

Report on the Financial Governance of the Town Council

Epworth Town Council

**Report made under Section 8 of the Audit
Commission Act 1998**

Audit 2006/07

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Introduction

- 1 I am the auditor appointed by the Audit Commission to audit the accounts of Epworth Town Council ('the Town Council'). The Town Council is defined as a 'smaller relevant body' under the Accounts and Audit (Amendment) (England) Regulations 2006. As such my audit provides a limited assurance on the financial statements of the Town Council based upon a review of an annual return prepared by the Town Council summarising its financial affairs and governance arrangements. I am still required by section 8 of the Audit Commission Act 1998 ('the 1998 Act') to consider reporting publicly on any matter coming to my notice during the conduct of the audit (limited assurance review).
- 2 I have decided to use this power because of significant failures in the financial governance arrangements of the Town Council that I have identified in my review of the Town Council's annual returns for the years 2001/02, 2002/03, 2003/04, 2004/05 and 2005/06.

Summary

- 3 There was a long-running failure on the part of the Clerk to effectively discharge his duties as the Town Council's Responsible Financial Officer. I have not formed a view as to the reasons for this failure and a full consideration of these lies outside the scope of this report. This individual is no longer employed by the Town Council.
- 4 The Clerk's failures were compounded by an equally serious and long-running failure by the Town Council to satisfactorily discharge its responsibilities for ensuring the effective financial stewardship of the public money and assets entrusted to it. I have not sought to identify individual failings. In my view councillors have a collective obligation to ensure the proper stewardship of public funds. The Town Council failed to adequately hold the Clerk to account for his performance or to probe below the surface of the assurances that he gave to it. Councils can not be in any doubt as to their responsibilities for ensuring that their finances are properly managed. This includes having a proper oversight of the work of the Clerk.
- 5 I am particularly concerned that the Town Council failed to meet the legal requirements for maintaining accurate and up-to-date records in relation to the burial ground. This is an important area of the Town Council's work and one of enormous sensitivity. For a considerable period of time the Town Council failed in its duties in this important service to the community.
- 6 Some of the issues that I deal with in this report have been considered by the Standards Board for England in a complaint made to it about the conduct of a councillor. An Ethical Standards Officer of the Board did not uphold the complaint. But the Officer did find evidence of failures that are relevant to my own statutory remit and this report is consistent with his findings (see case summary SBE16261.06 at www.standardsboard.gov.uk).

- 7 I make a number of recommendations in this report for improvements in the procedures and processes of the Council which will reduce the financial risks that it faces and allow it to demonstrate better control over public money and assets.

Background

- 8 The Code of Audit Practice issued by the Audit Commission and Regulation 9 of the Accounts and Audit Regulations 2003 (as amended) required the Town Council to make an annual return to me summarising its financial transactions and showing its financial position at the end of the financial year. The Town Council failed to make these returns for four years.
- 9 This in itself is a serious matter but my concerns were heightened when I eventually received the outstanding returns for review and it became apparent that they were not fully supported by underlying documentation and that the income records were incomplete. I therefore directed my audit team to undertake more detailed work using the findings of the Town Council's internal auditors as a starting point. This has inevitably lead to increased costs which will have to be met by the taxpayers of Epworth.
- 10 As a result of this work I wrote to the Chairman of the Town Council in August 2006 setting out my concerns. The relevant extract from my letter is reproduced below:

"My current concerns relate to two main areas: the general financial management of the Town Council; and, the administration of the burial ground.

On the basis of our limited review work to date it seems that some basic aspects of sound financial administration have not been evident. The Town Council's annual returns for audit for the years 2001/02 to 2003/04 have only recently been provided. Those for the 2004/05 year have yet to be produced. Timely and accurate financial reporting is an essential element in demonstrating effective stewardship of public funds. Furthermore, the Town Council appears not to have reclaimed its VAT for some time. This money should be available to support the Town Council's spending plans.

In relation to the administration of the burial ground I am concerned that the Town Council may be at risk of not fulfilling its statutory responsibilities under the Local Authorities Cemeteries Order 1977. The records that we have seen to date suggest that not all burials have been registered and that not all income relating to the burial ground has been recorded in the Council's accounts. These are potentially serious omissions exacerbated by the sensitive nature of this aspect of the Town Council's business – dealing with bereaved families.

I have not had sufficient evidence yet to form a final view on these matters but my concerns are sufficient to prompt me formally to draw your attention to these apparent failings and to request your urgent response as to how you plan to address my concerns. I note the steps that the Town Council has already taken to provide more secure oversight of the management of the Town Council's finances (for example the Burial and finance Committees)."

- 11 The Town Council took prompt action in relation to my concerns and I commend it for this. It had already instituted some actions to support the Clerk and to improve its monitoring of financial and operational matters - establishing, for example, two sub-committees of the Town Council in relation to the burial ground and finance. The actions taken by the Town Council were described to me in a letter from the Chair in September 2006. Rapid steps were taken to ensure that the required records in relation to the burial ground were brought up to date to meet legal requirements. The Town Council also identified cheques received to the value of £2,750 that had not been banked and accounted for accurately in the Town Council's books.
- 12 Whilst I acknowledge the action taken as these issues emerged the evidence obtained by me shows that there were serious failures on the part of the Town Council over a period of time which put the taxpayers and customers of the Town Council at risk. In the next section I describe these failures, my sources of evidence and the impact that those failures have had.

The Town Council's failures

- 13 The Town Council failed in its duties in a number of key areas shown in the following table:

Table 1 The failures of the Council and their impact

Failure	Evidence	Impact
It failed to adequately supervise the work of the Clerk over a considerable period of time.	Essential and routine practices such as banking cheques, paying PAYE or reclaiming VAT were not carried out.	The interests of taxpayers and service users were not safeguarded. Council assets and its reputation were put at risk.
	Annual returns for audit were not completed and returned in a timely way.	Local electors were prevented from exercising their rights under s15 and s16 of the Audit Commission Act 1998 and additional audit costs have been incurred by the Council.

Failure	Evidence	Impact
It failed to take reasonable steps to establish that promised improvements in performance and record keeping were being delivered by the Clerk.	Some of the financial records provided for audit were amongst the worst in my experience as an auditor and this would have been immediately apparent from even a cursory inspection.	Opportunities for taking earlier action were missed putting the Council at increased financial and reputational risk.
It failed to take action on concerns raised by a current Councillor and a member of the public.	Frustrated correspondents raised their concerns again with me.	Opportunities for taking earlier action were missed putting the Council at increased financial and reputational risk.
It failed to ensure that the statutory records relating to the burial ground were maintained.	The records produced for audit were obviously incomplete and could not be reconciled immediately with evidence obtained from visiting the burial ground.	Bereaved families were placed at risk of a mistake because of the faulty records. Income due to the Council was put at risk.
It did not take immediate action in relation to the difficulties that its Internal Auditors were reporting in Autumn 2005 in obtaining all the records necessary for their audit work.	Internal audit discussed these problems with us.	The Council missed an opportunity to take earlier action to remedy these problems. This put the Council's assets and reputation at greater risk.

Source: Audit Commission

- 14 Since beginning my audit it has become apparent that the failure to maintain adequate burial records led to the sale of a burial space twice to two separate families. This mistake has now been rectified through the unusual process of an exhumation. This was reported in the local paper *The Epworth Bells* on 1 February 2007. My understanding is that this solution was achieved through the agreement of both families but the exhumation could have been avoided if the Council and Clerk had met their duties under the Local Authorities Cemeteries Order 1977. The Council assures me that it has not identified any other instances of 'double-selling' of grave space. I have not tested this assurance but if it is true then this is almost entirely fortuitous due to the gross failures in internal control which I have already described. I am sorry that my statutory duties require me to raise this matter publicly again and the distress that this may cause the families involved.

The current position

- 15 The Town Council has assured me that it is now satisfied that all income due to it has been identified, collected and correctly accounted for in its 2006/07 accounts and annual return. My audit work for 2006/07 is currently ongoing. It also assures me that it now has arrangements in place that would prevent a recurrence of these problems.
- 16 The Town Council took disciplinary action against the Clerk and dismissed him with effect from 5 September 2006. The Clerk instituted proceedings through an Employment Tribunal against the Council for unfair dismissal. The claim against the Council has now been settled outside of the Tribunal process. I have delayed issuing this report until the employment tribunal process finished. The Council has appointed a new Clerk.
- 17 Notwithstanding the progress already made by the Council, it is disappointing to note that the 2006/07 internal audit report shows that the Council did not have the following in place during the year:
- appropriate books of account;
 - appropriate risk management arrangements;
 - adequate budget setting and monitoring process;
 - expected income fully received and properly recorded; and,
 - asset and investment records complete and accurate.
- 18 I have been informed by the Council that significant improvements have been made in the current year to address these issues.

Recommendations

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| <p><i>R1 The Town Council should establish effective arrangements for the supervision of the work of the Clerk. This should include a structured approach to the performance management of the Clerk to ensure that any problems are identified and dealt with at an early stage.</i></p> |
| <p><i>R2 The Town Council should ensure that it receives regular updates on the financial performance of the Town Council. These updates should be reported to the Council and councillors should ensure that they get an appropriate understanding of the Town Council's financial position.</i></p> |
| <p><i>R3 The Town Council should ensure that all Councillors are clear about their role in ensuring the proper stewardship of public funds and receive training on their role if required.</i></p> |
| <p><i>R4 The Town Council should ensure that the Burial records are kept up- to-date.</i></p> |

R5 Recommendation

R6 The Town Council should ensure that the work of Internal Audit is timely and correctly focused at the key risks facing the Council and it should formally receive and consider the work of its internal auditors. Recommendations for improvements in internal controls should be implemented with urgency and their effectiveness monitored.

Conclusion

- 20 I acknowledge the recent progress made by the Town Council but I believe that it is appropriate for the public to be made aware of the failings, my independent view upon them and to hear what action the Town Council plans to take in relation to this report. In my judgement this is more likely to secure a robust solution to the problems that I have identified. I will examine the Town Council's progress in implementing my recommendations at an appropriate point.