

Internal Audit Report

Ventnor Winter Gardens

Presented to Ventnor Town Council

18th January 2010

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EXECUTIVE SUMMARY

Introduction

1. The Mayor of Ventnor Town Council approached the Chief Executive of the Isle of Wight Council for assistance in investigating suspected irregularities in the management (under license from the Isle of Wight Council) of the Winter Gardens venue. The Winter Gardens is a considerable undertaking for a Town Council to manage with an estimated annual turnover in the region of £500k per annum. As far back as 2002, the Audit Commission expressed concerns surrounding financial control at the Winter Gardens. The previous Town Clerk left at the end of October 2009 and a permanent replacement commenced work on 2nd November 2009.
2. Given this background, Internal Audit has been engaged to assist in investigating the issues and to identify improvements to the system of financial and operational control and governance. Therefore, an important part of this review has been the way the venue has been managed in the past in order to learn the lessons to improve management arrangements going forward.

Summary of Significant Findings

3. This investigation has identified some overarching concerns regarding the management of the Winter Gardens venue. The first of these is the clear lack of management control which is amplified in the following paragraphs. There is also clear evidence of a lack of effective over-sight from the political level by members. The Winter Gardens is a significant business operation which needs professional management and therefore we suggest that the Town Council consider alternative management arrangements for the running of the venue rather than direct council involvement.
4. It is clear that the former Town Clerk failed to adequately fulfil the role as regards providing members with advice as to their role and responsibilities leading to members assuming managerial responsibilities in the running of the Winter Gardens and thus exposing themselves to conflicts of interest. The Town Clerk failed to ensure the legality of transactions and that proper governance arrangements were in place.
5. There are numerous financial control failures in the management of the venue's finances leading to transactions failing to comply with the law. The Responsible Financial Officer failed to ensure the proper administration of the council's, and by extension the Winter Gardens financial affairs in compliance with internal financial regulations and statutory guidance.
6. The concession contract was unlawfully procured (i.e. the procurement did not comply with EU procurement directives) and variations to contract terms were not properly administered. The concessionaire had a clear conflict of interest when he sat on the Winter Garden's Management Board.

7. The system for setting hall hiring rates did not comply with the agreed rates leaving the system open to abuse and potential charges of favouritism.
8. The risk management arrangements successfully identified some of the issues contained in this report but were unable to put in place the appropriate mitigation measures.
9. Financial controls over banking, ordering of goods and services, authorising cheques and time sheets and the administration of petty cash were inadequate and in the case of cheque signing, unlawful.
10. The transmission of confidential personal information by email to a third party is a probable breach of the data protection act.
11. Standing Orders and Financial Regulations are out of date and need revising.
12. In terms of physical security, there does not appear to be a list of keyholders and who holds which keys.

Conclusion

13. Financial and operational control at the Winter Gardens is inadequate and to address this we have made over 70 recommendations to improve the position.

Acknowledgements

14. We would like to record our thanks to the Mayor, Town Clerk and staff of the Winter Gardens for their help and cooperation.

FULL REPORT

Introduction

15. Following an informal internal review of the management and financial situation at the Winter Gardens, carried out to establish how best to improve the performance of the venue, the Mayor of Ventnor Town Council approached the Chief Executive of the Isle of Wight Council for assistance in investigating suspected irregularities in the management of the Winter Gardens venue, which is managed by the Ventnor Town Council under the terms of an agreement with the Isle of Wight Council, who own the building. The Winter Gardens is a considerable undertaking for a Town Council to manage with an estimated annual turnover in the region of £500k per annum. As far back as 2002, the Audit Commission expressed concerns surrounding financial control at the Winter Gardens. The previous Town Clerk left at the end of October 2009 and a permanent replacement commenced work on 2nd November 2009. The Responsible Financial Officer has now also resigned.

16. Given this background, Internal Audit has been engaged to assist in investigating the issues and to:

- identify improvements to the system of financial and operational control and governance.
- review the way the venue has been managed in the past in order to learn the lessons to improve management arrangements going forward.

17. This report is structured around the issues listed in the scope of the agreed terms of reference which is attached as appendix 1.

Roles of the Audit Commission , Responsible Financial Officer, The Internal auditor, The Town Clerk, Winter Gardens Management Committee Chair, Elected Members and Volunteers.

Role of the Audit Commission

18. The responsibility of the Audit Commission is to conduct an audit in accordance with the guidance issued by the Audit Commission and, on the basis of their review of the annual return and the supporting information, to report whether any matters that come to their attention give cause for concern.
19. As far back as 2002 the Audit Commission raised serious concerns regarding the financial standing of Ventnor Town Council and made recommendations to improve financial control of the Winter Gardens. This included the appointment of an internal auditor to monitor and review systems of financial control and ensure lessons were learned. At this time the Audit Commission recommended an independent audit of the council should be carried out but this did not happen.
20. The latest annual audit return is for the period ended the 31/03/2009. The external auditor's certificate and opinion highlighted matters of concern. The certificate is dated the 30/09/2009. The following was extracted from the external auditors certificate:-
 - 'Instructions were given to contractors to begin work on the eastern cliffs to establish allotments when no resolution to this effect had been made by the Council. Work has aborted and it has since been resolved that the work will not go ahead. This resulted in unlawful expenditure of £500 being incurred by the Council. The Council must carry out an urgent review of its Financial Regulations and procedures to ensure that this does not happen again.'
 - 'The Council has not carried out a review of the effectiveness of its system of internal audit. The 2008 Practitioners' Guide contains guidance on this area from paragraph 2.79 and is available to download free from the NALC and SLCC websites. This review should be carried out annually.'
21. The latest Financial Regulations were dated the 09/06/2008. There is no evidence that the review required by the Audit Commission has yet been carried out.

22. There is no evidence that the Council has carried out a review of its system of internal audit.

Recommendation

23. It is recommended that both these actions (7&8) are carried out as soon as practicable.

Role of Responsible Financial Officer

24. The Responsible Financial Officer (RFO) is employed part time. His main place of work is from his home address. It does however state in the terms and conditions of employment that he will attend the Winter Gardens on Monday of each week.
25. An important role of the Responsible Financial Officer is to ensure the proper administration of the council's financial affairs in compliance with internal financial regulations and statutory guidance provided by the publication "Governance and Accountability in Local Councils in England and Wales – A Practitioners Guide 2008". Our review has identified a number of instances of non-compliance with the statutory guidance (detailed in paragraphs 88 onwards below) which indicates that the RFO has failed to adequately fulfill this role.
26. We have also identified an instance where confidential pay related personal data belonging to Winter Garden employees has been emailed to a third party unconnected with the Winter Garden. This data was allegedly transmitted at the behest of the RFO. This may be a breach of the Data Protection Act. Moreover, the nature of the data is such that it would readily facilitate identity theft.

Recommendations

27. That in future, the Responsible Financial Officer (RFO) ensures compliance with Financial Regulations and the latest edition of the Practitioners Guide.
28. Sensitive data must not be sent to third parties and if it has to be sent by email then the email must be encrypted.

Role of the Internal auditor

29. This is a matter that the council itself should consider when the review of the effectiveness of the system of internal audit is carried out.

Role of the Town Clerk

30. The Town Clerk is responsible for ensuring that the council's governance arrangements are appropriate and properly complied with. This includes advising members on their roles and responsibilities including recognizing and appropriately managing potential conflicts of interest.

31. Our review has identified several areas where we believe the previous Town Clerk has failed to adequately fulfill his role in that he appears to have:

- Failed to guide members as to the limitations of their role and allowed them to assume managerial roles within the Winter Garden's operation
- Failed to guide members regarding conflicts of interest
- Failed to monitor the RFOs performance adequately
- Failed to ensure the legality of transactions
- Failed to establish appropriate governance arrangements i.e. appropriate committee structure
- Failed to appropriately resource the Winter Garden venue

Recommendations

32. That the Town Clerk provides training to members regarding their roles and responsibilities.

33. That the Town Clerk monitors the performance of the RFO

34. That the Town Clerk monitors the legality of significant transactions

35. That the Town Clerk ensures the establishment of properly constituted committees.

36. That the Town Clerk reviews the management structure at the Winter Gardens and recommends an appropriate structure to support the operation of the Winter Gardens.

Role of the Volunteers

- 23 The Town Clerk provided the following statement:
- 24 “The volunteers man the box office from 12-2 daily and before shows, booking on the system and taking credit card details over the phone for payment. After the events all the money is put in the safe overnight and reconciled next day by the husband of a volunteer who then banks it and keeps a record of the takings. He also banked any Ventnor Town Council monies received, such as for the provision of memorial seats.”
- 25 “This role has been undertaken for 18 months, counting large amounts of cash and holding a key to one of the two safes. He also provided petty cash payments up to £150 for the maintenance staff, as requested as he was the only person able to provide it. Until November 2009, I understand from the RFO that the insurance cover for money in transit was between £250-£500 for members and employees only but following a discussion with the RFO the admin assistant and the Mayor it was increased to now cover £10,000. In 2006 the insurance cover for money in transit was £100 with a £50 excess.”
- 26 “None of the volunteers had to provide any CV or CRB check.”
- 27 The Town Clerk and the Mayor confirmed that there was a need for CRB checks as it is possible that these people may come into contact with children and/or vulnerable adults.
- 28 The volunteer’s husband was not sufficiently covered by insurance. The Town Clerk has now given the duties to an employee of the Council.
- 29 Appropriate suitability checks could not be found by the Town Clerk for the volunteers

Recommendations

- 30 That the Town Council should exercise financial and operational control over any volunteers
- 31 A Policy should be established and a proper process put in place for the recruitment of Volunteers. Some areas that should be considered
- number of hours and what they are expected to commit to
 - vetting
 - suitability
 - Equal opportunities

- Awareness of medical conditions
- Training
- Conduct
- Discipline and Grievance
- Termination
- Risk Assessment

32 That a list of acceptable duties for volunteers is established.

Role of the Winter Gardens Management Committee Chair

33 In February 2009, the Winter Gardens manager left and the decision was taken not to fill the position.

34 Following the departure of the Winter Garden manager, the Chair of the Management Committee, took a managerial role including authorizing discounted hall hiring contracts. This is at odds with the role of an elected member.

35 The Chair was also involved in privately selling ice creams at the venue and donating assets purchased with the proceeds to the Winter Garden.

Recommendations

36 In future, elected members do not engage in commercial activities at the venue.

Concession for Bar and Catering

Background

- 37 The bar and catering facilities at the Winter Gardens have at times been managed by the Town Council themselves or by various external contractors known as concessionaires. We have been instructed to look into the events leading up to the letting of this concession in February 2007. Prior to reviewing the relevant documentation for that particular contract the original Management Agreement dated 31/03/1995 between the then South Wight Borough Council and the Ventnor Town Council was inspected and in section 34 Assignment and Sub-Contracting it was noted that the Town Council shall not :
- sub-contract the provision of the Services or any part thereof to any person without the previous written consent of the Authority and also
 - That the Authority shall require as a condition of giving any consent to sub-contract a direct warranty and undertaking from the sub-contractor concerning the provision of the Services and compliance with the Agreement in all respects.
- 38 There is no evidence available that this original agreement has been revised or that the Isle of Wight Council's requirements have been adhered to. It is therefore possible that the contracts with all the concessionaires have all been in breach of the original agreement. However there are references in the minutes of the Winter Gardens Committee (13/03/2006, 22/05/2006 and 21/08/2006) to the possibility of reviewing this agreement with the Isle of Wight Council. In a letter to The former concessionaire dated 01/01/2007 regarding the concession it states that the longest period that the Town Council had been able to renew their management agreement with the Isle of Wight Council was 5 years.
- 39 Attached as Appendix 2 are the exchanges of correspondence and references from committee minutes regarding the granting of the concession.

Findings

- 40 It is not clear whether the Isle of Wight Council gave authority to VTC to sub-contract the Bar & Catering Service as per the agreement or whether the agreement had been amended.

- 41 As the rent was to be £1000 per week after the initial 6 month period the expected income would have been,
Year 1 - £ 44,200
Year 2+ - £ 52,000
- 42 Original Heads of Reference in the agreement refer to a 10 year contract period (subsequently reduced to 5 plus option of 2) which would have resulted in a potential contract worth £512,200. This would require the procurement exercise to comply with European procurement directives including an OJEU notice being published on the OJEU website. We could find no evidence that EU procurement directives have been complied with. This suggests that the procurement of the concessionaire is therefore contrary to law.
- 43 Regarding the procurement process that did take place, from the records made available to us during the audit we were unable to find evidence of:
- the advert asking for expressions of interest
 - the number of expressions of interest received
 - Which bidders were selected for further discussions
 - Minutes of the sub-committee meeting to discuss the proposals with the four people chosen or of the basis for the final choice.
- 44 Minutes of the Winter Gardens Committee state that the sub-committee had granted the concession to The former concessionaire. We consider that the sub-committee should have prepared a report together with their recommendations for the full committee to discuss and act upon.
- 45 The concession contract stated that no reduction in rent below £1000 would be permitted but the rent was nonetheless reduced on several occasions and only for one week after the initial introductory period did it comply with the stated terms.
- 46 The concession contract contained no terms to govern termination of the contract by the concessionaire resulting in the termination of the contract and the withdrawal of the services of the concessionaire in the space of just four weeks making it impossible for the Town Council to find a replacement arrangement.

- 47 There is a letter from the Town Clerk to the former concessionaire agreeing to a further 8 weeks rent at £800 per week sent 23/09/2007, the day before the meeting of the Winter Garden Committee was held on 24/09/2007. This suggests that the Town Clerk anticipated the committee resolution prior to the committee meeting and acted on this.
- 48 Part of the concession agreement covers an arrangement whereby if Ventnor Town Council itself promotes an event at the Winter Garden, then the concessionaire should pay VTC 10% of the gross bar takings. From discussions with the Responsible Financial Officer, it appears it was agreed to modify this stipulation as it was too difficult to be certain how much of the bar income arose from the promotion and how much from diners and regular customers. The modification is that the 10% no longer applies but instead the concessionaire would provide free of charge the riders (free hospitality) for guest artistes. The agreement has not been amended to reflect this contractual change and we found no other written evidence to support the change to the contract.
- 49 The former concessionaire sat on the Winter Garden Committee as it includes all members of the council from his election (June 09) to the council until he resigned from the committee on 04/08/2009. There is a clear conflict of interest in being the concessionaire for the bar and catering contract whilst at the same time sitting on the management committee as an elected member.
- 50 The council has no statutory power to appoint a committee that consists of all members of the council and if the "committee" appoints a person other than the mayor and that person presides when the mayor is present. It technically breaches the law that states that, at a meeting the mayor of the council, if present, shall preside. The source of this guidance is the legal topic note LTN01 produced in January 2004 by the National Association of Local Councils.
- 51 The Concession Agreement states in clause No. 15 that the cost of the supply of gas, electricity and water will be met by the Town Council together with charges for the business rates and continue to meet the cost of refuse disposal at the present existing level. The concessionaire will meet all other costs relating to the operation of the bar and catering services. Invoices found for repairs to the ice machine, bottle cooler and glass-washer, were all paid for by the Town Council totalling £179.43 excluding VAT. It would seem that these costs should have been bourn by the concessionaire.

Recommendations

- 52 When contracts exceed EU thresholds EU procurement directives must be followed.
- 53 The Town Clerk should not anticipate the resolutions of the management committee before taking actions.
- 54 A copy of all advertisements for expressions of interest in a contract must be kept on file.
- 55 A record of the number of expressions of interest received should be kept together with a list of those selected for further discussions.
- 56 The criteria used in the selection process should be recorded and the candidate's scores should be kept on file.
- 57 Where material changes to contractual agreements are made they should be properly ratified, evidenced in writing and the contractual agreement should be endorsed to reflect the change.
- 58 Where a member has a clear conflict of interest, they should receive appropriate guidance from the Town Clerk.
- 59 A committee is a sub group of a larger body and as such should not consist of all members of the council.
- 60 In the event of a new concession being granted, the RFO should ensure that expenditure is charged appropriately between the concessionaire and the Winter Gardens.

Events Management & Hall Hire

- 61 The main hall on the ground floor and two smaller rooms: Balmoral and Chancellor rooms which are available for hire for all types of events. A new hire pricing structure was agreed at the meeting of the Winter Gardens Management Committee held 10/08/2009 for the main hall:
- £400 for professional promoters with additional costs for advertising and security for each hiring period the same fees to be applied to hirings by the concessionaire;
 - £300 for large amateur events such as amateur dramatic groups for each hiring period;
 - £150 for registered charities for fund raising events;
 - a negotiated rate (minimum of £50) for bookings that directly benefit special interest groups within the local community.
- 62 In order to book one of the rooms a "Hire form" must be completed. Terms and conditions are on the reverse of the hire form. Completed forms when agreed are filed in the month in which the event takes place.
- 63 A sample of lettings was selected and documentation reviewed. The sample included all those lettings in the files for September, October and November 2009.

September 2009

- 64 There were six events in the September file and of these only three had a signed letting agreement. The charges for hire for each of these three events was different and none of the figures (£75, £80 and £130) related to those on the hire structure above although one of the agreements was signed before the present price structure was implemented.
- 65 Of the remaining 3 events, 2 were outside (Fell Run, Mud Wrestling) and there were no details held on file on either of these. The third event was a public traffic consultation involving IOWC and a charge of £125 was made.

October 2009

- 66 There were 10 events in the October file and all had a hire agreement on file, however 2 of the agreements had not been signed on behalf of the Winter Gardens. Of the 10 events 5 were signed prior to the new pricing structure and 1 was free (Mayors gift). 2 of the remaining

events were charged at £150 being fund raising events, 1 at £120 (Antiques) and 1 at £300 (Cleo/Johnny). The antiques event was presumably negotiated however the Cleo/Johnny event should have been charged at £400 per day plus additional charges for carpets and lighting. The hire form for this event was also unclear as to who the contract was with. The hire form showed [only the promoters surnames] on behalf of Sponsors c/o The Music Shop. The terms and conditions for this event had also been altered.

November 2009

- 67 At the time of our review there was only one event in the file which was for a dance show by the Christa Correia School of Dance. The form was signed by the applicant prior to the new pricing structure and the fee charged was £200 for two days. £100 per day does not tie up with any of the charges in the previous two months of lettings. We understand that three rehearsals were held and there is no mention of this on the agreement.

Evaluation

- 68 There does not appear to have been anybody with sole responsibility for lettings. This has led to a wide variety of charges, very few of which agree to the pricing structure. There is no evidence of who agreed a charge or how that charge was arrived at. Any variation to the pricing structure should be authorised by the person responsible for lettings and evidence of this authorisation held on file.
- 69 Three events held in September did not have an agreement on file and two events in October had not been signed.
- 70 Some hire agreements had been signed by members of staff and others by Councillors. Councillors should not be involved in day to day running of the events. It was noted that the former concessionaire had signed the hire form for his daughters dance school.
- 71 The hire agreement form stipulates that hirers must satisfy the Town Clerk with documentary evidence that they have adequate insurance cover against all third party and public liability risks. There is no evidence on file that this has ever been done. Copies of documentary evidence should be kept on file as in the absence of such insurance Ventnor Town Council would be liable.

Recommendations

- 72 A member of staff must be given sole responsibility for running the lettings. This is also a contractual obligation under the terms of the management agreement with the Isle of Wight Council which states that there must be a Winter Gardens manager.
- 73 All events must have a completed hire agreement form signed by the appropriate persons.
- 74 Charges should in general comply with the pricing structure and in those instances where they do not an explanation should be held on file and the revised price authorised by the person with responsibility for the lettings.
- 75 The current structure states that a negotiated rate will be applied to bookings that directly benefit special interest groups within the local community. This has led to a variety of different charges however this could lead to friction and ideally a standard figure should be agreed on to avoid complaints of favouritism.
- 76 Members should not approve discounted hire charges for family members.
- 77 Copies of documentary evidence that the hirers have adequate insurance cover should be kept on file.

Risk Management

- 78 The minutes of the Ventnor Town Council meeting held on 25/01/2008 recorded that the report of the Working Party setting out the annual risk assessment and accounting and auditing arrangements for the year 2008/09 was received and adopted. It was agreed that the Working Party should monitor quarterly the operation of the approved procedures. The risk management schedule adopted by the council contained 22 risks under 4 headings as follows:

Finance 10 risks
Assets 3 risks
Liability 5 risks
Legal liability 4 risks.

Each risk is followed by either a single control or a number of controls.

- 79 The Risk Management Sub-Committee (RMSC) was formed and held its first meeting on 28/07/2008. (4 members) Reference is made to an informal meeting held 12/05/2008 but the minutes of this meeting were not on file. During the meeting of the RMSC it was reported that the internal auditor had checked the risk management schedule and confirmed that 17 individual risk controls were satisfactorily in place, however there is no record on file of what these controls were. The minutes go on to report that the other controls were reviewed and many were automatically in place. Certain actions were allocated to members of the sub-committee or the RFO.
- 80 The next meeting of the RMSC was held on 15/06/2009 when a new chair was appointed following the local elections.
- 81 The new RMSC then met on 24/08/2009 and copies of the risk management schedule were handed to all members as many of the members were new. It was resolved to meet again on 21/09/2009. There are no minutes of any further meetings on file.

Evaluation

- 82 The risk management schedule contains some risks but many of them are just headings for example Banking, Financial Controls. The schedule should be a list of specific risks with action plans to mitigate each risk. For example under banking there could be a number of different risks such as 1) the risk of banking being stolen in transit to the bank 2) insufficient insurance to cover stolen banking etc. Each risk

should have a risk owner with mitigating actions and target dates for completion. The only control in the current schedule under banking is that “All sums of money to be banked with HSBC Ventnor or agreed alternative bank.”

- 83 There is little evidence that those actions that are on the schedule are being dealt with, for example one of the actions relating to Security of the Building is “there are only named key-holders for the building”. At present there is no register of key-holders and no record of how many keys are in existence.
- 84 Meetings of the RMSC are infrequent and therefore monitoring of progress on the actions is negligible. Regular meetings minimum quarterly should be set up with progress reports on all actions. Each meeting should also assess whether any new risks have emerged and need including on the schedule.

Recommendations

- 85 The risk management schedule should be re-written with definitive risks and not headings. Each risk should have mitigating actions with target dates. Each risk should have a risk owner who is responsible for monitoring progress on the actions.
- 86 The risk management sub-committee should meet quarterly to monitor progress of the actions and assess whether any new risks have arisen.

Review of Income and Cash Management

Bank Accounts

- 87 There are two bank accounts, a deposit account and a current account. It was stated by the RFO that routinely monies are transferred in and out of the current and deposit accounts and monies transferred on and off the money markets or into bonds. Investment of funds occurs particularly at the commencement of the financial year when the precept for the year amounting to some £100,000 is received in total. Inspection of the bank statements verified entries between current and deposit accounts. Bond details or money market details were not found in the paperwork provided. The RFO stated that the movement between accounts was to take full advantage of interest rates. No list of authorized cheque signatories could be found. It appears that the only current cheque book is held by the RFO at his home address. The RFO is employed part time and the majority of the RFO's time is spent at home.
- 88 The GALC Practitioners Guide 2008 page 58 recommends good practice is to report to each council meeting that the latest bank reconciliation has been prepared successfully.
- 89 The RFO stated that investment decisions were left to him and that these were actioned by him through telephone banking. No evidence could be found to show that fund transfers have been made with the prior approval of members although details are provided to VTC in the RFOs monthly reports. No scheme of delegation was available to view.

Conclusion

- 90 There appears to be no formal treasury management policy in place. The risk and determination of investments has not been formerly evaluated by Council prior to investment. The Governance and Accountability guidance for local councils provides that orders for payment must by law be signed by two members.
- 91 If the RFO was at any time unavailable this could impact on the authority being unable to process payments and could leave the authority open to challenge from stakeholders.

Recommendation

- 92 That a scheme of delegation is produced and approved

- 93 That an appropriate treasury management policy is produced by the RFO for approval by the council
- 94 That all fund transfers or similar bank instructions are authorized by two members prior to those transfers.
- 95 That the RFO arranges for a spare cheque book to be left in the safe
- 96 Document and adopt control systems to clarify everyone's duties and responsibilities and to encourage a culture that does not tolerate bending or breaking the rules.
- 97 Report to each Council Meeting that the latest bank reconciliation has been prepared successfully.

Bank Mandate and signing of cheques

- 98 The RFO stated that the bank mandate had four signatures on it but that it was out of date. The bank had been accepting one signature only and that was currently the RFO's. The signing of cheques by one officer alone is unlawful. The RFO was aware that the cheques needed to be signed by two members.
- 99 It was pointed out to the RFO that the Financial Regulations states that the RFO or the Town Clerk together with two confirmatory signatures should be obtained from Council Members. He stated that this was not happening and in his view was not practicable.
- 100 It was also pointed out to him that this requirement is in the rules as stated in the Governance and accountability for local councils practitioners guide 2008. This states that
- 101 'The payment process should always be carried out in accordance with the council's own Financial Regulations. Once the invoices have been approved, cheques or any other order for payment must, by law be signed by two members of the council.'
- 102 Best Practice as identified within the Local Council Administration (seventh edition paragraph 17.14) states that members should also initial the cheque counterfoil. The cheque stubs were examined and these were not initialed.

Recommendation

- 103 That cheques and cheque counterfoils are signed by two members as well as the RFO or Town Clerk to comply with the law. Similarly, before electronic fund transfers are transacted, these should be authorized by two members and a senior officer.

Banking of Funds

- 104 It was stated by the Town Clerk that until recently income from the various functions of the winter gardens were banked by member of the public. It is clear that previous insurance cover was inadequate for the transit of monies. This has now been reviewed and the insurance level increased.

Expenditure and the Use of Petty cash

Payments for Council goods and Services by members with reimbursement by the Council

- 105 An event was held at the Winter Gardens on 18/11/2009. It was reported that a council member felt he was forced to make a personal payment to settle a council debt because the RFO was not available and could not be contacted. It appears that the RFO holds the cheque book/books and there does not appear to be a system in place for cheque payments should the RFO not be available.
- 106 It was stated by the Mayor that the RFO was aware that this payment was required but the RFO was not able to be contacted by email because he does not have email address. It was also stated by the Town Clerk that the RFO was unable to be contacted by telephone.

New Accounts-Catering and bar

- 107 Before new supplier accounts had been set up the Administrative Assistant was using her personal credit card to purchase goods for stock purchases as no alternative had been provided by the RFO. The reimbursement was made by the RFO with direct payment into the admin assistant's bank account.

Recommendations

- 108 That the bank mandate includes both the RFO and the Town Clerk together with more than two members to cover annual leave and sickness.
- 109 That prearranged times and days are set to enable the signing of cheques, funds transfers and bacs payments.
- 110 Cheques and bacs payments should also have the payment documents attached before signature.
- 111 Sample signatures should be provided and securely locked in a safe.
- 112 That appropriate procedure notes are in put in place for the signing of cheques.
- 113 That the RFO sets up an email address for use at his home address.
- 114 That the amount of time spent at the Winter gardens required for the efficient and effective running of the winter gardens by the RFO is reviewed and agreed with the Town Clerk.

Invoices paid by Cheque

- 115 The invoices examined did not quote order numbers. There was no evidence of credit notes being authorized. In most cases invoices had one signature to pass for payment. Without an authorized signatory list it is not clear if the signatories had authorization.
- 116 A sample of cheque payments was selected from April to September 2009 and the following issues were identified:.

Payments in excess of £500

- Financial Regulations require written approval from the Town Clerk for payments above the £500 limit. The audit trail is weak in that reference to written approval from the Town clerk for payments above the £500 limit was not with the invoices.
- Payment documents are raised in respect of events promoted. In one instance there was no authorized signature on the payment document or the box office paperwork. There was no written evidence that the Town Clerk had authorized this payment. The document used to initiate payment is a written note on lined paper

Recommendation

- 117 That the audit trail is improved with a proper reference or link to the Town Clerks written approval.
- 118 That official payment documents are used, and properly authorized.

Payments under £500

- Three payments were made on statements therefore it is not clear if VAT is applicable. In principle paying on a statement creates the risk that the debt might be paid twice, once on the statement and once on the original invoice.
- Payment had been made where part of the period covered was included in two payment requests in respect of a music licence fee. A refund has now been received.

Recommendations

- 119 Payments should only be made against legitimate invoices
- 120 Care should be taken to avoid duplicate payments

Financial and administrative records

- 121 The new Town Clerk stated that many of the administrative files were scattered throughout the Winter Gardens building with some files and paper work kept at employees homes. It was not clear what records were where with the risk that records could be lost. The RFO stated that he was unaware of the location of the purchase orders.

Recommendation

- 122 That controlled stationery is identified and as far as possible kept securely at the winter gardens.
- 123 That an adequate filing system is introduced
- 124 That a retention policy for documents is written

Petty cash

- There does not appear to be an established system in place for petty cash reimbursements and the amounts reimbursed do not tie back to an established float value
- There is no evidence that an independent person has counted the cash and reconciled it to vouchers and accounting records
- There does not appear to be a limit set for the maximum value of petty cash transactions.
- We found no evidence for the existence of petty cash procedure notes
- Vouchers were not always authorized and in some cases no signature was present at all.
- The petty cash summary sheet is not always signed.
- The float monies have been reimbursed from monies received from box office receipts and not from the bank account, i.e. diverted from an income stream which is contrary to statutory guidance
- The RFO stated at interview that he reviews the summary sheet each month but that the petty cash process was left to a member of the public to operate.

Recommendations

- 125 Ensure reimbursement of petty cash is from the bank account and not from an income stream
- 126 Responsibility for petty cash should lie with a member of staff and floats should be independently checked on an intermittent basis.
- 127 A limit to the value of transactions allowed through petty cash should be stipulated and the uses of petty cash should be defined
- 128 That the float levels are re-evaluated and a reasonable float level re-established
- 129 Procedure notes should be in place and easily accessible to users of the float
- 130 The summary sheets should be signed off and reviewed by the RFO
- 131 All petty cash authorization slips should be signed and authorized.

Purchase orders

- 132 We found no evidence of purchase orders being used in contravention of statutory guidance in the Local Councils Governance and Accountability Guidance paragraph 3.10. This states that as far as possible purchase orders should be sent to suppliers in advance of delivery of goods.
- 133 The RFO stated that he thought that a purchase order book had been held by the previous Town Clerk but did not know the whereabouts of the book at present.
- 134 Purchase orders are also a tool that can be used to identify the expenditure commitments facing the authority and as such assists in managing budgets.
- 135 Once a purchase order is raised and signed these orders should be authorized by a responsible officer.

Recommendations

- 136 That fully priced official orders are sent in advance of delivery of goods and services as far as possible.
- 137 That these orders are signed and authorized by designated officers
- 138 That procedure notes are written and maintained for the appropriate use of these books.
- 139 That storage and issues and receipts of these books are strictly controlled.
- 140 That duplicate purchase order books sequentially numbered are obtained.

Staffing Payroll

- 141 There are two full-time maintenance men and four part time cleaners.
- 142 Timesheets are completed by members of staff and in most cases have been countersigned. There are, however, instances where time sheets have not been authorized. For example the administrative assistant stated that her time sheets are not authorized and she was

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informed by the RFO that she should retain her time sheets in her own files.

- 143 The Town Clerk stated that previously timesheets were kept by staff and the total hours worked is rung through to the RFO each Friday.
- 144 The Town Clerk stated that she has arranged for time sheets to be given to her by staff for authorization and that the RFO would be contacted by her with the hours worked.

Recommendation

- 145 That time sheets are always authorized by an appropriate officer.

Overall Governance Arrangements

The Management Arrangements of The Winter Gardens

- 146 The Winter Gardens venue is a large undertaking for a town council to manage. As well as engaging the services of a professional manager, we would suggest that the town council consider alternative service delivery models to maximize the benefit of the venue to the community, including one or more of the following:
- Ventnor Town Council assume management responsibility of the venue as a whole
 - Private sector involvement in part or all of the venue
 - Development of volunteer involvement under the direct control of the Town Council
 - Eventual Community Asset Transfer and the establishment of a board of community trustees

Recommendation

- 147 That the town council explores, in consultation with the Isle of Wight Council, alternative service delivery options for the management of the Winter Gardens.

Standing Orders

- 148 The current Standing Orders were revised and adopted in May 2004. The Town Clerk stated that a number of changes are needed to standing orders to bring them up to date and into line with more recent guidance.

Recommendation

- 149 That the Standing Orders are changed at the earliest opportunity

Financial Regulations

- 150 The Financial Regulations were adopted by Ventnor Town Council on the 09/06/2008. However, although these were adopted by the council, they make extensive references to the role and responsibilities of the Winter Gardens manager, a post which no longer exists. Therefore, Financial Regulations are also out of date and need to be rewritten to reflect the actual management structure.

Recommendation

- 151 The Financial Regulations are reviewed and up-dated.

Financial authorisation Levels and delegation

- 152 There does not appear to be a list of authorized officers or members with a specified level of authority to authorize transactions such as purchase orders, invoices, letting agreements, time sheets etc.

Recommendation

- 153 That a list of authorized signatories is developed and appropriate monetary levels are established.

Management Structure of the Winter Gardens

- 154 No organization chart exists. The Town Clerk stated that the roles and responsibilities of staff, volunteers and members had not been clearly defined. This was subsequently confirmed with the RFO on the 23/11/2009. He also stated that the functions previously undertaken by the Winter Gardens manager were not properly distributed amongst other staff. He also confirmed that some of the functions were taken over by an elected member at the time. The RFO also felt that it was inappropriate for an elected member to take charge and issue instructions to staff.
- 155 Having a manager in place to take responsibility for the operation of the Winter Gardens is both a condition of the management Agreement with the Isle of Wight Council and a stipulation of the Town Council's own Financial Regulations.

Recommendations

- 156 That a manager for the Winter Gardens is appointed.
- 157 That management reporting lines for all staff are documented.
- 158 That training should be arranged for Council members for the proper discharge of their duties.
- 159 That the Winter Gardens Committee in consultation with Town Clerk and the RFO assign all the duties previously undertaken by the Winter Gardens manager. TO WHO?

Physical Security of Assets

Inventory

- 160 An inventory list was located dated October 2008 but no values are assigned to the assets.

Recommendation

- 161 That values are assigned to the assets at either historic cost where known or estimated replacement value where cost is not known.

Safes

- 162 There are two safes on site and there were two petty cash tins. One safe was under the control of the bar and catering staff for the bar and catering takings. The other safe was for the use of the box office takings. Prior to the arrival of the new Town Clerk, the box office safe, takings and box office petty cash tin had been under control of a volunteer's husband. As he was not an employee or a volunteer he would not have been under the direct control of the council.

Evaluation

- 163 The member of the public did not charge for services rendered but it is clearly inappropriate for a member of the public to have charge of public monies and be involved with the reconciliations of those monies. This function is now operated by employees.

Recommendations

- 164 A formal process should be documented for the administration of box office receipts.
- 165 This process should include appropriate reconciliations through to the banking of monies with an independent check and evidence that these checks have been done.

Key Holders

- 166 There does not appear to be a list of keys held or key holders. It is therefore unclear who holds what keys to the external or internal doors of the building.

Recommendations

- 167 A list of key holders should be made and signatures obtained from those members of staff that hold keys.

- 168 If it becomes apparent that some keys are held by persons no longer involved with the Winter Garden then they should be recovered from those persons.

APPENDIX 1

The Management of the Winter Gardens Venue – Ventnor Town Council

1. INTRODUCTION

- 1.1 The Mayor of Ventnor Town Council approached the Chief Executive of the Isle of Wight Council for assistance in investigating suspected irregularities in the management (under license from the Isle of Wight Council) of the Winter Gardens venue. The Winter Gardens is a considerable undertaking for a Town Council to manage with an annual turnover in the region of £500k per annum. As far back as 2002, the Audit Commission expressed concerns surrounding the arrangements for managing this venue.**
- 1.2 Given this background, Internal Audit has been engaged to assist in investigating the issues and to identify improvements to the system of financial and operational control and governance. Therefore, an important part of this review will be a backward look at the way the venue has been managed in the past in order to learn the lessons to improve management arrangements going forward.**

2. OBJECTIVES AND METHOD

- 2.1 Our audit objective is to provide an objective independent opinion on the adequacy and effectiveness of the control environment as it relates to the management of the Winter Gardens.**
- 2.2 In order to achieve the objectives, an investigatory approach to the review will be adopted.**

3. SCOPE

3.1 The broad scope of the audit will cover the following key areas:

- We will be seeking assurances that appropriate new systems are being implemented;**
- The governance arrangements of the town council and their impact on the running of the Winter Gardens;**
- The management of the Winter Garden venue.**

This will necessitate reviewing the following detailed areas:

- The adequacy and effectiveness of the risk monitoring committee
- The roles played by the Audit Commission, The Responsible Financial Officer, The Internal Auditor, The Town Clerk, Winter Gardens Management Committee Chair and other members who took an active role in managing the Winter Gardens and The Volunteers.
- The contracts for the engagement of artistes and other promotions
- The concessions contract
- A review of expenditure and the use of petty cash
- A review of income and cash management
- A review of the overall governance arrangements

4. TIMING

- 4.1 The audit will commence in November 2009 and the lead auditor will be Ged Richardson. A draft report will be presented to management once the audit is completed.**

5. REPORT DISTRIBUTION

- 5.1 Draft and final reports will be issued to:**

- **Cllr. Chris Welsford - Mayor of Ventnor**
- **Tina Bailey – Clerk to Ventnor Town Council**

APPENDIX 2

The Letting of the Bar and Catering Concession

Set out below in chronological order are the documents and relevant details relating to the above concession.

1. Winter Gardens Committee (WGC) minutes 21/08/2006 – Previous concessionaire gave notice to terminate her existing concession and offered to provide an interim service pending acceptance by the Ventnor Town Council (VTC) of new offer. Council agreed that public advertisement be issued inviting expressions of interest.
2. Letter 22/09/2006 – from “***** of Ventnor” stating that he had been told that VTC were seeking to let the Winter Gardens bar and catering facilities by way of concession and would like to register his interest. Also offered to discuss the possibilities in detail.
3. Letter 29/09/2006 – From VTC, Town Clerk to “***** of Ventnor” stating that VTC would welcome a discussion and also that he believed he (The former concessionaire) had already discussed providing a service to the Winter Gardens with the then Chair of the WGC. Letter ends with “on a personal level I very much hope we can reach a suitable agreement”.
4. WGC minutes 16/10/2006 – Council have received and considered expressions of interest for the bar and catering concession. Four persons selected for further discussions with smaller sub-committee of 5 councillors on 31/10/2006.
5. No copy of sub-committee minutes or recommendation to award the concession to the former concessionaire. Discussion with a former member of that sub committee confirms expressions of interest received and that 4 were selected for further discussion and that the former concessionaire was selected due to experience. The RFO stated that he was involved in only one interview and that was with the former concessionaire. (Present RFO, Town Clerk and the then Chair of the Winter Gardens management Committee)
6. Letter VTC 28/11/2006 – Confirming acceptance of offer by “***** of Ventnor” and enclosing “Heads of Agreement” which had already been discussed by them and agreed. Also mentions meeting between VTC (Town Clerk and Chair of WGC) and Isle of Wight Council (IOWC) regarding continuing the existing Management Arrangement between VTC

and IOWC. Heads of Agreement mentions period of 10 years subject to the outcome of the meeting between VTC and IOWC.

7. Letter VTC 01/01/2007 – Further to previous letter 28/11/2006 and subsequent conversations the details of the agreement which will apply are as set out below. The bottom of the letter is signed by the former concessionaire and dated 08/01/2007 accepting terms and conditions. Terms commence 01/02/2007 for period of 5 years with option of a further 2 years as this is the longest period that VTC had been able to renew the Management Agreement with the IOWC. The letter also sets out the rent payable by the former concessionaire.

£600 per week first 13 weeks

£800 per week next 13 weeks

£1000 per week thereafter. To be reviewed every 2 years and any such review will not permit a reduction below £1000 per week.

8. Letter “***** of Ventnor” 04/01/2007 – To Town Clerk requesting a few alterations to the terms and conditions of the agreement. These alterations were already incorporated into the letter above dated 01/01/2007.
9. Minutes WGC 22/01/2007 – States further to item 5 on the minutes of the previous meeting 16/10/2006 the Town Clerk reported that the sub-committee had granted the concession for bar and catering facilities to “***** of Ventnor”. Formal agreement had been completed and would commence on 01/02/2007. Chair outlined proposals that had been agreed with the new concessionaire.
10. Letter from “***** of Ventnor” undated - setting out proposals.
11. Letter from “***** of Ventnor” 28/07/2007 – to Town Clerk requesting extending rent of £800 per week for another week or two due to weather etc.
12. Minutes WGC 13/08/2007 accepting proposal.
13. Letter from VTC 14/08/2007 agreeing to extend rent of £800 for a further 8 weeks.
14. Letter from VTC 23/09/2007 agreeing to further 8 weeks at £800 per week.
15. Minutes WGC 24/09/2007 agreeing to extend the period of reduced rent of £800 by a further 8 weeks. Meeting held the day after the letter had already been sent out.

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16. Letter from "***** of Ventnor" 26/11/2007 to Town Clerk requesting reducing rent and expressing dissatisfaction at the arrangements, comparing the concession with pubs in Ventnor and their comparable rents, locations and facilities
17. Minutes WGC 26/11/2007 agreeing to £600 per week until 31/03/2008.
18. Letter VTC 28/11/2007 confirming reducing rent to £600 until 31/03/2008. Rent then to be reviewed when the Council will expect the former concessionaire to revert to higher payments.
19. Minutes WGC 31/03/2008 – agreeing to fix rent to £800 with effect from 02/04/2008
20. Letter VTC 01/04/2008 - Further to previous letter 28/11/2007 VTC have agreed rent at £800 from 02/04/2008.
21. Letter "***** of Ventnor" dated Dec 2008 – listing difficulties keeping going.
22. Letter "***** of Ventnor" 18/12/2008 – more detailed letter listing difficulties and requesting to renegotiate the rent.
23. Minutes WGC 12/01/2009 – agreeing to reduce rent to £500 per week until end of April 2009 and then be subject to review.
24. Letter VTC 14/01/2009 – agreeing to reduce the rent to £500 per week until the end of April 2009 when it will be reviewed.
25. Letter from "***** of Ventnor" 04/08/2009 - resigning from sitting on the WGMC (WGC renamed Winter Gardens Management Committee)
26. Letter "***** of Ventnor" 03/09/2009 – to Town Mayor refers to meeting with Chair and Deputy Chair of the Winter Gardens Committee requesting a further meeting to clear the air.
27. Email from Town Mayor 19/09/2009 – to Cllr ***** regarding personal & prejudicial interest in Jazz Festival as his (***** of Ventnor) Beer Festival is advertised on Jazz Festival website and that tickets for the beer festival are available for sale there.
28. Letter "***** of Ventnor" 25/09/2009 – to Town Clerk terminating concession contract.
29. Letter "***** of Ventnor" 06/10/2009 – refers to letter dated 25/09/2009 regarding termination of agreement on 28/10/2009.

ENDS.....