

## **Scunthorpe & Gainsborough Water Management Board**

### **Report of the Internal Auditor on the internal controls of the Drainage Board for the year ended 31<sup>st</sup> March 2016.**

Dear Sirs

We have audited the Internal Control System of Scunthorpe & Gainsborough Water Management Board operational for the year ended 31<sup>st</sup> March 2016.

#### **1) Scope and Responsibility**

The Board is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Board also has a duty to make arrangements to secure continuous improvements in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Board is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Boards functions and which includes arrangements for the management of risk.

#### **2) The Purpose of the System of Internal Control**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Boards policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

#### **3) The Internal Control Environment**

The key elements of the internal control environment, which the Board have addressed, are in ensuring that they:

- Prepare its accounting statements in the way prescribed by law.
- Make proper arrangements and accept responsibility for safeguarding public money and resources in its charge.
- Have only done things that it has the legal power to do and has conformed to codes of practice and standards in the way it has done so.
- Have given all persons interested the opportunity to inspect and ask questions about the board's accounts.
- Considered the financial and other risks it faces and has dealt with them properly
- Arranged for a competent person, independent of the board's financial controls and procedures, to give an objective view on whether these meet the needs of the board and reviewed the impact of this work.
- Responded to matters brought to its attention by internal and external audit.
- Disclosed everything it should have about its business activity during the year including events taking place after the year-end if relevant.

#### **4) Review of Effectiveness**

JBA Consulting are Clerks to the Board. Certain procedures are prescribed by statute. Our internal audit has covered the procedures and controls exercised by JBA over the Drainage Board. Our audit has been carried out on a test basis.

An assessment of the risks facing the organisation is being updated by JBA on an ongoing basis. This is then discussed with ourselves and reviewed on an annual basis and updated further as appropriate. The risk assessment is summarised using the following heads:

- ❑ Governance
- ❑ Operational
- ❑ Financial
- ❑ External
- ❑ Compliance with Law and Regulation

The risks identified are categorised depending on the assessment of their impact on the organisation and their likelihood of occurrence. Each area is been attributed an:

- ❑ A Denoting immediate action, or
- ❑ B Denoting consider action and have a contingency plan, or
- ❑ C/D Consider action or keep under periodic review.

The risk assessments are also currently reviewed and discussed as part of the 'Review of the Effectiveness of the System of Internal Audit' meeting, which currently takes place annually in November.

In addition further work has been carried out in establishing the administrative and accounting procedures in terms of segregation of duties and recording of financial information.

### **Specific Internal audit review work**

The following areas relevant to Scunthorpe & Gainsborough Water Management Board were reviewed in detail in line with the principal of ensuring the standards and characteristics of an effective internal control system are evident:-

The Board's governance arrangements should include and ensure

- There is clarity of purpose and strategic direction.
- They act within their legal framework.
- Roles of officers and board members are clear and documented.
- Decisions are transparent and clearly reported
- Conduct of Board members and officers is of a high standard.

The Board's decision-making framework should include and ensure

- The board has a scheme of rules, including standing orders, which have been subject to minister approval.
- The make up of the board is in accordance with the land drainage act 1991.
- Adequate minutes of all board meetings are maintained.
- Adequate financial regulations are in place and followed.
- No conflicts of interest are evident.

### **Budgets**

The budget process undertaken by the board is reviewed in detail during the course of our internal audit work. This incorporates both the process itself and details comparison between the budget set and actual income and expenditure. This culminates in the calculation of any variances and then ascertaining the reasoning and explanations for these variances.

This is underpinned by the budgetary work undertaken on an ongoing basis during the course of the year by the clerks to the board as follows:

- On a monthly basis the sage 200 software is exported through to the formal accounts produced in order to ensure all items of income and expenditure are included.

- The figures from the accounts are then pulled through to the approved budget statement and a percentage comparison from budget to actual is calculated automatically on the spreadsheet.
- This is then reviewed fully by the clerk to assess the ongoing budgetary position.
- Reporting to the board can then be undertaken promptly as necessary.
- Within the November meeting all budget reports and reviews updated at that point in time are included within the meeting papers for discussion and ultimate approval.

## 5) Significant Internal Control Issues

In general, the Drainage Board is underpinned by a sound management and operational structure through the offices of JBA Consulting.

The following areas are identified as risk areas:

### **Risk areas**

#### ***Comments in relation to specific areas highlighted above***

#### **Decision-making: -**

The percentage of income contributed in respect of the special levies for the year ended 31<sup>st</sup> March 2016 represents around 63% of consistent total income.

At the June 2015 meeting there were 5 appointed and 7 elected members present (41% appointed member percentage), the November 2015 meeting 8 appointed and 7 elected members present (53% appointed member percentage), and at the February 2016 meeting 7 appointed and 8 elected members present (47% appointed member percentage).

It is clear that at the June 2015 and February 2016 board meetings narrated above any decision-making was undertaken without the necessary input from appointed members due to the above noted attendance statistics at the meetings.

It is noted that all none attendance of the appointed members is reported to the council and that it is not possible to essentially force individuals to attend meetings. However, this is a risk area to the board's decision-making process and as stated previously needs to be considered and addressed.

The overall make-up of the board is in accordance with the percentage of drainage rates to special levy income so the issue is purely one of attendance.

### **Other risk areas**

#### **Financial Risk**

#### **Reserves**

We emphasise the importance of maintaining the strategic plan and the continuing monitoring of reserves in line with this in order to ensure ultimate protection of the boards reserves moving forward.

As at 31<sup>st</sup> March 2016 the revenue reserves of the board stood at £361,493. This represents approximately 8 months of current consistent expenditure which when reviewing future budget calculations appears reasonable at this stage.

***Bank mandate/Natwest bankline payment system***

During the year an electronic payment system has been operated (BACS) in respect of making payments to creditors.

This system incorporates a two-tier authorisation process of the payments, which involves first stage authorisation from the chairman directly via the bankline system and second stage authorisation via the clerk.

We have assessed the control procedures in place in respect of the bankline system and with the two-tier authorisation system in place the instruction within the bank mandate are being maintained.

Whilst risk in this area cannot be totally eliminated, the system being operated is fairly robust and keeps risk down to an acceptable level.

We have maintained the undertaking of additional extensive walk through testing of the bankline system for the year ended 31<sup>st</sup> March 2016, no issues have arisen and our sample tests suggest that the current system is working effectively.

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Dated: 10<sup>th</sup> June 2016