

LICHFIELD CITY COUNCIL

INTERNAL AUDIT REPORT

2014-2015

Graham Keatley
Internal Auditor

ANNUAL REPORT OF INTERNAL AUDIT 2014-2015

Introduction

The purpose of this report is to:

- Provide the Council with an internal audit opinion of the effectiveness of the systems of financial control, risk management and control arrangements based on the work undertaken during the year.
- Summarise internal audit activity.
- Raise any particular issues arising from that work.

Overall Opinion

Based on the findings of the work undertaken during the year, my overall opinion on the soundness of the system of internal control is that it was adequately controlled. The overall opinion for each review conducted is given in the Appendices. Areas for improvement were identified in a number of reviews and action plans agreed.

Background

The Local Government Accounts and Audit Regulations 2011 require every Authority to maintain an adequate and effective system of internal audit of its accounting records and its system of internal control in accordance with proper internal audit practices.

Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Council on the control environment comprising risk management, control and governance, by evaluating its effectiveness in achieving the organisations objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to proper, economic, efficient and effective use of resources.

Internal Audit must ensure that all activities of the Council are subject to an internal audit review. The identification of these activities is agreed with the Town Clerk.

The annual Audit Plan for 2014-2015 was approved by the Internal Control Working Party on the 16th November 2011, and is reproduced for information as **Appendix A**

The findings of work undertaken and recommendations are outlined in **Appendix B**

A summary of the recommendations and management response is outlined in **Appendix C**.

The Management and Insurance risk register details are shown in **Appendix D**

The Annual Internal Audit Report as required for the Audit Commission's – Local Councils in England Annual Return for the year ended 31st March 2015, will be completed as the statement of accounts for 2014-2015 is prepared. Details are outlined in **Appendix E**

AUDIT PLAN 2014-2015

1. FINANCIAL SERVICES

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- 1.2. Main Accounting System
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- 1.5. Payroll
- 1.6. Management of VAT
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- 3.4 Capital Works
- 3.5 The impact of the Account and Audit (England) Regulations. SI No. 2011/817
- 3.6 Insurance
- 3.7 Members' Code of Conduct and Disclosure of Interests
- 3.8 Further Developments

4. MANAGEMENT AND INSURANCE RISK REGISTERS

1. FINANCIAL SERVICES

1.1 Fraud and Corruption Checklist

The Anti Fraud and Corruption Checklist Action Plan sets out tasks for the production of clear, written instructions and procedures for all staff on:-

- Cash collection/ handling duties
- Credit income duties
- Order for work, goods and services
- Creditor payments
- Cheque dispatch procedures
- Petty Cash
- Banking duties
- Payroll processing

The financial procedure notes are in place. In addition, procedure notes are being updated on a rolling programme.

1.2 Main Accounting System

The purpose of the review to ensure the main Accounting System provides complete and accurate data for the production of budget reports and the publication of the Annual statement of Accounts.

I am pleased to note that there are good controls operating.

1.3 Creditors

The purpose of the review is to look at the ordering, receipt and payment of goods and services, that the financial regulations have been adhered to, and the appropriate controls are in place and in operation.

Payment Terms

With reference to the Government's objective to pay Small Medium Enterprises (S.M.E's) within 30 days, I have taken a sample of the Council's invoices 45% (45% 2013/14) are paid within 10 days and 86% (82% 2013/14) are paid within 30 days from date of receipt of invoice.

I am pleased to note that there are good controls operating.

- That financial regulations have been complied with
- All payments are appropriate and legitimate
- There is adequate documentation.

1.4 Sundry Debtors

The purpose of the review is to look at the controls and operations relating to bookings and admissions.

I am pleased to note that there are good controls operating;

- Price increases are agreed by Council
- Price changes are implemented
- There is adequate documentation.
- Bad debt is managed and any write off action required is taken promptly.

1.5 Payroll

The purpose of the review was to identify whether there are appropriate controls in place and in operation.

I am pleased to note that there are good controls operating in relation to staffing matters;

- The responsibility is clearly defined in the Council's financial regulations
- Personnel records are kept securely
- All payments are appropriate and legitimate.

However, I have the following recommendation to make;

Recommendation 1

That the Payroll procedure notes are reviewed and an officer is trained to provide back up in case of extended leave/sickness cover

1.6 Management of VAT

The purpose of the review is to identify whether there are appropriate controls in place and in operation and to review the partial exemption calculation..

- To examine the current systems, procedures and controls relating to Vat entries into the financial information system.
- To ensure VAT is accounted for and recovered appropriately.
- Ensure the VAT return is completed correctly and on time.
- That the partial exemption calculation is completed and reviewed.

I have reviewed the returns made to the H M Customs and Excise and the authority's partial exemption calculation and confirm that the appropriate controls are in place.

The HM Revenue and Customs monthly VAT claim is completed online via Government Gateway

I am pleased to note that there are good controls operating;

However, I have the following recommendations to make;

Recommendation 2

That the VAT procedure notes are reviewed and an officer is trained to provide back up in case of extended leave/sickness cover

Recommendation 3

That the VAT checker VIES VAT Number validation -European Commission is used to validate VAT invoices

1.7 Banking Arrangements

The purpose of the review is to identify whether there are appropriate controls in place and in operation, ensuring all cash collections and banking arrangements are in accordance with Financial Regulations.

I am pleased to report that there are good controls in relation to banking related matters.

- Financial Regulations have been adhered to.
- All receipts and payments are dealt with promptly.
- Adequate separation of duties

However, I have the following recommendation to make;

Recommendation 4

From July 2014 NatWest has started to charge account maintenance/fixed fee and transaction charges for the Imprest and Current Accounts. The estimated cost is approximately £1,300per annum. I would recommend that the Town Clerk review the bank charges.

1.8 Petty Cash

The purpose of the review is to identify whether the appropriate controls are in place and in operation.

I am pleased to report that there are good controls operating.

- The responsibility is clearly defined in the Council's Financial Regulations
- Receipts are obtained for all reimbursements and are approved.

1.9 Income Monitoring

I have reviewed the income received by the authority and checked that all fees and charges have been reviewed and reported in accordance with financial regulations.

I am pleased to note that all the requirements have been met.

However, I have the following recommendation to make;

Recommendation 5

As the charge for the Market Square Miscellaneous letting day rates was approved 29 January 2004. I would recommend that the Town Clerk review the Market Square Miscellaneous letting day rates.

1.10 Budgetary Control

To ensure that the Budget has been approved, monitored and reported in accordance with financial regulations.

I am pleased to note that the Budget is approved, monitored and controlled in accordance with the Council's Financial Regulations.

1.11 End of year closedown

An important measure of proper financial control and accountability is the timely closure and publication of audited accounts.

I am pleased to report that there are good controls operating.

1.12 Statement of Account

The statutory target for presenting the Annual return to Members for approval is 30th June.

The Annual Return for 2013-2014 accounts was approved and published by Council on 24 June 2014, and I am pleased to report that the requirements under the Account and Audit Regulations for 2013-2014 had been met.

Section 3-External auditor's certificate and opinion 2013-2014

The external auditor on 5 September 2014 issued an unqualified report and the Notice of conclusion of Audit and right to inspect the annual return was published 11 September 2014

Appointment of external auditor from 2014-2015

On 29th August 2012 the Audit Commission confirmed the appointment of Grant Thornton UK LLP as external auditor to audit the annual return for Lichfield City Council for five years from 2012/13.

2. STRATEGIC POLICIES

2.1 The Treasury Management Policy and Strategy Statement for 2014-2015

Approved by the Internal Audit Working Party on 13 March 2014 and subsequently approved by Council on 7 April 2014.

The purpose of this statement is to establish how the authority will manage its activities in relation to borrowing and investments

Borrowing

The authority has undertaken no borrowing during 2014-2015

2.2 Investment Policy

Investments have been made in accordance with the Investment Strategy

2.3 Treasury Management Practices (TMPS)

The treasury management practices set out the manner in which the council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities.

- TMP 1 - Risk management
- TMP 2 - Best Value and Performance Plan
- TMP 3 - Decision making and analysis
- TMP 4 - Approved instruments, methods and analysis
- TMP 5 - Organisation, clarity and segregation of responsibilities and dealing arrangements
- TMP 6 - Reporting requirements and management information arrangements
- TMP 7 - Budgeting, accounting and audit arrangements
- TMP 8 - Cash and cash flow management
- TMP 9 - Money Laundering
- TMP 10 - Staff training and qualifications
- TMP 11 - Use of external service providers
- TMP 12 - Corporate Governance

The RFO has complied with the TMPS 1 to 12.

3. SPECIFIC REVIEW

3.1 Financial Regulations and Procedures

The financial regulations and standing orders were revised February 2014

I can confirm that finances have been administered in accordance with Financial Regulation and Procedures adopted by the Council.

3.2 Contract Standing Orders

The Contract standing orders were revised February 2014

I can confirm that Contracts have been administered in accordance with Financial Regulations and Procedures adopted by the Council.

3.3 Review of 2013-2014 Internal Audit Recommendation

I confirm that all recommendations for 2013-2014 have been actioned,

3.4 Capital Works

The purpose of the review is to look at the Contract works during 2014-2015; that the financial regulations have been adhered to and the appropriate controls are in place and in operation.

I can confirm that the contract works have been administered in accordance with Financial Regulations and Procedures adopted by the Council and that there are good controls operating:

3.5 Impact of the Account and Audit (England) Regulations. SI No. 2011/817

It was reported to the Internal Control Working Party 31 March 2011

In particular it was noted that

- The definition of 'smaller relevant bodies' now applied to town/parish council except where the turnover exceeded £6.5 million. The previous threshold was £1 million, so this would free the City Council (and almost all town. parish councils) from any potential of the 'full audit' regime applying.
- There was no longer a requirement for an annual review of the effectiveness of the system of internal control.
- There remained a requirement to conduct a review at least once a year of the effectiveness of the system of internal control. This review could be undertaken by a working party, but the findings of the review must be considered by the full council which must then approve the annual governance statement. The use of committees for approving the governance statement was no longer permitted.

3.6 Insurances

The Council's risk register identifies that the Council's business is protected against loss, damage or claims made upon it.

The Council has a combined insurance policy with Zurich Municipal for buildings and property, public and employer's liability.

The Council has an insurance Policy with Ecclesiastical Insurance for The Samuel Johnson Museum.

The Town Clerk reviews the Insurance Risk Register **Appendix D** and the Insurance policy in March of each year and arrange for additional cover as circumstances arise.

I can confirm that that appropriate insurance cover for identified risks is in place.

3.7 Members' Code of Conduct and Disclosure of Interest

The Localism Act 2011 contains provisions which replace the current standards framework established under the Local Government Act 2000. These provisions are contained in section 26-37 and Schedule 4 of the Act and take effect from 1 July 2012. The new provisions apply to both members and co-opted members of parish councils. The changes affect members of principal councils too, but with some slight differences in application as compared to parishes

The Town Clerk submitted a detailed report to Council 25th June 2012.

At Council on 25th June 2012 it was resolved that with effect from 1st July 2012 the Council adopt until further notice, the code of conduct as contained in Appendix 2 to those minutes and that the Town Clerk arranged a training session for members on the new code.

3.8 Future developments

I note the following items reported Council

- a) Production of a Neighbourhood Plan for Lichfield City
- b) Implications for the City Council of the Electoral Review of Lichfield District
- c) Proposal for a Lichfield Business Improvement District (BID)
- d) Cheque signatures
- e) City Centre Development Strategy - Council 15/09/14
- f) Electronic Delivery of Agendas - Council 28/01/15
- g) Parish Polls - Government Consultation on proposed changes Council 28/01/15
- h) The current Town Clerk will be retiring in August 2015 after 28 years' service

2013-2014 Internal Audit Recommendation Summaries

No	Details	Management Response	Timescale
1	<i>That the Town Clerk (RFO) ensures that all Car Mileage/Overtime sheets are certified for payment.</i>	Agreed	immediate
2	<i>That procedure notes are produced regarding transfers from Business Reserves to the Direct Reserves and Direct Reserve to the Business Reserve</i>	Agreed	By June 2014
3	<i>That the Serjeantson Fountain be included on the Asset Register as a Community Asset</i>	Agreed	By May 2014

2014-2015 Internal Audit Recommendation Summary

No	Details	Management Response	Timescale
1	<i>That the Payroll procedure notes are reviewed and an officer is trained to provide back-up in case of extended leave/sickness cover</i>	Agreed	By October 2015
2	<i>That the VAT procedure notes are reviewed and an officer is trained to provide back up in case of extended leave/sickness cover</i>	Agreed	By October 2015
3	<i>That the VAT checker VIES VAT Number validation -European Commission is used to validate VAT invoices</i>	Agreed	Immediate
4	<i>From July 2014 NatWest has started to charge Account Maintenance/fixed fee and transaction charges for the Imprest and Current Accounts. The estimated cost is approximately £1,300 per annum. I would recommend that the Town Clerk review the Bank charges.</i>	Agreed	By July 2015
5	<i>As the charge for the Market Square Miscellaneous letting day rates was approved 29 January 2004. I would recommend that the Town Clerk review the Market Square Miscellaneous letting day rates</i>	Agreed	By April 2015

INSURANCE RISK REGISTER

Category	Area of activity	Risks	Likely frequency	Severity	Review frequency	Triggers for action
Elected Members	Policy decisions Resource allocation Political agenda and priorities Probity Professional Conduct	Injury Assault Fraud, dishonesty and corruption Defamation Breach of confidentiality Libel and slander	Low	Medium	Annually	Per incident
Employees	Professional Advice Professional judgements Financial management Contract management Project planning/management Lack of skills, experience and relevant competency Inappropriate or insufficient training	Liability claims for physical injury Defamation Professional indemnity Fraud, dishonesty and corruption HSE prosecution	Low	Medium	Annually	Per incident Internal Audit work plan
The General Public	Affected by: All services-directly provided All services-commissioned and contracted out Joint and partnership arrangements All premises maintained, managed or occupied	Complaints Legal challenge Ombudsman investigation Liability claims for physical injury Liability claims for damage to property	Low	Medium	Annually	Per incident
Planning	Management information relating to service provision and future needs	Service not resourced and/or fully provided	Low	High	Annually	Budget Reports Estimates
Project Management	All major schemes	Poor value for money Bad professional advice	low	Medium	Per scheme	Per Scheme
Management of Information held	Policies and codes of practices for record systems Information security and data protection Employee records and training	Defence of criminal, civil and employment tribunal actions Judicial challenge Challenge under Human Rights Act	Low	Low	Annually	Per incident Internal Audit work plan
Reputation	Provision of services	Failure to recruit high calibre staff Loss of public confidence	Low	High	Annually	Vacancy Per incident
Business continuity planning	Provision of services	Failure to deliver services	Low	High	Annually	Per incident Internal Audit work plan

MANAGEMENT RISK REGISTER

The Council is required under Regulation 4 of the Accounts and Audit Regulations 2011 to ensure that the financial management and accounting control systems of the Council are adequate and effective, and that the Council has a system of Internal Control which facilitates the effective exercise of the Council's functions and which includes risk management arrangements. In carrying out this requirement there are roles for Members and Officers of the Council who will draw information and guidance from legislation and the work done by independent bodies such as the Internal Auditors and financial auditors.

Activity	Identified Risk	Assessment and Action	Notes
Financial	To ensure that the Council maintains responsibility for the finances of the Council and that the procedures to be followed are set out for everyone to understand. That ongoing checks of the Council's financial dealings are carried out and reported to the Council	The Council has in place Financial Regulations and procedure notes that detail the controls and procedures to be followed and responsibilities. These are aimed to secure efficient and prudent control of the Council's finances. Financial reports are presented for consideration by Council and/or the Internal Control Working Party.	The Council on 24 th June 2014 Adopted a local Government Pension Scheme - Employer Discretions Policy
Financial	That core activities of the Council are given precedence in allocation of the Council's financial and human resources.	The Council will give due regard to the Strategic Plan objectives when determining priorities for allocation of resources.	
Financial	That the Council's finances are sufficient to enable it to continue providing its identified priority services	Regular reports are submitted to Council comparing actual expenditure to date to budget. Budgets are set with due regard to previous expenditure levels, inflationary pressures, and foreseeable variations in service levels, costs and other factors. There is also a general reserve in place for unexpected and unbudgeted expenditure so as to allow the Council to continue to operate.	
Financial	That the Council is run efficiently and effectively	In addition to internal management checks, there are annual financial and systems audits carried out by the Council's internal auditor through the agreed Internal Audit programme. There is an annual external audit carried out by the Council's auditors.	
Financial	To protect the Council against theft from an officer or former officer of the Council	The Council has fidelity insurance. The Council has an approved anti-fraud and corruption checklist.	The Anti Fraud and Corruption Strategy, Whistle blowing Policy and Fraud Investigation Manual also Money Laundering Policy including the Bribery Act 2010 have been approved by Council March 2012

Activity	Identified Risk	Assessment and Action	Notes
Financial	The loss of computerised financial records and other records	The Council has an approved back-up and security strategy for its computer systems and records.	
Financial	That the Council's business is protected against loss, damage or claims made upon it.	The Council has a combined insurance policy with Zurich Municipal for buildings and property, public and employer's liability.	
Health and Safety	Failure to comply with Health and Safety legislation	The Council has a comprehensive Health and Safety Risk Assessment for its activities and premises.	The Health and Safety at work Policy July 2012 have been circulated to all employees
Central Administration	The Council has in place sufficient qualified and/or experienced staff to operate and manage its activities and structures are in place to protect the operations against the loss of a key member of staff	The Town Clerk (RFO) is supported by a Deputy Clerk to deputise in the Clerk's absence and a separate Internal Auditor (who formerly undertook the Council's Treasurer function). Other key administrative staff have assigned duties, but are multi-skilled and there is considerable shared knowledge of roles to ensure the continuation of operations in the event of one person being unavailable to carry out their duties. There is a team of Premises Attendants to provide flexibility and cover for absence for the Guildhall. Written procedure notes are available for key duties, and premises manuals are largely complete. The Staffing Committee undertakes an annual review of the staffing establishment available to service the Council's functions.	The Council on 22 April 2013 adopted three new procedures based on National Association of Local Councils (NALC) models - Disciplinary Procedures - Grievance Procedure - Complaints Procedure The new procedures have been circulated to all employees
Central Administration	How would operations continue following the loss of premises due to a major incident?	Emergency office accommodation could be provided in Guildhall rooms.	
Markets Operation	Interruption/cancellation of Markets activities	If the Market Square was unavailable alternative arrangements could be made to operate in the streets (as happened during Market Sq repaving works.) Net income from the Markets activities could reduce significantly before it affected the overall financial position of the Council.	
Room Hire at Guildhall	Interruption/cancellation of room hire through loss of building by fire etc	The building and contents are insured against loss. Loss of the Guildhall would not in itself affect the ability of the Council to function. No business interruption insurance is held as the income lost from Guildhall hire would be sufficiently mitigated by reduced operating costs.	

Activity	Identified Risk	Assessment and Action	Notes
Community Centres	Loss of properties through fire etc. Failure/disbandment of management committees.	The building and contents are insured against loss. Temporary closure during reconstruction of the Community Centres would not in itself affect the ability of the Council to function. The Council has sufficient experience from operating Guildhall to temporarily take over running of the Community Centres should a management committee cease to function.	
Grounds maintenance	The contractor goes into liquidation, or tender price on contract rises significantly.	Current contract is with Lichfield District Services (District Council's DSO) on five year contract. Renewal of contract to be undertaken in sufficient time for budgets to be amended if required.	The Council on 26/04/10 min 100 agreed to enter an ongoing Service level agreement
Land	Loss of land, or public open space, through encroachment, adverse possession etc	Boundaries of areas known, recorded and inspected.	Registration of land holdings is completed. Some areas are subject to some legal issues being resolved.
Twinning	Interruption/cancellation of Twinning activities	Twinning activities are a non-essential activity	
Johnson Birthplace	Loss of properties through fire etc.	The building and contents are insured against loss. Temporary closure during reconstruction would not affect the ability of the Council to function.	
Legal	Litigation against Council	Council has Public Liability and Employer's liability insurance. Control measures in place to reduce likelihood of successful claims	

ANNUAL INTERNAL AUDIT REPORT 2014-2015

The Council's Internal Audit, acting independently and on the basis of an assessment of risk, carried out a selective assessment of compliance with relevant procedures and controls expected to be in operation during the financial year ended 31 March 2015.

Internal Audit has been carried out in accordance with the Council's needs and planned coverage. On the basis of the findings in the areas examined, the Internal Audit conclusions are summarised in this table. Set out below are the objectives of internal control and alongside are the Internal Audit conclusions on whether, in all significant respects, the control objectives were being achieved throughout the financial year to a standard adequate to meet the needs of the Council.

	Agreed
A Appropriate books of account have been properly kept throughout the year.	
B The council's financial regulations have been met, payments were supported by invoices, expenditure was approved and VAT was appropriately accounted for.	
C The council assessed the significant risks to achieving its objectives and reviewed the adequacy of arrangements to manage these.	
D The annual precept requirement resulted from an adequate budgetary process progress against the budget was regularly monitored and reserves were appropriate.	
E Expected income was fully received, based on correct prices, properly recorded and promptly banked; and VAT was appropriately accounted for.	
F Petty cash payments were properly supported by receipts, expenditure was approved and VAT appropriately accounted for.	
G Salaries to employees and allowances to members were paid in accordance with council approvals, and PAYE and NI requirements were properly applied.	
H Assets and investments registers were complete and accurate and properly maintained.	
I Periodic and year-end bank account reconciliations were properly carried out.	
J Accounting statements prepared during the year were prepared on the correct accounting basis (receipts and payments or income and expenditure), agreed to the cash book, were supported by an adequate audit trail underlying records, and where appropriate debtors and creditors were properly recorded.	
K Trust funds(including charitable) The council met its responsibilities as a trustee	

For any other risk area identified by the council (list any other risk areas below or on separate sheets if needed) adequate controls existed:

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