

## **Report to Lowestoft Town Council**

### **Interim Internal Audit (October 2020)**

#### **1. Introduction and Summary.**

1.1 The Internal Audit reviews programmed for the year 2020/21 provide for two Interim Audits during the year which will lead into and support the End-of-Year Audit which will take place in April/May 2021. In this way the Town Council is supported throughout 2020/21 in terms of receiving assurance upon the adequacy and efficiency of key systems in place. This audit report relates to the first interim review undertaken in the 2020/21 year of account.

1.2 The Council is continuing to meet the challenges of the Covid-19 pandemic both in its support to the local community and in maintaining effective governance arrangements. As a result of the coronavirus situation, at the video meeting on 24 March 2020, the Council agreed to provide Delegated Authority to the Clerk/RFO to deal with any urgent and necessary business. The Council and its Committees have continued to meet since that time through 'virtual' video meetings. Robust financial safeguarding measures are being maintained, including the appointment of nominated Councillors as internal controllers and independent bank reconciliation signatories. Detailed scrutiny of financial and governance matters is undertaken by the Council's Finance and Governance Committee.

1.3 In addition, a wide range of formal policies, procedures and protocols are in place and are being regularly reviewed. This provides a solid foundation for the operation of strong financial management and control.

1.4 The Council set a precept of £1,837.731 for the year 2020/21 following a comprehensive review of budget documentation prepared for consideration and approval by Councillors. Formal arrangements are in place to ensure that the information is used effectively for financial control and budgetary control purposes during 2020/21 and to ensure that Councillors have sufficient financial information to make informed decisions. Formal procedures are in place for the detailed consideration and approval of a Budget and Precept for the year 2021/22.

1.5 A new staffing structure was approved by the Council in 2019/20 as part of the Council's development pathway. The recruitment process was initially delayed due to the pandemic. However, an appointment to the new post of Events and Communications Officer was made by the Council at its meeting on 17 September 2020 following a recommendation from the Personnel Committee.

1.6 The following Internal Audit work was carried out on the adequacy of systems of internal control in accordance with the agreed 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 Membership and Terms of Reference for each Committee were reviewed and agreed by the Council at its meeting on 12 May 2020, together with the appointment of Chairs to Committees. The delegations made to the Clerk/RFO in March 2020 relating to business of the Council during the Covid-19 pandemic were reviewed by the Council at its meeting on 22 September 2020 and it was agreed to extend the delegations for a further six months to the end of March 2021 (draft Minute 92.2 refers).

2.2 At its meeting on 26 May 2020 the Council developed its internal governance arrangements by resolving that the Budget and Loan Working Group would become the Budget and Loan Sub-Committee of the Finance and Governance Committee (Minute 25.4c refers).

2.3 The Council noted at its meeting on 23 June 2020 that the Finance and Governance Committee had completed its review of statutory delegations and had recommended approval of the current position. The recommendation was agreed by the Council (Minute 38.4a refers).

2.4 The Council maintains a high standard of governance through the adoption and review of a wide range of formal Policies, Procedures and Protocols, At its meeting on 12 May 2020 the Council received a Paper listing the Council's policies and procedures, including Standing Orders, Financial Regulations and the Suffolk Local Code of Conduct, all of which were adopted pending review by the appropriate Committee or Full Council, as appropriate (Minute 9 refers).

2.5 At its meetings on 13 August 2020 and 10 September 2020 the Finance and Governance Committee agreed to amend the Terms of Reference for the Standing Orders and Policies Sub-Committee to provide that Council policies, Financial Regulations and Standing Orders would be considered over the course of the year. The Sub-Committee reviewed Financial Regulations, including procurement, contracts and preferred supplier arrangements, at its meeting on 16 September 2020 and agreed a schedule for the review of all policies prior to the Council's Annual Meeting in 2021.

2.6 New Policies are adopted as necessary to meet the continuing development of the Council. At the meeting held on 23 June 2020 a Defibrillator Policy was adopted (Minute 40.3c refers) following a review and recommendation from the Asset, Inclusion and Development (AID) Committee meeting on 1 June 2020. Similarly, the Council adopted the Friends, Stakeholders and Assets Policy at its meeting on 28 July 2020 (Minute 52.2a refers).

2.7 Councillors and Officers have demonstrated commitment to addressing the challenges of the Covid-19 pandemic in their support to the local community and in maintaining effective governance arrangements. In addition to appropriate delegated authority given to the Clerk/RFO to deal with urgent and necessary business, the

Council, its Committees and Sub-Committees have continued to meet since March 2020 through 'virtual' video meetings. The Council maintains a rolling agenda item of 'Actions by the Council in response to the Covid-19 pandemic' which provides the opportunity for Councillors to put forward suggestions and to monitor progress in taking issues forward.

2.8 At its meeting on 26 May 2020 the Council adopted a Covid-19 Grant Awarding Policy and, in support of the community, applications for grants were subsequently accepted under the scheme. The Council assisted businesses to reopen safely, supported East Suffolk Council with the Home but Not Alone Service and its successor plans and was also involved in issuing protective masks to members of the public and the delivery of hand sanitiser stations.

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

2.11 Following the declaration of a climate emergency in June 2019, the Council made the necessary governance arrangements, including the setting up in August 2019 of a Climate Emergency Committee with appropriate Terms of Reference. In 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. The work is having practical implications for many aspects of the Council's operations, including the Council's resolution on 26 May 2020 that only energy suppliers who use 100% of renewable energy are to be considered for the supply of electricity to the Council's assets (Minute 25.4e refers).

2.12 The Council, through the Climate Emergency Committee, is moving forward with a Sustainability Strategy which will calculate the Council's carbon footprint, set targets to reduce the footprint and to achieve other measures identified in the Strategy. Following recommendations from the Climate Emergency Committee, the Council formally adopted at its meeting on 28 July 2020 the Sustainability Strategy and tasked the Committee with its implementation (Minute 56.2a refers).

2.13 The Sustainability Strategy includes the consideration of measures to improve health and wellbeing to complement the climate change declaration. Following a recommendation from the Climate Emergency Committee, the Council resolved at its meeting on 25 August 2020 to adopt the Health and Wellbeing Emergency Declaration as a working document which would be refined as further work and specific actions were implemented to support the community.

2.14 The Climate Change Committee noted at its meeting on 1 September 2020 that the Terms of Reference of all Committees and Sub-Committees require review from

a climate emergency perspective to ensure that they are sufficiently tailored and robust to meet the Council's declaration of a climate emergency. Similarly, at its meeting on 8 October 2020 the Finance and Governance Committee agreed that the Standing Orders and Policies Sub-Committee should carry out a review of Committee Structure, Terms of Reference and Standing Orders, with all Councillors being invited to provide input into the process.

2.15 The Internal Auditor and the Clerk/RFO discussed in detail the issues surrounding the review of Terms of Reference and Structures. It is important that governance matters of this nature are carefully managed to ensure that there is a consistent and co-ordinated approach to each review. Similarly, input from Councillors and recommendations put forward by Committees will need to be suitably co-ordinated and refined into formal proposals for Full Council to consider and adopt as necessary.

2.16 The Clerk/RFO confirmed to the Internal Auditor that the Community Engagement Policy is currently in draft and is due to be developed further by the AID Committee. The Policy will dove-tail into the Sustainability Strategy.

2.17 The development of the Neighbourhood Plan is a further significant aspect of the Council's overall governance arrangements and although scheduled progress has clearly been impacted upon by the Covid-19 pandemic, an on-going delivery timetable has been published on the Council's website. The timetable details the completed and outstanding work together with the way in which residents may engage in the process.

2.18 At its meeting on 23 June 2020 the Council considered and approved an Infrastructure Investment Plan for Community Infrastructure Levy (CIL) and Section 106 funds as a working document. In meeting its governance responsibilities, the Council has charged the AID Committee and the Finance and Governance Committee with taking forward the implementation of the Plan (Minute 38.4c refers).

2.19 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 2021). The Council's re-registration in May 2020 was noted by Council at its meeting on 23 June 2020 (Minute 38.6 refers). Whilst the Council is not required to formally appoint a Data Protection Officer, it demonstrates good practice by nominating the Deputy Clerk to take the lead in data protection and freedom of information issues for the Council.

2.20 The Council maintains a number of formal Data Protection Policies and Procedures and a Privacy Notice to demonstrate compliance with the General Data Protection Regulations (GDPR). The Data Retention Policy, Data Protection Policy and Freedom of Information Publication Scheme were reviewed by the Finance and Governance Committee on 5 March 2020 and adopted by Full Council on 24 March 2020, subject to further review during the 2020/21.

2.21 The Clerk/RFO confirmed that the Council fully complies with the new website accessibility regulations which came into effect from 23 September 2020. The

Clerk/RFO and members of her staff received training on these matters to ensure that the new requirements were met by the due date.

2.22 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. As the members of the Council, Committees and Sub-Committees are not meeting in person, the Minutes are being noted for signature at the next suitable meeting. However, the Clerk/RFO advised Internal Audit that the situation will be reviewed now that it is clear that it may be some considerable time before Councillors meet in person.

2.23 The Council continues to recognise the importance of the training of Councillors and Staff. The Council is supporting the professional training for Staff including the Community Governance Qualification for the Deputy Clerk and important webinar training sessions (including those relating to Energy Projects and Accessible Documents) organised by the Society of Local Council Clerks. At its meeting on 1 October 2020, the Budget and Loan Sub-Committee emphasised the importance of staff training and the need for appropriate budget provision in 2020/21 for the development of Staff (Minute 19 refers).

2.24 The Suffolk Local Code of Conduct was adopted by the Council at its inaugural meeting on 16 May 2017 and subsequently reviewed and accepted by the Council at its meeting on 5 June 2018 (Minute 324.1a refers). Councillors are briefed on the Code at their induction sessions. A new model Code of Conduct is currently being consulted upon nationally. The Council considered and expressed support for the new model Code at its meeting on 28 July 2020 (Minute 53.4).

### **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 satisfactorily maintains the Council's Income and Expenditure accounting system and was seen to be in good order. The RBS accounting information is well referenced and provides an audit trail to the supporting documentation. The data recorded provides good evidence in support of the income and expenditure in the 2020/21 year to date. Comprehensive financial reports are being produced from the RBS system, both for internal use by staff and for formal presentation to Councillors.

3.2 The RBS accounting system was confirmed as being up to date; entries within the system included transactions up to and including 30 September 2020, with a Bank Reconciliation at that date. The Administration and Finance Assistant has received essential training on the RBS system and is able to access and operate all elements of the system, make necessary up-dates, generate reports and achieve regular reconciliations between the Accounts and the bank statements.

3.3 The Clerk/RFO and the Administration and Finance Assistant continue to be the designated system administrators, the Clerk/RFO having 'super-user' access to all functions and the Assistant having 'administrative access'. The Administration and

Finance Assistant demonstrated to the Internal Auditor the clear audit trail from the underlying financial records to the Accounts, with supporting documentation in place.

3.4 VAT payments are tracked and identified within the Cashbook and are being used effectively for reclaims to HMRC. The Council is Registered for VAT purposes. Re-claims for VAT paid are being promptly submitted to HMRC and reimbursement is being received, as follows:

- a) The 2019/20 Quarter 4 re-claim for the £52,161.15 net VAT paid from 1 January 2020 to 31 March 2020 was received at bank on 17 April 2020 and was reported to Council at its meeting on 26 May 2020 (Minute 25.2b refers).
- b) The 2020/21 Quarter 1 re-claim for the £49,832.09 net VAT paid from 1 April 2020 to 30 June 2020 was received at bank on 14 August 2020 and was reported to Council at its meeting on 25 August 2020.

3.5 The Council continues to use Unity Trust Bank for its banking requirements and internet banking arrangements, with appropriate controls in place.

3.6 The Cashbook Payments List and the Receipts List for the 2020/21 year are well referenced and are linked to a paper system which overall provides the audit trail to the bank statements. The accounting information provides good evidence in support of the income and expenditure in the year.

3.7 The Payments system was tested by means of examination of a wide-ranging sample of transactions. These were found to be in order, with supporting invoices and vouchers in place and all suitably recorded and authorised. Due to staff working from home and limited use being made of the Council's offices as a result of the pandemic, the Councillor Internal Controllers signed, and confirmed as correct, the payments made during the period April to September 2020 at two sittings held on 29 September 2020 and 6 October 2020.

3.8 During a test-check of the data held within the RBS system, it was noted that the Debtors list totalled £50,280 as at 30 September 2020 and this balance included the following:

- a) A Debt of £1,562.50 relating to an invoice issued on 30 November 2018.
- b) Debts of £4,525 relating to invoices issued in February 2019 and June 2019.
- c) A Debt of £35,000 owing from East Suffolk Council relating to an invoice prepared on 15 April 2020.
- d) A Debt of £325 being an overpayment to HMRC on 21 January 2020 relating to the December 2019 payroll following an error by the Council's Payroll Services Provider (the Clerk/RFO is currently arranging for the appropriate correction to be made).

The Clerk/RFO agreed to review the above matters and take all necessary follow up or write-off action as soon as practicably possible.

**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 September 2020. 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. At its meeting on 26 May 2020, the Council appointed two Councillors as Bank Reconciliation Signatories (Minute 25.4a refers). This work is being performed. It is clearly important that the Councillor Bank Reconciliation Signatory receives, and confirms the Bank Reconciliation as correct or otherwise, as near as possible to the date of the Reconciliation.

4.3 In addition to the duties of the Councillor Bank Reconciliation Signatory, the Council has 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 as part of the Council's overall framework of financial control.

4.4 The Finance and Governance Committee and Full Council receive reports from the Councillor Bank Reconciliation Signatory and reviews the reports prepared regarding the Bank Reconciliations examined and verified. The Council demonstrates good financial practice in this respect by overseeing this important area of financial control.

4.5 The Bank Reconciliation as at the 30 September 2020 has now to be referred to the Councillor Bank Reconciliation Signatory in preparation for presentation to the Finance and Governance Committee and Full Council.

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

5.1 The Council noted at its meeting on 23 June 2020 that the Budget and Loan Sub-Committee was due to review the 2020/21 budget in detail as part of meeting its Terms of Reference (Minute 38/2 refers). The Sub-Committee met on 24 August 2020 and on 1 October 2020 and undertook a comprehensive review of the 2020/21 Budget.

5.2 The Finance and Governance Committee has continued to receive appropriate Budget Monitoring Reports (details of actuals to budget projections) during the 2020/21 year, including reports at the meetings on 14 May 2020 (Minute 9.10), 11 June 2020 (Minute 25.1), 9 July 2020 (Minute 38.1), 13 August 2020 (Minute 52.1), 10 September 2020 (Minute 65.1) and 8 October 2020 (Draft Minute 78.1).

5.3 The Full Council received detailed estimates of the annual budget and of income and expenditure in respect of the 2020/21 year and is undertaking strategic monitoring of the 2020/21 Budget through a standing agenda item at each meeting.

Details of the 2020/21 Budget position are being circulated to Councillors and delivered to Full Council meetings for consideration. The estimates are being used effectively for financial control and budgetary control purposes.

5.4 The Budget and Loan Sub-Committee and the Finance and Governance Committee are currently undertaking detailed and in-depth consideration of the Draft Budget for 2021/22 and will consider all relevant budgetary issues that will lead into a proposed Precept for 2021/22 and a formal recommendation to Full Council in January 2021.

5.5 The formal, detailed examination by the Budget and Loan Sub-Committee and the Finance and Governance Committee and the formal overview by the Full Council clearly demonstrate the robust budgetary preparation and monitoring practices operating within the Council.

5.6 The Clerk/RFO is liaising closely with East Suffolk Council regarding the Council Tax Base and the impact of the pandemic on employment and household incomes. It is clear that Councillors and the Clerk/RFO and her staff are aware of the importance and challenges of the budget assessment for 2021/22 in the light of the current volatility and uncertainty of the overall economic situation.

5.7 The Clerk/RFO confirmed to the Internal Auditor that the Capital Programme, which is being constructed alongside the 2021/22 budget plan, will consist of projections for a period of at least 5 years and will identify the estimated amounts to be set aside to meet future capital projects that the Council may determine.

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

5.9 A formal Reserves Policy is in place. 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, the Finance and Governance Committee and Full Council.

5.10 The Reserves Policy was reviewed by the Finance and Governance Committee on 9 July 2020. The Committee agreed to recommend to Council to adopt the current reserves position, including the application of the Reserves Policy and the allocation in General and Earmarked Reserves (Minute 38.4 refers). The Full Council approved the Committee's recommendation at its meeting on 28 July 2020 (Minute 52.4a refers).

5.11 The Clerk/RFO advised the Internal Auditor that the review of the Reserves was primarily to ensure that Earmarked Reserves were correct in terms of reflecting the specific reserves needed. At the time of the report to Council, General Reserves stood at £331,315 which was significantly lower than the aspirational (target) figure within the Reserves Policy which states that General Reserves should be no less than the equivalent of four months' worth of precept (equivalent to £612,600 for the 2020/21 year of account).

5.12 As at 30 September 2020 the Accounts display Overall Reserves standing at £2,526,688 which is clearly sufficient to meet, within reason, any unforeseen items of expense that may occur. However, the General Reserves continue to be displayed in the Accounts as £331,316 (significantly lower than the target figure prescribed in the Council's approved Reserves Policy).

5.13 The issue of General Reserves in local councils was considered in March 2020 by the Joint Panel on Accountability and Governance (JPAG), which is responsible for issuing proper practices about governance and accounts of local councils. The JPAG put forward the view that an appropriate minimum level of a Smaller Authority's General Reserve should be between 3 and 12 months of Net Revenue Expenditure (NRE). The NRE is effectively Precept less any Loan Repayment and/or amounts included in the Precept for Capital Projects and transfers to Earmarked Reserves. The reason for the wide range (3 to 12 months) is to cater for the large variation in sizes of individual authorities. The smaller the authority the closer the figure should be to 12 months NRE, the larger the authority the nearer to 3 months. In practice, any authority with an NRE in excess of £200,000 should plan on 3 months equivalent General Reserve. In all of this it is important that each authority adopt, as a General Reserve policy, the level appropriate to their size and situation and plan their Budget so as to ensure that the adopted level is maintained. Changes in activity levels and range of services provided will inevitably lead to changes in the requisite minimum level of General Reserve in order to provide working capital for those activities.

**Recommendation 1: The Council should, as soon as practicably possible, review and up-date its General Reserve Policy, to reflect a level appropriate to the size and circumstances of the Town Council and to take account of current best practice prescribed by the Joint Panel on Accountability and Governance (JPAG) with regard to a minimum level of a General Reserve.**

5.14 On 11 September 2019 the Council placed £450,000 of the available overall Reserves into an Instant Access Account with the Unity Trust Bank. In addition, the Council agreed at its meeting on 21 January 2020 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 (Minutes 161.f and 161.1g refer). These investments have yet to take place as the Clerk/RFO is currently investigating the risk factors and possible negative interest situation relating to these investments and intends to shortly report to the Finance and Governance Committee on these issues.

**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 and Sub-Committees during the 2020/21 year in all aspects of the Council's operations. This has assisted in the maintenance of a robust and effective financial control framework.

6.2 As referred to above, 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 and 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, a detailed list of which, including any petty cash and credit card transactions, is included within the Council's Minutes.

6.4 As reported at item 3.7 above, this Interim Internal Audit Review included the detailed testing of the Payments system by means of examination of a sample of transactions for the period April 2020 to September 2020, the supporting invoices and vouchers and confirmation of the necessary authorisations.

6.5 In addition, because the End-of-Year Internal Audit for 2019/20 had been conducted remotely/electronically, the supporting invoices and vouchers for the final three months of the financial year were examined at that time. Accordingly, a sample of the transactions in the period January 2020 to March 2020 was also examined during this interim audit.

6.6 The testing of the samples of transactions proved satisfactory and confirmed that adequate and effective internal financial controls are in place.

6.7 The Council considered and approved the End-of-Year Annual Governance and Accountability Return Part 3 (AGAR) for the year 2019/20 (Sections 1 and 2) at its meeting on 12 May 2020 (Minute 16.2c refers). A copy of the Return has been published on the Council's website.

6.8 The Annual Internal Audit Report for the year 2019/20, completed within the AGAR, was presented to Council on 12 May 2020 and assisted in informing the Council in its consideration of Sections 1 and 2 of the AGAR. The Report has similarly been placed on the Council's website.

6.9 The detailed End-of-Year Internal Audit Report (separate from the AGAR Annual Internal Audit Report) was also considered and agreed by the Council at its meeting on 12 May 2020, alongside the Action Plan delivered by the Clerk/RFO (Minutes 16.2ai and 16.2aii refer).

6.10 The Internal Audit arrangements for the year 2020/21, being the second year of a two-year agreement, were considered and agreed by the Council at its meeting on 12 May 2020 (Minute 16.2aiii 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 Services are currently being operated under contract by Guy McGregor and Associates Ltd., operating as the affiliate practice of the company

trading as Sword and Trowel Bookkeeping Limited of Crowland, Peterborough (with a local office in Eye, Suffolk).

7.2 Following a number of issues of concern regarding the contractor's operation of Payroll Services and submissions to HMRC, the arrangements in place have been closely monitored by the Clerk/RFO. In addition, Internal Audit reported on 15 January 2020 that Guy McGregor and Associates Ltd. (Company number 09449084) was not registered with the Information Commissioner's Office (ICO) for the processing of personal data. As a consequence, Internal Audit recommended that the Council should review the arrangements in place regarding Payroll Services in order that the Council's position was fully protected.

7.3 In the Action Plan presented to Council at its meeting on 12 May 2020, the Clerk/RFO confirmed that recommendations relating to a payroll service provider will be made in due course after consideration by the Finance and Governance Committee. The Action Plan noted that the complications relating to HMRC submissions were to be resolved following which future payroll provision would be considered.

7.4 An ICO Registration for Payroll Services was presented by the contractor to the Clerk/RFO but it was noted that the registration continued to be under the company name of 'Sword and Trowel' and not under the name Guy McGregor and Associates Ltd., the company the Council is contracted with. The Clerk/RFO is currently arranging for Sword and Trowel Ltd. to provide a 'Letter of Engagement' to clarify and regularise the contractual arrangements for the operation of the Council's Payroll Services, as an interim measure prior to the consideration of a future Payroll Services Provider by the Finance and Governance Committee and Full Council .

**Recommendation 2: There are some outstanding issues to be resolved regarding ensuring that the Council's Payroll is administered efficiently and effectively by the Service Provider and that all legal requirements are being adhered to in relation to the processing of the Council's personal data. It is recommended that these outstanding issues should be resolved as soon as practicably possible during the 2020/21 year.**

7.5 A revised staffing structure, the related budget provision and recruitment process issues were considered and agreed by the Council at its meetings in 2019/20. The Clerk/RFO worked with the Personnel Committee to construct job descriptions and to take the recruitment process forward, with appointments originally planned to take effect from April 2020. The recruitment process was subsequently delayed due to the present pandemic. However, an appointment was made in September 2020 to the post of Events and Communications Officer with a starting date of 2 November 2020.

7.6 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 Council and the Committee.

7.7 The Salary payments for the period April to September 2020 were examined and signed as correct by the Councillor Internal Controllers on 29 September 2020. Similarly, the Salary payments for the period January 2020 to March 2020 were

examined and signed as correct by the Councillor internal Controllers on 2 October 2020.

7.8 At its meeting on 18 December 2018 the Council agreed that it would apply the NJC salary cost of living increase to all staff on an on-going basis, regardless of whether a contractual obligation exists, until further notice (Minute 470.1 refers). As part of this process, the Finance and Governance Committee noted at its meeting on 10 September 2020 that the NJC agreement of 2.75% salary increases had been reached and would apply to all staff, backdated to 1 April 2020 (Minute 65.3 refers).

7.9 The Internal Auditor undertook detailed checks on a sample of the salary payments made during the period 1 April 2020 through to 30 September 2020 (and which reflected the new pay scales for 2020/21 applied from 1 April 2020) and all was found to be in order.

7.10 The Personnel Committee reviewed the framework for staff appraisals at its meeting on 18 February 2020 and put forward an Appraisals Guidance which was subsequently adopted by the Full Council on 26 May 2020. As part of meeting the Guidance, the Clerk/RFO reported to the Personnel Committee on 24 August 2020 that Staff Appraisals had been completed using the Zoom platform and that, whilst working from home, staff remain in regular contact, with daily staff meetings and individual meetings to discuss work streams.

7.11 With regard to meeting the legislation relating to workplace pensions, the Finance and Governance Committee noted at its meeting on 8 October 2020 that the required re-declaration of compliance had been made on 29 September 2020 to the Pensions Regulator in accordance with the requirements of the Pensions Act 2008.

**8. Petty Cash Account and Corporate Charge Cards (*Associated books and established system in place, the arrangements detailed in Financial Regulations*).**

8.1 Although the amounts expended in this area are extremely limited, the Internal Auditor is charged to examine the petty cash accounting controls as part of the Annual Governance and Accountability Return (AGAR) certification work. The Finance and Governance Committee noted at its meeting on 19 November 2019 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 (Minute 108.3 refers).

8.2 The Clerk/RFO reported to Council on 12 May 2020 (in the Action Plan within the Clerk's Report) that Petty Cash arrangements had been reviewed and draft changes made to Financial Regulations and the Petty Cash Policy and recommended the adoption of the changes. The Action Plan was approved by Full Council and confirmed to Finance and Governance Committee on 14 May 2020.

8.3 The Clerk/RFO confirmed to the Internal Auditor that the arrangements regarding the administration of the Petty Cash System and the use of Debit/Credit Cards are included in the overall review of Financial Regulations being undertaken by the

Standing Orders and Policies Sub-Committee and the Finance and Governance Committee..

8.4 The operation of the revised Petty Cash System and the use of the Credit Card will be examined at the End of Year Internal Audit in order that appropriate certification can be given by Internal Audit in the 2020/21 AGAR.

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

9.1 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 2020/21. At its meeting on 24 September 2019, the Council 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). At its meeting on 21 January 2020 the Council confirmed this decision in the approval of the 2020/21 Budget (Minute 161.1 refers).

9.2 At its meeting on 12 May 2020 the Council confirmed that Fees and Charges would remain as at the 2019/20 rates, pending review later in the year, particularly at the Covid-19 recovery stage, by the Finance and Governance Committee (Minute 16.3d refers).

9.3 The Receipts system is operated within the RBS Accounting System. The Income controls were tested during this Interim Internal Audit Review by means of examination of a sample of transactions that took place during the period April 2020 to September 2020. In addition, because the End-of-Year Internal Audit for 2019/20 had been conducted remotely/electronically, the supporting documentation and vouchers for the final three months of the financial year had not been examined at that time. Accordingly, a sample of the transactions in the period January 2020 to March 2020 was also examined during this interim audit.

9.4 The testing of the samples of transactions proved satisfactory other than two minor discrepancies regarding the reporting to Council on 24 March 2020 of refunds from the SLCC which related to credit notes and not actual income received (the original payment not having been made). The testing 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. Due to staff working from home and limited use being made of the Council's offices as a result of the pandemic, the Councillor Internal Controllers signed, and confirmed as correct, the income transactions recorded during the period April to September 2020 at a sitting held on 6 October 2020.

9.5 The Clerk/RFO and her staff are aware of the importance of income being fully and promptly recorded in the RBS system, the need for adequate and effective security over any cheques received as well as all income being accounted for and banked promptly. Debtors are encouraged to pay by electronic means and there are

now relatively few instances of income being received through cash or by means of cheque.

9.6 The previous Internal Audit Report identified that the total value of Debtors overall had increased significantly and had recommended that the Sundry Debtors System incorporated within the RBS Accounting System should be used to its fullest extent to manage the follow-up action on all outstanding sums in order to reduce the level of outstanding debt to the Council. The overall level of Debtors has since fallen and the Clerk/RFO confirmed to Internal Audit that the work being undertaken regarding the development of the Debtors system, having been impacted by the current pandemic, will continue as soon as practicably possible.

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

10.1 The Council continues to place emphasis upon ensuring that robust and effective Internal Control and Risk Management arrangements are in place. The risk management documentation is comprehensive and identifies the risks involved and the action being taken to manage and mitigate those risks. The Risk Assessment documents are formally considered by Full Council at least once each year and are considered routinely by the Finance and Governance Committee, which has a standing item of 'Other Financial matters' at each meeting for the consideration of legal, compliance and risk management issues.

10.2 The Council demonstrates good risk management and financial control practice by nominating Councillors to act as Internal Controllers to confirm that an effective internal controls process is in place. The arrangements include a check list from which the designated Internal Controllers undertake a review of the system of internal controls, complete all necessary checks and sign a report in confirmation that the review has been undertaken.

10.3 A report relating to the internal control examination by a nominated Councillor was presented to Council at its meeting on 12 May 2020 (Minute 16.2b refers) and assisted in informing the Council in its completion of the Annual Governance and Accountability Return (AGAR) for the year 2019/20.

10.4 A Councillor Internal Controller for the year 2020/21 was appointed by the Council at its meeting on 12 May 2020 (Minute 16.3c refers) and a substitute Councillor Internal Controller was appointed by the Council on 26 May 2020 (Minute 26.1 refers).

10.5 In order to comply with Section 4 of the Accounts and Audit Regulations 2015, the Full Council must undertake, before the end of March 2021, a formal review of the effectiveness of the Council's system of internal control, including the arrangements for the management of risk, and Minute the review accordingly. The Clerk/RFO has confirmed that this formal review will take place before the end of March 2021 and will include the consideration of any matters raised by the Internal Controllers during their reviews in the 2020/21 year of account.

10.6 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 Municipal Insurance for a period of 3 years (the Long-term Agreement is active until 1 April 2021). At its meeting on 12 May 2020, the Clerk/RFO presented to Council a detailed report on the insurance cover in place. Being in its final year of the agreement, the Council will need to provide an open procurement process during 2020/21 for a future contract. The Council noted the position and accepted the current insurance arrangements (Minute 15 refers).

10.7 The insurance premium of £20,770.19 for the year 2020/21 was paid to Zurich Municipal Insurance on 7 April 2020 and reported to Council at its meeting on 26 May 2020 (Minute 25.2b refers).

10.8 The Council's Employer's Liability cover stands at £10m and the Public Liability cover stands at £15m. The cover for Fidelity Guarantee (Employee/Councillor Dishonesty) currently stands at £2m which, as reported at the End-of-Year Audit on 23 April 2020, has been marginally below the recommended guidelines of year-end balances plus 50% of the precept/grants received. As at 30 September 2020 overall reserves stood at £2,526,688, the second instalment of Precept (£918.865) having been received during that month. Accordingly, the current Fidelity Guarantee cover has now been significantly exceeded.

10.9 The Clerk/RFO has confirmed to the Internal Auditor that she has contacted the Council's insurers and received a quotation with the view of securing Fidelity Guarantee insurance cover for £5m. The Clerk/RFO will shortly be reporting to Finance and Governance Committee and Full Council on this issue. 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.

10.10 Insurance is also reviewed as part of the Council's overall audit and risk management procedures. The Council demonstrates good practice by requiring that the list of Assets is regularly compared to the insurance schedule in order to ensure that all assets receive appropriate cover and that such comparison should be undertaken at least on an annual basis. The Finance and Governance Committee considers insurance cover under its Risk Management and Compliance responsibilities. The Committee reviewed the Council's insurance arrangements at its meeting on 5 March 2020 and noted that all the assets on the Council's Register were covered by insurance. The position was noted by the Council at its video meeting on 24 March 2020 (Minute 193.3 refers).

10.11 An important area of risk management within local councils concerns the adequate maintenance of play equipment. In this respect the AID Committee is responsible for ensuring that independent play inspections are completed annually and are designed to highlight any issues that may need to be addressed to ensure on-going safety of users. Safety Inspections are managed on behalf of the Council by East Suffolk Norse (as part of the current contract) and RoSPA inspections are undertaken by the Play Inspection Company. The Clerk/RFO provides reports to AID Committee and Full Council regarding insurance and claims issues relating to open

spaces. Although the use of play equipment has been impacted by the current pandemic, the Clerk/RFO has confirmed to the Internal Auditor that, as part of the Council meeting its responsibilities for play equipment under its ownership, the inspections undertaken under the contract arrangements are being carefully monitored with appropriate records being maintained to evidence the monitoring action taken.

10.12 With regard to other health and safety issues, at its meeting on 21 January 2020 the Council delegated authority for the Clerk/RFO to progress the appointment of a Health and Safety Consultant to provide professional support in an overall review (Minute 162.1 refers). Since that time, the Council has employed a company to undertake two specific tasks (a) allotment asbestos sample and (b) fire risk assessment at Hamilton House. The Clerk/RFO has confirmed to Internal Audit that all necessary Health and Safety Policies and Procedures are continuing to be reviewed, updated and upgraded as required.

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

11.1 Previous Internal Audit Reviews have confirmed that the Council has satisfactory arrangements in place to ensure compliance issues are carefully considered and adequately addressed. The AID Committee receives all necessary reports on compliance issues, including compliance monitoring, maintenance and condition surveys. The Clerk/RFO continues to maintain spreadsheets devised for overseeing the monitoring and maintenance of sites.

11.2 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. At its meeting on 8 October 2020, the Finance and Governance Committee considered the East Suffolk Norse analysis of the monthly partnership Fee and the proposed charges for the year 2021/22.

11.3 Following the circumstances created by the pandemic, the Clerk/RFO has reviewed with Norse the Partnership Fee, particularly issues surrounding staff and resource savings over the period April to September 2020. The Clerk/RFO advised Internal Audit that the only savings that have become apparent are those relating to seasonal workers. The data provided to Internal Audit revealed that the savings amount to some £28,000 in the Grounds Department during the period April to June 2020. The Clerk/RFO is continuing to liaise with Norse to ensure that all savings are fully identified and that full reports can be made to Committee and Full Council on this matter.

11.4 With regard to the overall contractual arrangements in place with Norse, the Council has continued the work which commenced prior to lockdown in March 2020 regarding a draft contract which provides an appropriate legal framework to extract parties from the arrangement.

11.5 In terms of the overall monitoring of the Norse Contract, the Finance and Governance Committee, at its meeting on 20 February 2020, changed the name of the KPI Working Group to the Norse Contract Working Group, with the Norse Contract being subject to its first review (Minute 156.4 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 was examined in detail by Internal Audit during the 2019/20 End of Year Internal Audit to ensure that assets were fully and correctly recorded in Section 2 of the Annual Governance and Accountability Return. The Clerk/RFO presented a copy of the Register (as at the year end 31 March 2020) to the Council at its meeting on 12 May 2020. It was noted by the Council that the Register would be updated for the 2020/21 year as amendments were due, including those with regard to CCTV. The Council reviewed and approved the Register subject to review by the AID Committee (Minute 14 refers).

12.3 Following a review on 1 June 2020 by the AID Committee, the Council considered and approved the Register of Land and Assets, including buildings and office equipment (the meeting on 23 June 2020, Minute 40.3b refers).

12.4 For purposes of the Annual Governance and Accountability (End-of-Year) Annual Return, the Asset Register displays a nominal £1 value attached to transferred/donated assets, including civic and ceremonial items, the Lowestoft Collection and further civic artefacts transferred and included in the Register. New acquisitions are valued at purchase cost. The Council also maintains an insurance value for each relevant asset based on an understanding of value for that purpose.

12.5 The Register will be reviewed in detail at the End-of-Year Audit in April/May 2021 in order that appropriate certification can be made in the Annual Internal Audit Report in the Annual Governance and Accountability Return (AGAR) for the year 2020/21.

12.6 The Arnold's Bequest land has not been placed in the Asset Register as the Council is the Sole Trustee only and not the landowner. The Joint Panel on Accountability and Governance (JPAG) does suggest, however, that Trust Assets held by a local council should be recorded in the Council's Asset Register as 'Charity Assets held as Trustee' but without their value recorded in the overall total of the Register. The Internal Auditor discussed this issue with the Clerk/RFO in order that the Council may consider making this small addition to the Asset Register.

**13. Sole Trustee (To confirm that the Town Council has met its responsibilities as a trustee).**

13.1 The Council acts as the Sole Trustee to the Arnold's Bequest. Reports are made to Meetings of the Arnold Bequest Charity Board and to the Council, as necessary, as part of fulfilling the responsibilities of the Sole Trusteeship.

13.2 The 2020 Annual Meeting of the Charity Board took place as a video meeting on 21 April 2020. The Accounts and the Return to the Charity Commission for the year ended 31 March 2020 were considered and agreed by the Charity Board, which noted that the accounts for the previous year, ended 31 March 2019, had been submitted to the Charity Commission (Minute 5 refers). The Clerk/RFO confirmed to the Council on 12 May 2020 (as part of an Action Plan presented to Council within the Clerk's Report) that the Charity Board had agreed the accounts which were to be submitted to the Charity Commission.

13.3 The Charity Board also noted the recent site visit by East Suffolk Norse's Countryside Officer and the shared ideas to keep the area looking well-managed whilst supporting biodiversity. The Charity Board is continuing to take responsibility, within the framework of the climate emergency, to increase biodiversity at the Arnold's Bequest land and to reflect the Council's overall policy of making small areas of land as biodiverse as possible. The Clerk/RFO advised the Internal Auditor that the Charity Board is due to discuss declaring a climate emergency and how this can assist in informing the Board's decision-making.

13.4 The Charity Board met through a video meeting on 28 July 2020 and noted the rental income received and the cash balance held. The meeting was also advised of the support being received from East Suffolk Norse's Countryside Officer and received an up-date on the biodiversity and site management actions being taken and longer term aspirations/improvements for the site (Minutes 13 to 15 refer).

13.5 The Charity Commission's website confirms the Frank Thomas Arnold Bequest to be an area of land which was bequeathed to the people of Lowestoft for their use and enjoyment as a Park or Recreation Ground (Charity no. 304785) and as having an Annual Up-date for the year ending 31 March 2019 (received by the Commission on 31 January 2020).

13.6 Following the transfer of the Trust Funds from the District Council to the Town Council, the Clerk/RFO consulted the Internal Auditor and it was agreed that the Trust Funds transactions would be separately identified in the Accounts and held initially in the Council's main bank account. However, it should be explained that best practice put forward by the JPAG in March 2020 provides that a separate bank account is maintained in order that Trust Funds do not become subsumed over time within a local council's overall resources.

**Recommendation 3. The Council should consider opening a separate bank account for the Arnold Bequest Charity, in accordance with the JPAG best practice, in order that the Trust Funds are clearly and separately identified for future generations.**

**14. External Audit (*Recommendations put forward/comments made following the annual review*).**

14.1 The External Audit review of the Council for the year of account ending 31 March 2020 was undertaken by PKF Littlejohn LLP, following the Council's submission of the Annual Governance and Accountability Return for the 2019/20 year. The Report and Certificate by the External Auditors is dated 14 July 2020 and raised no issues of concern nor recommended any actions for the Council to take.

14.2 The Report and Certificate by the External Auditors for the 2019/20 year was received by the Full Council at its meeting on 28 July 2020 (Minute 53.2 refers).

**15. Publication Requirements.**

15.1 Under the Accounts and Audit Regulations 2015 authorities must publish each year the following information on a publicly accessible website:

- Notice of the period for the exercise of Public Rights
- AGAR - Sections 1 and 2
- Notice of Conclusion of Audit
- AGAR - Section 3 (the External Audit Report and Certificate, which confirmed that the information in Sections 1 and 2 of the AGAR is in accordance with Proper Practices and that there were no matters of concern).

15.2 The Clerk/RFO confirmed to the Council at the meeting on 12 May 2020 (within an Action Plan presented to the Council) that the AGAR would be published in accordance with the Accounts and Audit (Coronavirus) (Amendment ) Regulations 2020 and the period for the exercise of public rights of inspection had been set for the 30 working days between 20 May 2020 and 1 July 2020. The Internal Auditor was able to confirm that the publication requirements have been met and that the documents in respect of the year 2019/20 were readily accessible on the Council's website: <https://lowestofttowncouncil.gov.uk/>.

**16. Additional Comments.**

16.1 I would like to record my appreciation to Ms Shona Bendix, the Clerk/RFO and to Mr James Cox, the Administration and Finance Assistant, for their support and assistance during the course of this Interim Internal Audit work.

*Trevor Brown*

**Trevor Brown, CPFA**

**Internal Auditor**

**16 October 2020**