.5
TIC Rent Income	1.0		1.0	
<i>Section Total</i>	5.5	5.5	6.0	4.0
Expenditure				
Bookkeeping	0.5	0.5	0.5	0.5
Creditors – payments	1.75	2.0	2.0	2.0
Depot stocks and stores	1.0			0.5
Payroll	1.25	1.5	1.5	1.5
Petty cash and imprests	0.5	0.5	0.5	0.5
Bank reconciliation and Treasury management	0.75	0.5	0.5	0.5
Budgetary Control	0.25	0.5	0.5	0.5
Risk Management	1.0	1.0	1.0	1.0
Year end procedures and Fixed Assets	1.0	1.25	1.25	8.25
<i>Section Total</i>	8.0	7.75	7.75	8.25
Other audit areas				
Trust Funds	0.25	0.25	0.25	0.25
Community Partnership	0.25	0.25	0.25	0.25
Available audit days/contingency	3.0	3.25	2.75	4.25
<i>Section Total</i>	3.5	3.75	3.25	4.75
Management/planning/reporting	1.0	1.0	1.0	1.0
TOTAL	18.0	18.0	18.0	18.0