



MEETING PAPER

Subject: Audit preparations and annual processes: Report from the Responsible Financial Officer

Meeting: Full Council

Date: 12 March 2019

NOT CONFIDENTIAL

Introduction

This report and recommendations have been provided by the Responsible Financial Officer to assist the Council including through recommendations being made:

1. As part of the annual review of the financial management of the Council; an important element of its financial safeguards
2. In preparation for the annual external and internal audit
3. To help ensure business as usual during the moratorium pre-election period and transition to the new Council in May 2019

Details

Insurance and Asset Register

The insurance agreement with Zurich is a three-year agreement and cover is reviewed at any point when there are any changes and on an annual basis. The review is currently underway and there have been a number of changes which are being taken into account. The level of fidelity cover is in line with the last recommendation by the internal auditor and should be uplifted at any stage when the Council's potential liability is deemed

Council has agreed uplifts to insurance as needed during the financial year and some further uplifts and changes are being considered at Full Council, following consideration by the AID Committee which met on 11 March 2019:

- Additional payment of £2.89 for the medals,
- Additional payment of £149.95 for the civic artefacts coming into the care of the Town Council
- Additional cover for Arnold's Bequest
- Non-insurance of some items which have been gifted
- Reduction in cover with removal of Gunton Warren
- Delegated authority for the Clerk to further progress insurance as required.

In particular it is worth noting that the insurance for play equipment and some other items is being reviewed and will go to Finance and Governance Committee initially to determine whether additional self-insurance would be valuable.

The number of items being vandalised is being logged to ensure we have the data needed for insurance, security and budgeting purposes. Additionally, consideration is being given on an ongoing basis as to the standard of any new equipment to ensure it is as robust as is reasonably practical.

The support and advice being given by Zurich has to date been helpful and promptly provided. Contact is being maintained with other providers and an eye is being kept on the market so that the Council is well placed to begin a procurement process during 2020-21.

As part of the review of insurance and in preparation for audit, the Asset Register has been reviewed **(PROJECTED)** and will have a further assessment by Finance & Governance Committee on Thursday.

1. It is recommended that authority is delegated to the Clerk administration of insurance arrangements and to progress any claims, valuations and additional cover required to safeguard the Council's interests, including as detailed above
2. It is recommended that the Council consider and agree the current insurance arrangements as part of the annual review of the Council's financial safeguards
3. It is recommended that Council note the Asset Register which will be subject to a further review by Committee.

Risk Assessment

The Council has an overarching Risk Assessment and Management Policy and a specific Risk Assessment Financial. **(BOTH PROJECTED)**

These have been reviewed and can be subject to further scrutiny at Finance and Governance Committee this Thursday.

1. It is recommended that the Council note and adopt the reviewed documents and note the opportunity for further review at the Committee.

Internal Controls

The Council has an internal controls process and checking sheet **(PROJECTED)**. The internal controllers for this purpose are Cllrs Neil Coleby and Graham Parker and arrangements will be made with them to conduct the internal controls check prior to the internal audit.

1. It is recommended that the Council confirm its arrangements for internal control and note the forthcoming internal control checks by the nominated councillors.

RBS Support

RBS provide the accounting software for the Council. This has proved effective and the service has been helpful over the past year.

RBS are coming in to assist with the year-end and training and to discuss the upgrade pending which will cater for Making Tax Digital. This is taken from the delegated budget for training. Approval is being sought for the Clerk to have delegated authority to pay for the software licence annually with a financial limit not exceeding £2000 (agenda states £1000) (currently £926 + VAT).

1. It is recommended that the Council note the review of RBS Support and agree the delegated authority to enable the annual payments for software to be made.

Internal Audit

Council has been positive about the internal audit service provided by Trevor Brown CPFA service to date. He has provided a comprehensive and diligent service at a time when there have been extra challenges in dealing with a new Council. His reports have been thorough and have contained helpful recommendations. The market has been assessed and appears little changed since the consideration in 2017. Trevor Brown remains a competent, suitably qualified and independent auditor.

1. It is recommended that the services are maintained for the next two financial years, presuming that the costs of his service does not increase disproportionately and remains competitive; authority to be delegated to the Clerk to progress the retention of internal audit services for the next two years with a budget not exceeding £2000.
2. It is recommended that the Council note that the mandatory external auditor remains PK Littlejohn for 2018-19 and the cost is non-negotiable

Banking and payments

Councillor signatories are currently listed as follows: Ian Graham, Peter Knight, Alan Green, Nasima Begum and Alice Taylor.

These will need to be urgently reviewed and new signatories agreed and any unelected signatories removed following the election. This is on the first agenda for the new Council.

1. It is recommended that authority is delegated to the Clerk to authorise emergency and time-urgent expenditure until the first meeting of the new Council. Normal financial safeguards remain in place
2. It is recommended that up to 5 councillor signatories are obtained from the new Council
3. It is recommended that the Council note that payments will be fully up to date following approvals at tonight's meeting

Delegations

The AID Committee is recommending delegation to the Clerk of authority to deal with any ongoing and new legal matters that arise until the new Council is in place in May 2019. The legal budget is set and expenditure would be within these financial parameters and subject to normal financial safeguards. Delegated permissions are in place from the Arnold's Bequest Charity Board and are unaffected.

1. It is recommended that a general delegation of authority is given to the Clerk to deal with any legal matters arising, as above and emergency and time-urgent expenditure, as above (see banking and payments). The delegated authority will include but not be limited to dealing with the following known new and ongoing matters:
 - a. Alleged encroachment on the Great Eastern Linear Park
 - b. Permission relating to works on a bridge over the Great Eastern Linear Park
 - c. Rent reviews for tenants
 - d. Repairs and maintenance for assets
 - e. Tenders and other procurement arrangements for LTC and partnership assets
 - f. CCTV arrangements in line with previous Council instructions
 - g. North Dene legal disputes
 - h. External and internal audit arrangements, as above (see Internal and External audit)
 - i. Normanston Skate Park agreement with the Big Lottery
 - j. Land registrations pursuant to the Reorganisation Order 2017 and transfers to or from Waveney District Council
 - k. Consultation responses
 - l. The Ness licence to occupy and related owner permissions
 - m. Transfer and care of civic artefacts

- n. Insurance arrangements, as above, including any claims and additional cover required (see insurance)

Responsible Financial Officer

The Council must appoint a Responsible Financial Officer (s.151 Local Government Act 1972). The Council appointed Shona Bendix as interim RFO and then, on employment in November 2017, as permanent Clerk and RFO. This RFO responsibility is built into the Clerk's job description and applies on an ongoing basis. The Council is in compliance with the law.

Financial Regulations and Standing Orders

Standing Orders have been reviewed and were reviewed and adopted by Council in September 2018. They have been further reviewed to make changes in relation to sub-committees and committees not finishing after 21:30 and changing the name of the standing committee to Assets, Inclusion and Development and are now presented for adoption tonight. The Financial Regulations were reviewed by the RFO and Finance and then Governance Committee on 10 January 2019 to make changes reflecting the new petty cash policy. These were then adopted by Full Council on 22 January 2019. **(BOTH PROJECTED)**

1. It is recommended that, as part of this formal annual review process, Council note and adopt both Standing Orders and Financial Regulations, as reviewed, and note that they will again be presented for adoption by Full Council in May 2019.

Appendix 1

End of Year Internal Audit Review for Lowestoft Town Council For the year ending 31 March 2019 Audit Plan

The Audit will focus upon the End-of-Year Accounts as at 31 March 2019 and will build upon the work previously undertaken on the key systems of internal control during the Interim Internal Audits completed in September 2018 and January 2019. The overall internal audit work will enable the completion of the Annual Internal Audit Report within the Annual Governance and Accountability Return (AGAR) for the year 2018/19.

1. Accounting Procedures and Proper Book-keeping

- a) Is the Accounting System/Cashbook being properly maintained and up to date?
- b) Is the Accounting System subject to adequate balancing (Cashbook arithmetically correct) and regularly balanced and reconciled to the bank statements?
- c) Is the accounting system fit for purpose comparative to the Town Council's requirements and the transactions regularly passing through the Accounts?
- d) Is there a clear audit trail from the underlying financial records to the Accounts?
- e) Has the Excel accounting spreadsheet (previously operating alongside the RBS system to provide a 'safety-net' during the initial few months of the operation of the new package) now ceased?
- f) Has the Town Council agreed that testing of the RBS system should be undertaken by IT Specialists to provide assurance on system integrity, reliability and security?
- g) Has any further RBS training been given to staff (or is programmed for staff) to ensure that there is depth of cover for the use and understanding of the RBS software?
- h) Are the financial information and data being produced from the system and delivered to Town Councillors adequate and relevant to the Town Council's needs? Are the Town Council and its Committees satisfied with the information from the financial system?

2. Year-End Accounting Procedures

- a) Are year-end accounts prepared on the correct accounting basis, properly balanced and adequately referenced and notated?
- b) Do the Accounts agree with the Cashbook?
- c) Is there a clear audit trail from underlying financial records to the End-of-Year accounts?
- d) Has the loan from PWLB for the purchase of the Zenith building been correctly recorded in the Cashbook and accounting statements as at the year-end?
- e) Does the PWLB principal outstanding at the year-end agree with PWLB's notification and information listed on the PWLB website?
- f) Are the details of the Earmarked Reserves and General Reserves correctly recorded in the accounts at the year-end?
- g) Are there any outstanding legal, regulatory or contractual issues that may impact upon the Town Council and may require to be reflected in the accounts?
- h) Has the End-of-Year AGAR for 2018/19 been completed correctly? Have Sections 1 and 2 been (or have yet to be) approved, signed and dated?
- i) Does Section 2 (Accounting Statements) balance correctly?

3. Bank Reconciliation

- a) Confirm that a Bank Reconciliation for each account has been carried out regularly and timely. What is the date of the most recent Bank Reconciliation?
- b) Has the Bank Reconciliation as at 31 March 2019 been performed correctly? Can the Bank Reconciliation be confirmed from Bank Statements and have any un-presented cheques been correctly identified in the Reconciliation?
- c) Are there any unexplained balancing entries in any reconciliation?
- d) Does the Town Council continue to receive regular reports of bank balances and reconciliations? Are the details Minuted?
- e) Can the values of investments/savings accounts brought into the Bank Reconciliation be confirmed through documentary evidence?

4. Governance, Standing Orders, Financial Regulations and other Regulatory Issues

The Town Council's Standing Orders and Financial Regulations and other regulatory issues were reviewed during the interim internal audit undertaken in September 2018. For purposes of the completion of the Annual Internal Audit Report within the AGAR the End-of-Year review will examine/confirm the following issues:

- a) Confirm that formally adopted Standing Orders and Financial Regulations are in place. When were these last reviewed?
- b) Confirm that a Responsible Financial Officer has been formally appointed with specific duties.
- c) Confirm that a General Power of Competence is in operation and is being correctly applied.
- d) Confirm that the Local Code of Conduct has been adopted and is being correctly applied.
- e) Confirm that the Town Council is registered as a Fee Payer/Data Controller under Data Protection legislation. Are GDPR requirements being met or is progress being made towards compliance? Have any significant issues arisen regarding compliance with the GDPR?
- f) Do the Town Council's Minutes (for both full Council and Committees) continue to provide a clear record of the actions and decisions?
- g) Has the Town Council continued to review and up-date formal Policies and Procedures? Has the Town Council introduced any additional formal Policies and Procedures since the last audit review in January 2019?
- h) Has the CIL report been correctly completed and submitted to the District Council?
- i) Has progress been achieved with the Land Registry regarding the registration of areas of land for which the Town Council is responsible?

5. Control of Assets, the Section 113 Agreement and matters arising from the transfer of contracts from WDC to the Town Council

- a) Does the Town Council's Asset Register display all material assets owned/transferred from WDC or in its care?
- b) Is the Asset Register up to date?
- c) Is the Asset Register regularly reviewed by the Town Council (at least annually)?
- d) Have all services provided under the Section 113 Agreement now ceased? Is the Town Council satisfactorily dealing with these responsibilities in-house?
- e) What progress has been made in the development of the Norse Joint Venture SLA to reflect the Town Council's precise requirements? Have draft SLA and KPIs been presented to Committee and the Town Council?
- f) Was the procurement exercise to select a gas and electricity supplier to the Town Council's Assets undertaken in a methodical and thorough manner to enable Councillors to make an informed decision?

6. Payment Controls

A sample of payments made during the 9 months from April 2018 to December 2018 was examined in detail during the Interim Internal Audit in January 2019. A sample of payments made during January 2019 to March 2019 will be examined at this End-of-Year Audit. For purposes of the completion of the Annual Internal Audit Report within the AGAR this End-of-Year Review will examine/confirm the following issues:

- a) Is there a clear audit trail to clearly demonstrate that Payments in the Cashbook are supported by invoices, properly authorised and Minuted?
- b) Are Electronic Payments and other Internet Banking transactions, including transfers, properly recorded and approved?
- c) Has the VAT element on payments been correctly identified, recorded and reclaimed? Are re-claims for VAT paid made promptly to HMRC?
- d) Have the appropriate Standing Orders and Financial Regulations been met?
- e) Do the Council's Minutes provide a clear record of the payments made?
- f) Have items or services above the de minimus amount been competitively purchased?
- g) Have estimates, quotations and tenders been sought in all appropriate cases and properly documented and reported?
- h) Confirm that a Petty Cash system is in place. Has documentation regarding the operation of the Petty Cash Account been prepared and approved by the Town Council? Is the Petty Cash Account operating satisfactorily and are associated books and an adequate control system in place? Is the cash balance held securely?

7. Risk Management arrangements

- a) Has the Accounts and Audit Regulations requirement to formally consider internal control arrangements (including risk management arrangements) in the year of account been met? Do Minutes record the Town Council carrying out an annual risk assessment and the review of internal control systems?
- b) Are appropriate risk assessment documents in place? Do they adequately cover risks (financial and other) faced by the Town Council and detail the mitigating actions in place? Are the risks relating to the transferred functions/assets adequately documented?
- c) Is insurance cover appropriate and adequate? Is the public liability and fidelity guarantee insurance cover appropriate?
- d) Has appropriate action been taken regarding all matters raised in the reports received from Internal Audit and External Audit?
- e) Has the previous Internal Audit Reports been presented to Council and Minuted? Have Action Plans been constructed to address the matters raised and agreed by the Finance and Governance Committee and the Town Council?

8. Budgetary Controls

- a) Has actual expenditure against the 2018/19 Budget been regularly reported to the Town Council?
- b) Are there any significant unexplained variances from the 2018/19 Budget?
- c) Has the budget for the year 2019/20 and the Town Council's Precept requirements been formally approved by the Town Council? Has the amount of the Precept for 2019/20 been Minuted to evidence the Town Council's decision?
- d) Has a detailed Capital Programme been constructed to cover a period of at least 5 years?
- e) Are Budget papers suitably detailed to ensure that Town Councillors have sufficient information to make informed decisions?
- f) Has adequate explanation been provided to the Town Council regarding the changes in categorising and recording the budget as it adjusts from the WDC defined budget to the Town Council's budget based on actual expenditure/income and the reflection of agreed future service provision and use of assets?
- g) Have all new areas of ongoing expenditure been identified (viz. loan payments, insurance premiums) and all new income streams incorporated into the budget?

9. Income Controls

A sample of income items received during the 9 months from April 2018 to December 2018 was examined in detail during the Interim Internal Audit in January 2019. A sample of income items received during January 2019 to March 2019 will be examined at this End-of-Year Audit. For purposes of the completion of the Annual Internal Audit Report in the AGAR this End-of-Year Review will examine/confirm the following issues:

- a) Is income properly recorded in the accounting system (and promptly banked where appropriate)? Does documentary evidence exist to confirm that the correct amount of income has been invoiced/received?
- b) Are security controls over cash and cheques adequate & effective? Are debtors encouraged to make payment electronically?
- c) Has a formal Debtors system been put in place to provide increased control over the income due/received from the Town Council's Tenants (item 9.5 of the Interim Internal Audit Report dated 9 January 2019 refers)?
- d) Are invoices promptly issued and followed up as necessary? Is the follow-up procedure adequate and effective?
- e) Are all income sources, fees and charges reviewed each year to confirm appropriate and adequate rates are being charged? Have these issues been adequately dealt with in the budget process for 2019/20?

10. Payroll Controls

The Town Council's Payroll was examined and tested during the Interim Internal Audits undertaken in September 2018 and January 2019. For purposes of the completion of the Annual Internal Audit Report in the AGAR this End-of-Year Review will examine/confirm the following issues:

- a) Does the Town Council continue to out-source its Payroll Services? Confirm the procedures in operation with Guy McGregor and Associates and Accountants for the provision of Payroll Services.
- b) Have there been any changes in staffing, staff appointments and rates of salaries paid since the Internal Audit undertaken in January 2019? If so, have all changes been agreed by the Town Council? Have the changes been correctly communicated to the out-sourced Payroll Services provider?
- c) Are payments other than salary payments to employees reasonable and approved by the Town Council?

11. Other Matters

- a) Have the formalities of the transfer of the Arnold's Bequest from WDC to the Town Council been satisfactorily completed? Is the Town Council meeting its responsibilities as the Sole Trustee?
- b) Are there any areas in which the Town Clerk/RFO or her staff require additional training or support?
- c) Are there any other areas which the Town Clerk/RFO, the Town Council or its Committees have requested Internal Audit to examine during this End-of-Year Review?

List of documents required by Internal Audit

Below is a check-list of the documents required for the audit:

1. Copy of the Accounting information (Cashbook, the Income and Expenditure Account and the Bank Reconciliation which reconciles Account Balance to bank statements as at 31 March 2019).
2. The Bank Statements for the year 2018/19.
3. Cheque books/counterfoils covering the year 2018/19 (where applicable).
4. Paying-in books covering the year 2018/19 (where applicable).
5. Invoices, vouchers to support the Payments made (both electronic payments and cheque payments).
6. Vouchers or other records to support any Receipts.
7. VAT records and copy of claims submitted to HMRC.
8. Budgets for the years 2018/19 and 2019/20 and related Capital Programmes.
9. Minutes for the Town Council Meetings and Committee Meetings from April 2018.
10. Copy of Standing Orders and Financial Regulations.
11. Copy of Risk Assessments and Internal Control documents, including Statement of Internal Control.
12. Insurance Policies (including schedules) detailing insurance cover held.
13. Asset Register (including basis of valuations and date of last review).
14. Contracts Register and Tenders during the year (if any contracts entered into).
15. Petty Cash records, vouchers and receipts. Any cash-in-hand at the time of the audit visit should be available for verification by Internal Audit.
16. PAYE/HMRC records for the year (including details of any changes in staff terms of employment, changes in salary scale points etc.)
17. Copy of Community Infrastructure Levy (CIL) Reports.
18. Copy of Data Protection Registration and confirmation of action taken/to be taken in response to the requirements of the GDPR.
19. The Annual Governance & Accountability Return 2017/18 and the External Audit Report and Certificate for 2017/18.
20. The draft or completed Annual Governance & Accountability Return for 2018/19.