



BOURNEMOUTH & POOLE CHARTER TRUSTEES 2019/20

Internal Audit

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A. Executive Summary

The control framework is the system of risk management, internal control and governance put in place by management to ensure that objectives are achieved, waste and inefficiency is minimised and to prevent and detect fraud and corruption.

The objectives of the audit were to provide assurance that the control framework is appropriate and that the controls and processes are operating effectively in the Bournemouth & Poole Charter Trustees as outlined in the Annual Governance & Accountability Return 2019/20 for the internal control objectives detailed on the following page.

For the avoidance of doubt, reference in this paper to Charter Trustee is to be interpreted as reference to the charter trustee body.

Where weaknesses in the control framework are identified, recommendations have been made for improvement and are detailed in Section B of this report.

It should be noted that whilst Bournemouth and Poole Charter Trustees are separate entities from each other as well as separate from BCP Council, the issues identified apply to both Trustees and so one single report has been written.

We undertake our work on a risk and sample basis in line with Public Sector Internal Audit Standards and as such we do not test all internal controls nor identify all areas of control weakness, fraud or irregularity, however, any issues identified during the course of our work are reported to management.

| Audit Opinions: | |
|------------------------------|---|
| Substantial Assurance | There is a sound control framework which is designed to achieve the service objectives, with key controls being consistently applied. |
| Reasonable Assurance | Whilst there is basically a sound control framework, there are some weaknesses which may put service objectives at risk. |
| Partial Assurance | There are weaknesses in the control framework which are putting service objectives at risk. |
| Minimal Assurance | The control framework is generally poor as such service objectives are at significant risk. |

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| Internal Control Objective | Opinion | Recommendation priority | | | Total number of recommendations |
|--|----------------|-------------------------|----------|----------|---------------------------------|
| | | High | Medium | Low | |
| Appropriate accounting records have been properly kept throughout the financial year | Reasonable | 0 | 0 | 0 | 0 |
| The Trustee complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for | Partial | 2 | 1 | 0 | 3 |
| The Trustee assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these | Minimal | 1 | 0 | 0 | 1 |
| The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate | Reasonable | 0 | 1 | 1 | 2 |
| Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for | Substantial | 0 | 0 | 0 | 0 |
| Petty cash payments were properly supported by receipts, all petty cash expenditure was approved and VAT appropriately accounted for | Not applicable | 0 | 0 | 0 | 0 |
| Salaries to employees and allowances to members were paid in accordance with this authority's approvals, and PAYE and NI requirements were properly applied | Partial | 1 | 0 | 0 | 1 |
| Asset and investments registers were complete and accurate and properly maintained | Partial | 1 | 0 | 1 | 2 |
| Periodic and year-end bank account reconciliations were properly carried out | Substantial | 0 | 0 | 0 | 0 |
| Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate debtors and creditors were properly recorded | Not applicable | 0 | 0 | 0 | 0 |
| If the authority certified itself as exempt from a limited assurance review in 2018/19, it met the exemption criteria and correctly declared itself exempt | Not applicable | 0 | 0 | 0 | 0 |
| The authority has demonstrated that during summer 2019 it correctly provided for the exercise of public rights as required by the Accounts and Audit Regulations | Substantial | 0 | 0 | 0 | 0 |
| Trustee funds (including charitable) – The council met its responsibilities as a trustee | Not applicable | 0 | 0 | 0 | 0 |
| Other issues | Partial | 1 | 0 | 0 | 1 |
| Total recommendations | | 6 | 2 | 2 | 10 |

| Summary of Findings: | |
|---|--|
| High Priority | |
| <ul style="list-style-type: none"> • <u>Financial regulations & Scheme of delegation</u>: The Trustees do not have an approved set of financial regulations and the scheme of delegation is potentially inappropriate. • <u>Risk recognition & mitigation</u>: The Trustees have not got risk registers in place. • <u>Employee costs</u>: Not all costs for BCP Council employee time have been recharged to the Trustees. • <u>Charter Trustee assets</u>: No formal confirmation has taken place during 2019/20 that Trustee assets are physically present. • <u>Donated Services</u>: it is not possible to identify whether the Trustees are in receipt of donated services from BCP Council. | |
| Medium Priority | |
| <ul style="list-style-type: none"> • <u>Budget Signatories</u>: There are no formal descriptions of what the role of a budget signatory comprises. • <u>Budgets</u>: Budgets for 2019/20 and 2020/21 are based on legacy Council Mayoralty costs with no subsequent consideration of other factors. | |
| Low Priority | |
| <ul style="list-style-type: none"> • <u>Budgets</u>: The Trustees have had minimal regular involvement in the budget monitoring process. • <u>Use of funds</u>: The Trustees do not receive any interest from sums invested by BCP Council. | |

| Recommendation Priority Ratings: | |
|----------------------------------|--|
| High Priority | <p>High Priority recommendations have actual / potential critical implications for the achievement of the Service's objectives and/or a major effect on service delivery.</p> <p>Agreed actions should be urgently implemented by the Service and the associated risk(s) added to the Service Risk Register.</p> <p>These recommendations will be followed-up by Internal Audit as they fall due.</p> |
| Medium Priority | <p>Medium Priority recommendations have actual / potential significant implications for the achievement of the Service's objectives and/or a significant effect on service delivery.</p> <p>Agreed actions should be implemented by the Service and formal consideration should be given to adding the associated risk(s) to the Service Risk Register.</p> <p>These recommendations will be followed-up by Internal Audit as they fall due.</p> |
| Low Priority | <p>Low Priority recommendations have actual / potential minor implications for achievement of the Service's objectives and/or a minor effect on service delivery.</p> <p>It rests with the Service implement these actions and advise Internal Audit of the outcome.</p> |

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B. Findings & Recommendations

| Rec No. | Finding | Recommendation | Priority | Status / Management Response | Responsible Officer | Target Date |
|--|--|--|-------------|--|---------------------|---------------|
| 1. Appropriate accounting records have been properly kept throughout the financial year | | | | | Reasonable | |
| <p>The Charter Trustees use BCP Council's financial management system, Oracle Fusion, to record transactions. Each Trustee has an individual cost centre to ensure that the transactions of the Trustee are clearly identifiable and separate from those of the Council. Whilst in year, transactions were recorded against a combined cost centre, this has now been appropriately split and future arrangements are sound.</p> | | | | | | |
| 2. The Trustee complied with its financial regulations, payments were supported by invoices, all expenditure was approved and VAT was appropriately accounted for | | | | | Partial | |
| <p>The Trustees' Standing Orders make reference to the fact that the Clerk to the Trustees shall be appointed by BCP Council, as will any officers necessary to cover the secretarial and financial requirements of the Charter Trustees. There is no reference to the appointment of these officers in the minutes of either the Charter Trustees or of BCP Council meetings. This, however, is an issue for BCP Council as opposed to the Trustees and a recommendation covering this has been made separate to this report.</p> <p>It should be highlighted that during 2019/20 the Trustees have had to pay out VAT as an application to HMRC to be able to reclaim VAT under Section 33 of the VAT Act 1984 had not been made. It had been incorrectly understood that the Council's VAT exemption would also apply to the Trustees. This has cost the Trustees £11k & £22k which has been correctly accounted for during the year and had been incorporated into the budgets so the Trustees have not operated at a deficit. The application has now been made and from November 2020 they will be able to reclaim VAT. The Trustees will need to consider amendments to future budgets to take account of the change.</p> | | | | | | |
| R1 | <p>Financial Regulations</p> <p>Issue: The Trustees do not have their own sets of Financial Regulations and there are no formally documented decisions to use those of BCP Council. It has been assumed that BCP regulations apply but this raises questions of applicability: for example, are the procurement limits within the BCP regulations suitable for the Charter Trustees, which are significantly smaller and have significantly less expenditure than the Council?</p> | <p>It is recommended that the Trustees either:</p> <p>a) Develop their own sets of financial regulations;</p> <p>b) Formally adopt those of BCP Council; or</p> <p>c) Amend those of BCP Council to ensure that they are relevant to</p> | High | <p>For all operational arrangements the Charter Trustees have been adhering to the BCP Council Financial Regulations since establishment.</p> <p>In response to this Audit, the Charter Trustees at their meeting in July 2020 adopted the BCP</p> | Daniel Povey | November 2020 |

| Rec No. | Finding | Recommendation | Priority | Status / Management Response | Responsible Officer | Target Date |
|---------|---|---|-------------|--|-------------------------------|---------------|
| | Risk: The Trustees are operating without formally agreed financial regulations | the Trustee's circumstances | | Council Financial Regulations but it is recognised that further work is required to develop supplementary provisions which are specifically relevant to the Charter Trustees. | | |
| R2 | <p>Scheme of delegation</p> <p>Issue: BCP officers carrying out Trustee transactions currently operate under the BCP Scheme of Delegation for authorisation of expenditure, which allows for officers not formally appointed to the Trustees to authorise expenditure</p> <p>Risk: Expenditure is authorised inappropriately</p> | It is recommended that the Trustees develop their own authorisation policy for expenditure | High | <p>For all operational arrangements the Charter Trustees have been adhering to the BCP Council Financial Regulations since establishment.</p> <p>In response to this Audit, the Charter Trustees at their meeting in July 2020 appointed the Chief Executive as Honorary Clerk and delegated authority to act on behalf of the Charter Trustees to take all necessary actions and decisions which are not reserved to the Charter Trustees as a body.</p> <p>It is recognised that further work is required to develop</p> | Daniel Povey / Karen Tompkins | November 2020 |

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|--|---|--|----------|--|---------------------|--------------|
| | | | | specific spending limits and define what is the reserve of the Charter Trustees. | | |
| R3 | <p>Budget signatories</p> <p>Issue: There is no formal description of what the role of a budget signatory is within the Trustee handbooks. This role should encompass amongst other areas, regular budget monitoring, authorisation of significant expenditure and setting the budget for the following year</p> <p>Risk: Budget signatories may not be fulfilling their roles correctly</p> | <p>It is recommended that the Trustees' Standing Orders are amended to include descriptions of what the role of Budget Signatory entails</p> | Medium | <p>The Standing Orders and Handbook will be reviewed by the Charter Trustees to incorporate the recommendations arising from this audit recommendation</p> | Karen Tompkins | October 2020 |
| 3. The Trustee assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these | | | | | Minimal | |
| R4 | <p>Risk recognition and mitigation</p> <p>Issue: The Trustees do not have risk registers in place to identify risks to themselves and the functions they wish to carry out. The BCP Council Law & Governance risk register does contain risks that are relevant to the Trustees, however as they are in the Council's risk register then they are seen as risks to the Council, not the Trustee; this is inappropriate.</p> <p>Risk: The Trustees are exposed to unmitigated & unnecessary risks</p> | <p>It is recommended that the Trustees put risk registers in place and consider how best to mitigate any risks identified. The Trustees should be involved in risk identification and developing mitigation strategies.</p> | High | <p>The risks for the Charter Trustees have been managed through BCP Council Democratic Services as a whole.</p> <p>It is accepted that a separate risk register for the Charter Trustees should be maintained and this will be put in place.</p> | Karen Tompkins | August 2020 |

| Rec No. | Finding | Recommendation | Priority | Status / Management Response | Responsible Officer | Target Date |
|---|--|--|---------------|--|---------------------|---------------|
| 4. The precept or rates requirement resulted from an adequate budgetary process; progress against the budget was regularly monitored; and reserves were appropriate | | | | | Reasonable | |
| R5 | <p>Budgets</p> <p>Issue: Budgets, including recharges, have been based on estimation and previous Mayoralty costs and so may not reflect the actual needs of the Trustees</p> <p>Risk: Budgets are excessive, causing superfluous cost to taxpayers, or insufficient, meaning the Trustees cannot carry out their desired functions</p> | <p>It is recommended that the budget setting process, including how recharges are calculated, is reviewed prior to the 2021/22 budget being set</p> | Medium | Agreed | Daniel Povey | February 2021 |
| R6 | <p>Budgets</p> <p>Issue: There has been minimal regular involvement of the Trustees in the budget monitoring process</p> <p>Risk: The Trustees makes decisions which are not financially viable</p> | <p>It is recommended that the Trustees are involved in the regular budget monitoring process.</p> | Low | <p>The Charter Trustees are only required to meet twice plus the AGM. The other meetings include the budget setting and projected out-turn.</p> <p>The Standing Orders and Handbook will be reviewed by the Charter Trustees to incorporate the recommendations arising from this audit recommendation</p> | Karen Tompkins | October 2020 |
| 5. Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for | | | | | Substantial | |
| <p>The main source of income for the Trustees is the annual precept. No other sources of income have been identified beyond Trustees repaying the Trustee for a luncheon at the Mayor Making Ceremonies. This is appropriate and as expected – the Trustees are not collecting income for charities, so there should be no other sources of income.</p> | | | | | | |

| Rec No. | Finding | Recommendation | Priority | Status / Management Response | Responsible Officer | Target Date |
|---|---|---|-------------|---|-----------------------|--------------|
| 6. Petty cash payments were properly supported by receipts, all petty cash expenditure was approved, and VAT appropriately accounted for | | | | | Not applicable | |
| The Trustees themselves do not have petty cash floats nor do any of the staff appointed by the Council to work on the trustees. The Council staff have access to payment cards which are included in the expenditure section above. | | | | | | |
| 7. Salaries to employees and allowances to members were paid in accordance with this authority's approvals, and PAYE and NI requirements were properly applied | | | | | Partial | |
| Trustees do not receive allowances for their role on the Charter Trusts. BCP Council's payroll system has been reviewed in 2019/20 by Internal Audit and has been noted to correctly adhere to PAYE and NI requirements. | | | | | | |
| It should be noted that due to the nature of the relationship between the Council and the Trustees, employee costs recharged to the Trustees are VAT-able, therefore the VAT issues raised in Section 2 of this report are also applicable to this section. | | | | | | |
| R7 | <p>Employee costs</p> <p>Issue: Not all costs for Council employee time relating to the Charter Trustees have been recharged to the Trustees. Those for the Head & Deputy Head of Democratic Services have not been included in either salary recharges or in any other form of recharge.</p> <p>Risk: The Trustees appear to be more profitable than they should be</p> | <p>It is recommended that all costs for employee time relating to the Trustees are recharged to the Trustees</p> | High | <p>It was anticipated that the time allocation required to support the Charter Trustees would be incidental for certain posts and recharges would not be required.</p> <p>Arrangements will be put in place for time recording to be introduced to assess and calculate employee costs. This will be for the period 1 September to 30 November 2020.</p> <p>These will be reported to the Charter Trustees at their</p> | Karen Tompkins | January 2021 |

| Rec No. | Finding | Recommendation | Priority | Status / Management Response | Responsible Officer | Target Date |
|--|---|---|-------------|--|---|---|
| | | | | budget setting meeting for 2021/22 | | |
| 8. Asset and investments registers were complete and accurate and properly maintained | | | | | Partial | |
| R8 | <p>Charter Trustee assets</p> <p>Issue: The Charter Trustee assets which includes mayoral insignia and chains of office, some of which have significant financial value, have not been formally confirmed to be physically present since the asset revaluation was carried out in April 2019.</p> <p>Risk: Assets may have been misplaced or misappropriated</p> | <p>It is recommended that the Trustees ensure that regular, formal, proportionate asset verification exercises are carried out</p> | High | <p>An annual verification of assets will be put in place to comply with this recommendation, including a current in-year exercise.</p> <p>The Standing Orders and Handbook will be reviewed by the Charter Trustees to incorporate the recommendations arising from this audit recommendation, including the potential disposal of assets.</p> | <p>Karen Tompkins</p> <p>Karen Tompkins</p> | <p>October 2020</p> <p>January 2021</p> |
| R9 | <p>Use of funds</p> <p>Issue: The funds that the Trustee has are kept as part of BCP Council's general funds and so are included in any amounts used by the Council for short term investment under its Treasury Management Policy. These investments usually receive interest, however none of this interest has been allocated to the Trustees. It is difficult to identify what portion of an invested amount would be from Trustee funds and what would be from Council</p> | <p>It is recommended that the Trustees consider a policy on how their funds should be invested when they are not required.</p> | Low | <p>Due to the size of funds involved it is not cost effective for the Charter Trustees to have their own investment policy or investments.</p> <p>It is proposed that in order for the Charter Trustees to receive a fair allocation of investment income,</p> | Daniel Povey | April 2021 |

| Rec No. | Finding | Recommendation | Priority | Status / Management Response | Responsible Officer | Target Date |
|--|--|----------------|----------|--|-----------------------|-------------|
| | <p>funds, however there should be some consideration for this.</p> <p>Risk: The Trusts are not recognising all income due</p> | | | that they are apportioned interest at the year-end based on the average of their opening and closing reserve balance, multiplied by the BCP Council average annual investment return for the year. | | |
| 9. Periodic and year-end bank account reconciliations were properly carried out | | | | | Substantial | |
| <p>The Trusts do not have individual bank accounts – instead, their funds form part of BCP Council’s bank balance. Internal Audit has carried out work separately on this to confirm that bank reconciliations are carried out periodically throughout the year with no issues identified. As such, Internal Audit considers that there are no issues at this point in time within this control objective which need to be brought to the attention of the Trusts.</p> | | | | | | |
| 10. Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, supported by an adequate audit trail from underlying records and where appropriate debtors and creditors were properly recorded | | | | | Not applicable | |
| <p>Formal financial statements are only produced at year end, and these are considered by the external auditor as part of their annual audit process. In-year budget monitoring has been considered in section 4 of this report, and as such Internal Audit considers that this part of the Annual Internal Audit Report is not applicable to the Trustees at this point in time.</p> | | | | | | |
| 11. If the authority certified itself as exempt from a limited assurance review in 2018/19, it met the exemption criteria and correctly declared itself exempt | | | | | Not applicable | |
| <p>The Trustees only came into existence in 2019/20, and so did not certify themselves as exempt from a limited assurance review in 2018/19. Internal Audit considers this part of the Annual Internal Audit Report not to be applicable to the Trustees at this point in time.</p> | | | | | | |

| Rec No. | Finding | Recommendation | Priority | Status / Management Response | Responsible Officer | Target Date |
|--|---|---|-------------|--|-----------------------|--------------|
| 12. The authority has demonstrated that during summer 2019 it correctly provided for the exercise of public rights as required by the Accounts and Audit Regulations | | | | | Substantial | |
| The Trustees have notices on the relevant sections of the BCP Council website advertising the public's right to inspect the accounts for the 2019/20 accounting statements. Due to the current pandemic, these have been modified in accordance with the relevant guidance. As such, Internal Audit considers that there are no issues at this point in time within this control objective which need to be brought to the attention of the Trustees. | | | | | | |
| 13. Trustee funds (including charitable) – The council met its responsibilities as a trustee | | | | | Not applicable | |
| BCP Council is not one of the Charter trustees but supports the Trusts in several ways. | | | | | | |
| 14. Other Issues | | | | | Partial | |
| As noted above, BCP Council is not one of the Charter trustees but supports the Trusts in several ways, such as the provision of ICT equipment, use of financial systems, use of premises and so on. Whilst some of these things are recharged to the Trustees, there is no clear definition of what is covered by each recharge, For example, there is a recharge for Accountancy, but it is not clear whether this is for the time spent by Accountancy staff appointed to manage the financial requirements of the Trustee for the use of the various financial systems. Similarly, the ICT recharge could be for the provision and maintenance of ICT equipment, access to the Council network and software or other items. As such, there is a possibility that the Council are donating services and, as noted earlier in section 7, staff time to the Trusts without this being recognised in the Trustee accounts. | | | | | | |
| R10 | <p>Donated services</p> <p>Issue: It is not possible to identify whether the Trustees are in receipt of donated services from the Council which should be recognised in the Trustees' accounts</p> <p>Risk: The Trustees are appearing to be more self-sufficient than they actually are</p> | <p>It is recommended that Service Level Agreements are put in place between the Council and the Trustees to formally set out what is being provided by the Council and what value this has to the Trustees</p> | High | <p>Although this is identified as High priority, the impact of not having an SLA with BCP Council is low risk.</p> <p>An SLA will be developed to establish the services to be provided for the 2021/22 budget setting process</p> | Karen Tompkins | January 2021 |