

Report to Lowestoft Town Council

Interim Internal Audit (15 and 16 January 2020)

1. Introduction and Summary.

1.1 The Internal Audit reviews programmed for the year 2019/20 provide for two Interim Audits which will lead into and support the End-of-Year Audit planned to take place in April 2020. In this way the Council is supported throughout 2019/20 in terms of receiving assurance upon the adequacy and efficiency of key systems in place. This audit report relates to the second interim review undertaken in the 2019/20 year of account.

1.2 The Internal Auditor attended the Council's offices on 14th and 15th January 2020 to commence the second Interim Internal Audit Review. An agreed Audit Plan for this Interim Review is in place.

1.3 This Interim Audit Review has confirmed that the Council maintains efficient governance arrangements and an effective framework of financial administration and internal control. The examination provided evidence that adequate and effective internal financial controls are in place. Appropriate financial safeguarding measures have been adopted, including the appointment of Councillors as internal controllers and independent bank reconciliation signatories. Detailed scrutiny of financial, budgetary and governance matters is undertaken by the Council's Finance and Governance Committee and its Budget and Loans Working Group.

1.4 The Council and the Clerk/RFO have faced some significant challenges in relation to staffing issues over the past 3 months. However, a new staffing structure has recently been approved by the Council. This is part of the development process of a new council; job descriptions are being prepared and the recruitment process is expected to commence following the formal approval of the 2020/21 Budget by the Council.

1.5 The Council has robust budgetary control processes in place and has undertaken effective strategic and detailed monitoring of the Budget for the current year, 2019/20.

1.6 The Council has made good progress in the completion of the Budget for the 2020/21 year, which is being informed by a range of issues, including the Council's declaration of a climate emergency and the commitment to consider biodiversity and to work towards being a carbon neutral local authority. The Revenue Budget prepared by Ms Shona Bendix, the Council's Clerk (Proper Officer) and Responsible Financial Officer (RFO) and her staff includes the consideration of the revenue implications of capital works and any PWLB loans that may have to be secured for the funding of the works. Approval by the Council of the Precept for the 2020/21 year is due to take place at a meeting to be held on 21 January 2020.

1.7 A wide range of formal policies, procedures and protocols are being maintained and have been reviewed during the year. These provide a solid foundation for the operation of strong financial management and control.

1.8 The following Internal Audit work was carried out on the adequacy of the systems of internal control in accordance with the Audit Plan. Comments and any recommendations arising from the review are made below.

2. Governance, Standing Orders, Financial Regulations and other Regulatory matters (*examination of Standing Orders, Financial Regulations, Code of Conduct, Formal Policies and Procedures, Tenders where relevant. Acting within the legal framework, including Data Protection legislation*).

2.1 The Council reviewed and agreed the membership and terms of reference for each Committee at its meeting on 14 May 2019, together with the review and adoption of Officer delegations and Councillor delegations (Minutes 11.1 and 11.2 refer).

2.2 On 25 June 2019 the Council agreed to declare a climate emergency and this resolution was reflected in a subsequent revision in governance arrangements. The Council set up a Climate Emergency Working Group and later, at its meeting on 20 August 2019, determined that the Group should become the Climate Emergency Committee and appropriate Terms of Reference were agreed (Minute 101 refers).

2.3 Since the Council's declaration of a climate emergency, Councillors and Officers have closely focussed on measures that can be taken to address the challenges of climate change and to work towards becoming a carbon neutral council. There is a recognition that such work will touch upon virtually every aspect of the Council's operations. The Clerk/RFO confirmed in the Action Plan presented to Council on 22 October 2019 that the Climate Emergency Committee is operating well with a community Climate Action Group being progressed in parallel. The Clerk/RFO has undertaken a climate change audit of Hamilton House offices and has put forward appropriate recommendations to Council. In this respect, at its meeting on 22 October 2019 the Council adopted a Climate Emergency Structure as a working document to provide a framework for the development of policy and related actions and agreed revisions to the Terms of Reference for each Committee and Sub-Committee to accommodate climate change actions.

2.4 The Council further developed its governance arrangements during 2019/20 by resolving that the Events and Communications Sub-Committee would be a sub-committee of the Finance and Governance Committee (the meeting on 20 August 2019 refers) and that the Standing Orders Working Group should also become a Sub-Committee of that Committee (the meeting on 24 September 2019 refers).

2.5 A review of the Council's Financial Regulations was undertaken by the Finance and Governance Committee at its meeting on 19 November 2019, when amendments were considered and approved to reflect that security arrangements are applied by East Coast Community Healthcare and to clarify the specific reference to banking and financial software (Minute 110.5 refers). The Committee's revisions

were accepted by the Council at its meeting on 26 November 2019 (Minute 144.1 refers). The Clerk/RFO has confirmed that the amendments align with national recommendations.

2.6 Some areas of detail within Financial Regulations, regarding specific action to take in the event of emergency situations at any of the Council's premises or assets, was discussed with the Clerk/RFO, who agreed to examine those particular Regulations to identify if any improvements or revisions are necessary.

2.7 The Council is registered with the Information Commissioner's Office (ICO) as a public authority under Data Protection legislation (Registration ZA250273 refers, expiring 23 May 2020). Whilst the Council is not required to formally appoint a Data Protection Officer, it demonstrates good practice by having resolved that the Deputy Clerk should take the lead in data protection, data information management and freedom of information issues for the Council. The previous Internal Audit Report noted that the ICO had advised that individual Councillors no longer need to be registered and that the Clerk/RFO was looking to revise the registration arrangements. Following recommendations by the Clerk/RFO, the Council agreed at its meeting on 24 September 2019 not to individually register Councillors as Data Controllers (Minute 112.1g refers).

2.8 The Council maintains a number of formal Data Protection Policies and Procedures to demonstrate compliance with the General Data Protection Regulations (GDPR) including a comprehensive Data Protection Policy, a Data Retention Policy and a Privacy Notice. At its meeting on 19 November 2019 the Finance and Governance Committee received draft amended Data Protection and Data Retention Policies which had been reviewed by the Deputy Clerk. The Committee reviewed the documents and agreed to adopt the amended Policies (Minute 110.4 refers).

2.9 The Council continues to demonstrate good practice by maintaining at each meeting a standing agenda item of Governance. In this way the Council ensures that all relevant governance matters are brought to Councillors' attention.

2.10 The Council maintains a high standard of governance through the adoption and review of a wide range of formal Policies and Procedures. Since the previous Internal Audit review in September 2019 the Council has accepted the recommendation from the Personnel Committee to adopt a range of policies, including the Anti-Harassment and Bullying Policy, Equality and Diversity Policy, Health and Safety Policy, Media Policy, Member Officer Protocol, Social Media Protocol, Training and Development Policy and the Whistleblowing Policy (the meeting on 26 November 2019, Minute 145.3 refers). The Personnel Committee considered the Disciplinary Procedure, Disciplinary Rules, Lone Worker Policy and Safeguarding Policy at its meeting on 6 January 2020 and will be putting forward recommendations to the Council.

2.11 The Council continues to bring forward new policies and procedures required to reflect the development of the Council. In this respect a Sponsorship Policy and a Noticeboard Protocol were adopted by the Council at its meeting on 24 September 2019 (Minutes 112.1f and 114.1a refer). Similarly, the Adverse Weather Policy, the IT, Internet, Social Media, Email Policy, Personal Use of the Telephone Policy and

Redundancy Policy were adopted by the Council at its meeting on 26 November 2019 (Minute 145.2 refers).

2.12 The Council is continuing to apply the General Power of Competence (GPoC) in 2019/20. At its meeting on 14 May 2019 the Council declared that it was an eligible Council to use GPoC, having two-thirds elected Councillors and a suitably qualified Clerk, and adoption of the Power was agreed (Minute 20 refers).

2.13 The Council's Minutes and those of the Council's Committees continue to be extremely well presented and provide clear evidence of the decisions taken by the Council in the year.

2.14 A governance issue highlighted in the previous Internal Audit Report concerned the issue of registration of areas of land for which the Council is responsible. The Report had noted that these matters continued to be progressed. The hard copies of land registrations and deed packets have since been obtained from East Suffolk Council and are now to be catalogued in preparation for long-term storage. The Clerk/RFO noted in the Action Plan presented to Council on 22 October 2019 that the aim is to clear as many of these matters as possible by 31 March 2020. To assist the resolution of these issues, at its meeting on 22 October 2019 the Council agreed to a recommendation by the Finance and Governance Committee that the Clerk/RFO has delegated authority for expenditure for legal matters of up to £50,000 to include expenditure from legal reserves if necessary (Minute 128.1e refers). The Council noted that approval for the Clerk/RFO to use funds from the earmarked legal reserve, if necessary, will ensure that the current outstanding legal matters can be progressed in a timely way.

2.15 The Council is making appropriate preparations to ensure that the new website accessibility regulations will be complied with no later than 23 September 2020. The Clerk/RFO and the Communications Assistant have received training on these matters and work has commenced on meeting the new requirements. Further training is due to be undertaken by all staff over the coming months. The Finance and Governance Committee is monitoring the progress being achieved in meeting the requirements and the Clerk/RFO confirmed to Council on 22 October 2019 that the work is on target.

2.16 The Council continues to recognise the importance of the training of Councillors and Staff. Full Council agreed that best practice and training should be encouraged each time a Councillor is elected, re-elected or co-opted (the meeting on 23 July 2019, Minute 66.1g refers). As part of this training and development process, all Councillors have been invited to attend a presentation on the Code of Conduct and further whole Council training is planned on a range of issues, including Safeguarding and Conflict Resolution.

2.17 With regard to staff training, the recommendations by the Finance and Governance Committee on 8 August 2019 (Minute 66.1) in respect of professional training for members of staff were approved by the Council at its meeting on 20 August 2019 (Minute 106.2) and appropriate budget sums have been allocated accordingly. The Clerk/RFO's Action Plan delivered to Council on 22 October 2019 confirmed that three staff members were progressing their examinations and

assignments, covering between them finance, health and safety and local council administration. The Clerk/RFO and her staff have undertaken training on a number of key specialist subjects, including the Impact of Legionnaire Disease, Treatment of Asbestos, Environmental Management in the Workplace, including Climate Emergency issues. Other important areas of training and tuition taking place include Mental Health Championing, Safeguarding, Health and Safety and First Aid.

2.18 The previous Internal Audit Report dated 16 September 2019 emphasised the fact that the Council's work in addressing the challenges of climate change will necessarily impact upon future budgets and staff resources. The Audit Report emphasised that it was particularly important that an appropriate level of staff resources is made available to the Clerk/RFO in order to meet these demands. In this respect, the Budget and Loan Working Group, at its meeting on 2 September 2019, recognised the need to address staff resources in relation to Council events and other duties to ensure that the Council can move forward efficiently with appropriate staff in place. Following the presentation of the Action Plan to Council on 22 October 2019 by the Clerk/RFO, a staffing proposal was considered by the Council on 26 November 2019 and again on 17 December 2019, when a revised staffing proposal and details of the budget provision to facilitate the staffing structure were considered and approved. The Clerk/RFO is currently working with the Personnel Committee to develop job descriptions and the recruitment process.

2.19 As part of its governance responsibilities the Finance and Governance Committee has considered whether the Council needs to make any specific budgetary preparations for the UK's departure from the EU. The Council does not have any projects currently receiving funding from the EU nor are any financial awards pending. The Clerk/RFO has confirmed that there is accordingly no direct adverse financial impact to be faced by the Council and its main contractor Norse as a result of departure from the EU on 31 January 2020 and that there is no immediate action the Council needs to take.

3. Accounting Procedures and Proper Book-keeping (*examination of entries in the Cashbook, regular reconciliation of books and bank statements and supporting vouchers, invoices and receipts and VAT accounting*).

3.1 The RBS system continues to satisfactorily maintain the Council's Income and Expenditure accounting system and was seen to be in good order. The RBS accounting information is well referenced and overall provides a good audit trail to the supporting documentation. The data recorded provides good evidence in support of the income and expenditure in the year. The Council continues to use Unity Trust for its banking requirements. Internet banking arrangements are in place with appropriate controls being enforced.

3.2 Financial Reports are being produced from the RBS system, both for internal use by staff and for formal presentation to Councillors.

3.3 The RBS accounting system was confirmed as being updated as at 30 November 2019 with a bank reconciliation completed at that date. The Communications and Customer Services Assistant is currently entering data into the system, including

transactions up to and including 31 December 2019, to secure a bank reconciliation at that date. The Communications and Customer Services Assistant has received basic training on the RBS system and is able to access and operate the essential elements of the system, make necessary up-dates, generate reports and achieve regular reconciliations between the Accounts and the bank statements.

3.4 The previous Internal Audit Report noted that the Clerk/RFO and the Communications and Customer Services Assistant were the designated system administrators with unrestricted access to all functions. This arrangement has since been revised, as reported to Council in the Action Plan presented to Council on 22 October 2019. The Clerk/RFO now has 'super-user' access to all functions and the Assistant has 'administrative access'. This arrangement meets with the support of Internal Audit and the new arrangements are understood to be working well. The 'Making Tax Digital' training has been accessed by both the Assistant and Clerk/RFO (the Assistant is able to administer returns but the Clerk/RFO alone will be able to check/submit returns).

3.5 During the course of the transaction testing undertaken by the Internal Audit, the Communications and Customer Services Assistant demonstrated to the Internal Auditor the clear audit trail from the underlying financial records to the Accounts, with supporting documentation in place. The Cashbook Payments List and the Receipts List are well referenced and are linked to a paper system which overall provides an adequate audit trail to the Bank Statements. The accounting information provided good evidence in support of the receipts and payments in the year.

3.6 VAT payments are tracked and identified within the RBS accounting system and the data is being used effectively for reclaims to HMRC. The Council is Registered for VAT purposes and re-claims for VAT paid are being promptly submitted to HMRC and reimbursement being received. The Quarter 1 re-claim for £14,737.79 net VAT paid from 1 April 2019 to 30 June 2019 was received at bank on 7 August 2019 and was reported to Council at its meeting on 20 August 2019 (Minute 97.1c refers).

3.7 Similarly, the Quarter 2 re-claim for £21,675.21 net VAT paid from 1 July 2019 to 30 September 2019 was submitted to HMRC on 6 November 2019, received at bank on 12 November 2019 and was reported to the Council at its meeting on 17 December 2019 (Minute 161.1b refers). At the time of this Internal Audit Report, the Communications and Customer Services Assistant is currently preparing the VAT re-claim for Quarter 3 (1 October 2019 to 31 December 2019).

3.8 The previous Internal Audit Report identified a number of accounting issues within the RBS system and these were re-visited by Internal Audit during the current review to confirm that all have since been addressed satisfactorily. The following issues arose:

- a) The Debtors list as at 31 August 2019 included a sum of £4,687.50 outstanding relating to three invoices, each of a value of £1,562.50 (dated 30 November 2018, 18 February 2019 and 30 June 2019) relating to the hiring of a Council asset. The latest Internal Audit review confirmed that these 3 invoices remain outstanding and, significantly, the total of Debtors overall has increased to £10,361.

A Sundry Debtors System is incorporated within the RBS Accounting System and it is recommended that it is used to its fullest extent to manage the follow-up action on these outstanding sums in order to reduce the level of outstanding debt to the Council as soon as practicably possible.

- b) At the time of the previous Internal Audit review some values of the Earmarked Reserves and General Reserves were mis-stated within the RBS system. Those items have since been rectified. However, an amount of £19,119.42 CIL funding received from East Suffolk Council on 29 October 2019 has yet to be reflected in the CIL Reserve. The Communications and Customer Services Assistant has agreed to make the necessary correction prior to the completion of the Bank Reconciliation as at 31 December 2019.
- c) Similarly, the previous audit revealed that Petty Cash records had last been updated in the RBS system on 18 July 2019 and transactions since that time needed to be included in the accounting system. This remains the case, and twelve Petty Cash transactions have still to be brought into the RBS system. The Communications and Customer Services Assistant has agreed to make the necessary entries into the RBS system prior to the completion of the Bank Reconciliation as at 31 December 2019.

4. Bank Reconciliation *(Regularly completed and Cashbook reconciles with bank statements).*

4.1 The Council's Accounts have been reconciled to the Council's Unity Bank Statements as at 30 November 2019. The Internal Auditor examined the Reconciliation and confirmed the balance with the Bank Account Statements.

4.2 The Council's Financial Regulations require a Councillor (who is not a Chair or a bank signatory) to take responsibility for checking quarterly Bank Reconciliations. In this respect the Council has previously agreed (at its meeting on 22 August 2017, Minute 90.3) that Bank Statements and Bank Reconciliations are to be examined and confirmed by the Finance and Governance Committee.

4.3 At its meeting on 22 October 2019 the Council received confirmation of the satisfactory completion of Bank Reconciliations for the months of July, August and September 2019 including verification by the nominated Councillor acting as bank reconciliation signatory.

4.4 The Council recognised the importance of this area of financial control by nominating a further Councillor as a bank reconciliation signatory in order to provide depth of cover and to eliminate any undue delay in the verification of completed bank reconciliations (Minute 128.6 refers). The Council demonstrates good financial practice in this respect by overseeing this vital element of financial control.

4.5 It was noted by the Finance and Governance Committee on 16 December 2019 that the most recent bank reconciliation had been scrutinised and signed off by a

nominated Councillor (Minute 122.2 refers). Similarly, the Bank Reconciliation as at 30 November 2019 was presented to Councillors at the Finance and Governance Committee meeting on 9 January 2020.

5. Budgetary controls (*Verification of the budgetary process with reference to Council Minutes and supporting documents*).

5.1 The Council has robust budgetary control processes in place. The Council received detailed estimates of the annual budget and of income and expenditure in respect of the 2019/20 year. Strategic monitoring of the 2019/20 Budget was undertaken by the Council through a standing agenda item for Finance at each meeting, which includes the Minutes of the Finance and Governance Committee and the monitoring of the Budget and Bank Reconciliations.

5.2 Budget Monitoring Papers for 2019/20 were provided to Councillors ahead of the Council meetings on 20 August 2019 (Minute 97.1a) and 26 November 2019 (Minute 144.1).

5.3 Detailed scrutiny of the 2019/20 Budget has been conducted by the Finance and Governance Committee. At its meeting on 19 November 2019 the Committee received a report from the Budget and Loan Working Group that the 2019/20 Budget was being scrutinised as part of the Budget setting process for 2020/21. The Working Group had recommended that following the budget process the Group should continue to meet quarterly to scrutinise the budget in detail and report back to the Committee and Full Council. The recommendation was approved by the Council at its meeting on 26 November 2019 (Minute 144.1d refers).

5.4 Similarly, at its meeting on 17 December 2019 the Council approved the budget monitoring work undertaken earlier by the Finance and Governance Committee. It is clear that the estimates for the 2019/20 year have been used effectively by Councillors for financial control and budgetary control purposes.

5.5 Regarding the financial year 2020/21, at its meeting on 17 December 2019 the Council noted the progress being achieved in the budget preparation and scrutiny for the forthcoming year. Following initial development of the 2020/21 Budget and recommendations put forward by the Budget and Loan Working Group, the Finance and Governance Committee undertook detailed consideration of the Draft Budget for 2020/21 at its meeting on 9 January 2020. The Committee considered the Working Group's recommendations and all relevant budgetary issues surrounding a proposed Precept for 2020/21.

5.6 The Budget and Loan Working Group meetings and the formal, detailed examination by the Finance and Governance Committee and the Full Council demonstrate the good financial practice and robust budgetary preparation/monitoring operating within the Council.

5.7 The Council is due to finalise its consideration of the 2020/21 Budget and formally set a Precept for the year at its meeting on 21 January 2020.

5.8 The Clerk/RFO continues to ensure that the Council and its Committees are made fully aware of specific responsibilities, commitments, forward planning and the need for adequate reserves.

5.9 A Reserves Policy is in place and a copy has been published on the Council's website. The Policy confirms at item 6.1 that the Council is working towards achieving a level of General Reserves no less than the equivalent of four months' worth of precept (equivalent to £594,500 for the 2019/20 year of account). The level of overall Reserves is reviewed as part of the annual budgeting process and on an on-going basis throughout the year by the Clerk/RFO, Committees and the Budget and Loan Working Group.

5.10 The Clerk/RFO has confirmed that the Earmarked Reserves will be reviewed as part of the consideration of the 2020/21 budget. The Council has placed £450,000 of the available overall Reserves into an Instant Access Account with the Unity Trust Bank. Plans are in place to invest, from its current account, £200,000 in a CCLA (Churches, Charities and Local Authorities) Public Sector Deposit Fund and £100,000 in a CCLA Local Authorities' Property Fund, the latter being subject to an independent assessment of the Council's suitability.

5.11 Overall, the Council is maintaining sufficient general reserves and contingency sums to meet, within reason, any unforeseen items of expense that may occur.

6. Internal Financial Controls, Payments Controls and Audit Procedures
(Confirmation that the Council has satisfactory internal financial controls in place).

6.1 Detailed financial information has been provided by the Clerk/RFO to the Council and its Committees during the 2019/20 year in all aspects of the Council's operations. This has assisted in the development of a robust and effective financial control framework.

6.2 The Council has appointed signatories that are required on all financial transactions and has approved the sections of Financial Regulations to reflect the arrangements in place. Amendments to the list of approved signatories are formally considered and approved by the Council.

6.3 The Finance and Governance Committee receives schedules of payments to be made; the list of payments is included in the Minutes of the Committee. The Committee also receives and scrutinises details of income received. The full Council considers and approves Payments and a detailed list of Payments is included within the Council's Minutes.

6.4 Testing of the Payments system was undertaken during this Interim Review by means of a detailed examination of a wide-ranging sample of transactions over the four months from September 2019 to December 2019 with specific reference to the supporting invoices and vouchers and confirmation of the necessary authorisations. The testing included confirmation that:

- a) There a clear audit trail to clearly demonstrate that payments in the Cashbook are supported by invoices, properly authorised and Minuted;
- b) Electronic Payments are properly recorded and documented;
- c) The VAT element within payments has been correctly identified, recorded and available for reclaim from HMRC;
- d) The Council's Minutes provide a clear record of the payments made.

The testing of the sample of transactions proved satisfactory and confirmed that adequate and effective internal financial controls were in place with supporting invoices and vouchers, all suitably recorded and authorised.

6.5 The Interim Internal Audit Report dated 12 September 2019 was received and noted by the Council at its meeting on 24 September 2019 (Minute 113.2 refers). The Audit Report was considered in detail by the Finance and Governance Committee at its meeting on 8 October 2019 (Minute 93.1 refers). The Clerk/RFO also presented to the Committee an Action Plan, which itemised the main issues arising from the Audit Report and included updates and recommended actions to be taken in response to the Report. Both the Audit Report and the Action Plan were approved and adopted by the Committee for recommendation to Full Council. The Action Plan was received and adopted by the Council at its meeting on 22 October 2019 (Minute 129.2 refers).

7. Payroll Controls (*PAYE and NIC in place; compliant with HMRC procedures; records relating to contracts of employment*).

7.1 The Council's Payroll was examined and tested during the Interim Internal Audit undertaken in September 2019 when detailed checks were completed on the salary payments made during the period 1 April 2019 through to 31 August 2019 and found to be in order. The operation of the Council's Payroll will be revisited during the End-of-Year Audit in April 2020.

7.2 The Council's Payroll Services are currently being operated under contract by Guy McGregor and Associates Ltd. The Clerk/RFO has advised Internal Audit that a number of issues of concern have arisen regarding the operation of the Payroll by Guy McGregor and Associates, including the application by the contractor of an employment allowance of £3,000 in May 2019 in error. The arrangements currently in place are being closely monitored.

7.3 The Internal Audit revealed that Guy McGregor and Associates Ltd. (Company number 09449084) is not currently registered with the Information Commissioner's Office for the processing of personal data and this has since been confirmed by the Clerk/RFO's staff.

It is recommended that the Council should review the arrangements in place regarding Payroll Services to ensure that the Council's payroll is administered efficiently and effectively and that all legal requirements are being adhered to in relation to the processing of the Council's personal data.

7.4 The Council and the Finance and Governance Committee receive details of salary costs per month; salary payment totals are recorded in the Minutes of the meetings.

7.5 The Clerk/RFO has appraised the Internal Auditor of the Extraordinary Meeting of the Personnel Committee held on 18 November 2019 to primarily consider a confidential matter relating to a member of staff and to review legal advice which had been sought (Minute 21.1 refers). At its meeting on 17 December 2019 the Council delegated authority to nominated Councillors to continue liaison with lawyers and to bring back a proposal to Full Council for consideration and agreement. (Minute 161.1d refers). The Clerk/RFO has advised Internal Audit that this staffing issue will not result in any significant financial risk to the Council and will be resolved as soon as practicably possible.

8. Petty Cash (*Associated books and established system in place*).

8.1 The Interim Audit in September 2019 examined the operation of the Petty Cash arrangements and the paperwork being maintained and undertook test checks in order to confirm that the approved procedures were operating satisfactorily.

8.2 The Clerk/RFO (or the Deputy Clerk where the Clerk is absent) continues to manage and administer the petty cash system with a normal rolling balance not exceeding £250 and a total annual expenditure not exceeding £500. The approved arrangements provide that checks on the balance and recorded transactions are made by a Councillor Internal Controller, including a cash reconciliation with the petty cash log. This reconciliation also forms part of the Council's overall bank reconciliation process; these reconciliations are reported to Finance and Governance Committee and Full Council.

8.3 Petty Cash transactions are recorded within the RBS accounting system and reported to Finance and Governance Committee meetings and Full Council. The arrangements also provide that bank signatories sign off the petty cash log against receipts at not greater than two-monthly intervals.

8.4 The Finance and Governance Committee noted at its meeting on 19 November 2019 that there was no schedule of petty cash transactions presented to the meeting and that little funds remained in Petty Cash and there had been no transactions as a result. The Clerk/RFO advised the Committee that credit cards are now the preferred method of payment over the handling of cash and that both Financial Regulations and the Petty Cash Policy required review and updating to reflect the preferred payment method. The Committee noted that further reports would be made to a future meeting (Minute 108.3 refers).

8.5 The End-of-Year audit in April 2020 will include an examination of the operation of the Petty Cash system in order that the necessary confirmation can be given by the Internal Auditor in the Annual Internal Audit Report within the 2019/20 Annual Governance and Accountability Return (AGAR).

9. Income controls (*Regarding Precept and other income, including fees and charges and credit control mechanisms*).

9.1 The Receipts system is operated within the RBS Accounting System. Testing of the system was undertaken by means of a detailed examination of a sample of transactions over the four months from September 2019 to December 2019. The testing included confirmation that:

- a) Income is properly recorded in the accounting system (and promptly banked where appropriate);
- b) Documentary evidence exists to confirm that the correct amount of income has been invoiced/received;
- c) Debtors are encouraged to make payment electronically.
- d) Invoices are promptly issued and any follow-up procedure is adequate and effective;
- e) Income sources, fees and charges are reviewed each year to confirm appropriate and adequate rates are being charged.

9.2 The testing of the sample of transactions proved satisfactory overall and confirmed that adequate records are being maintained in the RBS accounting system and satisfactory documentary evidence is being retained to support the income received. There is a clear audit trail from the income recorded in the RBS accounting system to bank account statements. However, as reported at item 3.8 (a) above, action is required to be taken by the Council in the following-up of outstanding debts, which have increased significantly since the last Internal Audit in September 2019.

9.3 A significant issue for the Council regarding income relates to the setting of Leisure Fees, the policy for which was reviewed by the Council as part of the overall budget-setting process for the year 2020/21. Following recommendations put forward by the Budget and Loan Working Group, the Council, at its meeting on 24 September 2019, approved the recommendation that leisure fees be waived for clubs in 2020/21 and that the facilities will remain free of charge to members of the public to promote health and wellbeing in the Town (Minute 112.1e refers). The Council will be considering embedding this principle into its budget on an ongoing basis at its meeting on 21 January 2020.

10. Internal Control and the Management of Risk (*Review by the Council of the effectiveness of internal controls, including risk assessment, and Minuted accordingly*).

10.1 The Council's Risk Assessment and Management Policy, the Corporate Risk Assessment, Insurance Cover and other risk management issues were reviewed during the Interim Internal Audit undertaken in September 2019. These areas will be revisited during the End-of-Year Audit in April 2020.

10.2 This Interim Review confirmed that the Council continues to place emphasis on ensuring that robust and effective Internal Control and Risk Management

arrangements are in place. The risk management documentation is comprehensive and clearly identifies the risks involved and the action being taken to manage and mitigate the detailed risks. In addition, the Finance and Governance Committee has a standing item at each meeting for risk management and compliance issues. It is noted that the Clerk/RFO promptly addressed the risk management issues relating to the recent change in staff. This has included the provision of suitable training for officers in a number of key and specialist areas, as detailed at item 2.17 above.

10.3 In order to comply with Section 4 of the Accounts and Audit Regulations 2015, the Council must undertake before the end of March 2020 a formal review of the effectiveness of the Council's system of internal control, including the arrangements for management of risk, and Minute the review accordingly. The Clerk/RFO has confirmed to Internal Audit that this formal review will take place before the end of March 2020. It was noted in the Action Plan presented to Council on 22 October 2019 that the Clerk/RFO will be conducting a major review of all health and safety and risk management arrangements and will report back to Council on completion.

10.4 Insurance cover is in place; at its meeting on 3 April 2018 (Minute 259.5) the Council agreed to enter into a Long-Term Agreement with Zurich Insurance for a period of 3 years (the Long-term Agreement is active until 1 April 2021).

10.5 The Zurich insurance cover is reviewed annually and at any point when changes occur. At its meeting on 12 March 2019 the Council considered and agreed the current insurance arrangements in place as part of the annual review of the Council's financial safeguards. The Council has given delegated authority to the Clerk/RFO for the administration of insurance arrangements and to progress any claims, valuations and additional cover required to safeguard the Council's interests (the meeting on 12 March 2019, Minute 515.1h refers). The Council confirmed the arrangements currently in place with Zurich Insurance at its meeting on 14 May 2019 (Minute 18 refers).

10.6 The Finance and Governance Committee considers insurance cover under its Risk Management and Compliance responsibilities. The Council's insurance cover for Fidelity Guarantee (Employee/Councillor Dishonesty) currently stands at £2m which would normally be appropriate and in accordance with the recommended guidelines of year-end balances plus 50% of the precept/grants received. However, during the period 27 September 2019 to 30 November 2019 the Council's balances stood at marginally over £2m (following the receipt of the second instalment of Precept and prior to the settlement of significant sums to East Suffolk Norse in December 2019). Accordingly, the Fidelity Guarantee cover was exceeded for some two months.

It is recommended that the Council continues to closely monitor the Fidelity Guarantee (Employee/Councillor Dishonesty) Insurance cover. An increase in insurance cover should be made if the Council's overall balances are anticipated to continue to exceed the current cover of £2m.

11. Matters arising from the operation of contracts/transfer of contracts to the Council (*operation of contracts; contract compliance and contract monitoring procedures*).

11.1 The Interim Audit Review undertaken in September 2019 confirmed that the Council has satisfactory arrangements in place to ensure compliance issues are carefully considered and adequately addressed. The Clerk/RFO continues to maintain spreadsheets devised for overseeing the monitoring and maintenance of sites. Each meeting of the AID Committee has a standing item to consider compliance issues, including compliance monitoring, maintenance and condition surveys.

11.2 Previous Internal Audit Reports have explained in detail the background to the Section 113 Agreement (under the Local Government Act 1972) put in place between the Council and the then Waveney District Council, now East Suffolk Council. All arrangements under the Section 113 Agreement have now ceased.

11.3 The payments made in respect of the East Suffolk Norse Partnership are highly significant in relation to the Council's overall budget; effective monitoring of the Partnership Charges is an important element of the Council's overall financial control framework. The previous Internal Audit Report (dated 16 September 2019) highlighted the issue that no invoices had been received from Waveney Norse relating to Partnership Charges for the year 2019/20 (amounting to some £320,000 as at 31 August 2019). Six invoices were subsequently received from East Suffolk Norse and payment was made in settlement.

11.4 At the meeting on 26 November 2019, Councillors expressed dissatisfaction at being presented with six invoices at the same point in time and expressed the expectation that they should be received monthly in future. However, three further invoices totalling £217,440 (the Partnership Charges for October, November and December 2019) were presented to the Finance and Governance Committee in December 2019.

11.5 The Clerk/RFO has advised Internal Audit that East Suffolk Norse is being pressed to provide the Council with invoices on a monthly basis and each, once received, will continue to be closely scrutinised by both herself and the Finance and Governance Committee.

11.6 Following a procurement exercise regarding the gas and electricity supply to the Council's Assets, the Council approved a new supplier (Bulb) at its meeting on 22 January 2019 (Minute 486.1k refers). The transfer to Bulb has yet to take place, following the intention to transfer all utilities from existing suppliers at the same time. The Clerk/RFO confirmed in the Action Plan presented to the Council on 22 October 2019 that energy is again being reviewed in the light of the climate emergency declaration and options were being explored for interest free loans for energy improvement/conservations measures. The Finance and Governance Committee noted at its meeting on 16 December 2019 that the Clerk/RFO was continuing to consider the options available with the assistance of the appointed broker (Minute 126.7 refers).

12. Assets Controls (*Inspection of asset register and checks on existence of assets; recording of fixed asset valuations; cross checking on insurance cover*).

12.1 The Council maintains a standing agenda item for Assets, Inclusion and Development at each meeting and receives reports on the ongoing work on asset records and the management and control of assets, including receiving the Minutes of the AID Committee meetings.

12.2 A detailed Register of Land and Assets is maintained and a copy, including building and office equipment, was presented to the Council at its meeting on 14 May 2019.

12.3 The AID Committee reviewed the Register at its meeting on 10 June 2019. Similarly, the Finance and Governance Committee reviewed and approved the Register at its meeting on 13 June 2019 (Minute 23 refers). The Register is published on the Council's website and will be examined in detail in April 2020 as part of the End-of-Year Internal Audit programme of work.

13. External Audit (*Recommendations put forward, or comments made, during the annual review*).

13.1 The External Audit review of the Council for the year of account ending 31 March 2019 was undertaken by PKF Littlejohn LLP, following the Council's submission of the Annual Governance and Accountability Return for the 2018/19 year. The Report and Certificate by the External Auditors is dated 14 September 2019 and has been published on the Council's website. It is noteworthy that for both the Council's inaugural year (2017/18) and the year 2018/19 the External Auditors raised no areas of concern nor recommended any actions for the Council to take. It is considered that Councillors and the Clerk/RFO and her staff are to be commended for the work they have undertaken to achieve these outcomes for a new authority which is continuing to develop.

13.2 The Report and Certificate by the External Auditors for the 2018/19 year was received by the Full Council at its meeting on 24 September 2019 (Minute 113.1 refers) and subsequently noted by the Finance and Governance Committee at its meeting on 8 October 2019 (Minute 93.2 refers).

14. Additional Comments.

14.1 The End-of-Year Internal Audit is due to take place over the period 22 April to 23 April 2020. The Annual Internal Audit Report within the Annual Governance and Accountability Return (AGAR) will be completed at that time and will assist to inform

the Council in its completion of the Annual Governance Statement 2019/20 within the AGAR.

14.2 I would like to record my appreciation to the Clerk/RFO and to all her staff for their support and assistance during the course of the audit work.

Trevor Brown

Trevor Brown, CPFA

Internal Auditor

15 January 2020