

Mr P Herbert

Littlehampton Town Council

8 June 2020

Dear Peter

**Littlehampton Town Council**

**Internal Audit 2019-20**

The internal audit of Littlehampton Town Council for the 2019-20 financial year is now complete. I am pleased to be able to report that I have signed off the attached internal audit report with no comments.

As stated in the engagement letter, the scope of our work is limited to completing the audit testing and enquiries we deem necessary to complete Section 4 of the Annual Report for Local Councils in England. We do not provide assurance over or accept responsibility for areas of work not included in this scope, unless specifically agreed with the Council during the financial year.

In providing internal audit services we are not conducting a financial statement audit in accordance with standards and guidelines issued by the Audit Practices Board and our procedures are not designed to provide assurance over the reliability and quality of your financial statements and management information – that is the job of external audit.

We are required by the Annual Internal Audit Report included in the Annual Governance and Accountability Return (AGAR) to review controls in place at the Council against predefined control assertions. These control assertions are set out below, together with the results of my internal audit work for 2019-20.

The audit was carried out in two stages. The interim audit visit on 24 October 2019 concentrated on in year financial transactions and governance controls. The final audit was carried out remotely, due to Covid 19 restrictions. This work was carried out on 1 and 5 June 2020 and concentrated on the statement of accounts and balance sheet.

**Guidance on sign off of the AGAR**

External audit (PKF) have provided advice on sign off procedures for the 2019-20 AGAR. These are set out below

“there are no changes in the requirement for wet signatures on the AGAR. Our understanding is that wet signatures need to be added to the AGAR in the same order as previous years and that the AGAR will need to be passed between the relevant individuals

for signature. Where individuals are self-isolating it is hoped that local assistance will be available to facilitate this. “

I will leave the Council to work out if this is achievable, given restrictions currently in place, but please do not put yourselves at risk to comply with this minor administrative requirement.

#### **A. Books of Account**

##### **Interim Audit**

The Council continues to use RBS, an industry specific accounting package. I have tested the brought forward balances against the audited prior year annual return and can confirm these have been brought forward correctly.

The RBS system is used daily to report and record the financial transactions of the Council, it is used to make bookings for hires, allotments, and fixed asset register recording. A review of the cashbook shows that all data fields are being entered, supporting documentation is easily located from references recorded on the general ledger.

I have confirmed that the Council's VAT returns are up to date, with the most recent claim for the 3 months to 30 September 2019 submitted to HMRC. I checked that balances in the return could be agreed to schedules produced by the accounting system.

The Council has loaded the signed accounts and audit certificate for the 2018-19 financial year to its website, as required by regulations. The Council received a clear report from the external auditors, with a very minor comment in the matters identified section of the external audit report. The Completion of Audit Notice was completed by the deadline of 30 September, and has been published on the Council website. I also confirmed that both internal and external audit reports for 2018-19 were taken to a meeting of the Full Council and the review of these reports properly noted in minutes.

##### **Final Audit**

I audited to the annual return statement produced from the RBS accounting system. The RFO will transfer figures from this statement to the Annual Governance and Accountability Return for review by external audit. The accounting statements have been agreed back to balance sheet and income and expenditure reports produced from the RBS Accounting system. All comparatives reported in the financial statements have been agreed back to the audited 2018-19 accounts as published on the Council website. Arithmetic within the accounts has been checked and found to be correct

The Council reviewed my interim audit report at the February meeting of the Governance and Audit Committee. Recommendations were properly considered, and the review of my report was properly minuted.

The Responsible Finance Officer has confirmed that the quarter 4 VAT return has been submitted to HMRC.

I am satisfied that the Council has met this control objective

## **B. Financial Regulations & Payments**

### **Interim Audit**

The Council's financial regulations and standing orders have been reviewed. Both documents were reviewed at Governance and Audit Committee in February 2019 and formally adopted at Full Council in March 2019. The Littlehampton documents are based on NALC templates. The RFO is in process of checking financial regulations against recent changes published by NALC and this document will undergo further revision in due course.

The Council has a clear process to ensure all members sign acceptance of office forms. This was confirmed by sample testing, appropriate forms signed and dated by both the councillor and the Clerk were located for all councillors tested.

Council is given authority to spend via the annual budget process. The Council has a strong procedure in place to ensure that all expenditure is authorised in line with financial regulations. I selected a sample of transactions from the ledger and I was able to confirm that:

- Transactions could be agreed back to invoice
- Payment approval slip was on file, authorised by appropriate officers, with evidence of councillor sign off
- Cheque signed to provide appropriate councillor authorization ( copy cheques saved electronically)
- VAT accounted for appropriately.

The Council made a payment of £81K to the District Council as a contribution towards works on the skate park. Whilst I was able to confirm the amount paid to reports presented to Council, there was no minute recording the decision to make this contribution. I would expect to see explicit approval for a payment of this size.

There is scope to strengthen the process for approving payments made by direct debit or standing order. I recommend an annual statement of all such payments should be taken to the Policy and Finance Committee for review and approval.

I note that the Council continues to work on the project to move to electronic banking. This should be in place in time for the start of the new financial year.

I can confirm that the Council is compliant with the 2015 Transparency Code. Information is disclosed in the "Littlehampton Town Council Finance" section of the website, and regular information on payments, fixed assets, grants and staffing is loaded to the website. I tested a sample of information loaded on to the website and found it was up to date. Details of contracts are now published in response to previous audit recommendations.

I am satisfied this control objective has been met.

## **Final Audit**

Non pay expenditure per box 6 to the accounts amounted to £671,302 , up from £645,672 in 2018-19.

As a larger Council, with income / expenditure in excess of £200K, Littlehampton is required to follow the 2015 Transparency Code. Littlehampton meets Code requirements by publishing required data on the Council website, mainly on the “ how we spend” page. I sample checked the following data

<b>Transparency Data Published 19-20</b>	<b>Status at time of audit ( 1 June)</b>
Expenditure over £500	Published to 31.12.19 – quarter 4 data not yet published
Procurement and tenders	Up to date
Grants	Up to date – all 2019 grants published on website

Transparency Code compliance has been demonstrated – expenditure data should be brought up to date before the accounts are submitted to external audit.

I selected a further sample of expenditure transactions for the last 5 months of the financial year. For all transactions tested I was able to confirm that:

- Payment per cash book agreed to remittance advice note produced for payee
- Expenditure signed off by 2 councillors as authorised signatories
- Expenditure appropriate for this council

I am satisfied that the Council has met this control objective.

## **C. Risk Management & Insurance** **Interim Audit**

The Council has a risk strategy in place and monitors and reviews risk on an ongoing basis. The RFO has confirmed that this will be formally reviewed at the February Governance and Audit Committee with Full Council sign off at the March 2020 meeting. I will review the approved risk assessment at my year end visit.

The Council is in year three of a 3 year deal with Zurich insurance. I have viewed the insurance policy and can confirm it is valid until September 2020. Money cover is set at £1million. This is satisfactory, given the Council’s documented approach to risk management in this area, which has been discussed in previous audit reports. Asset cover appeared consistent with the asset register. The insurance policy is due for renewal next year. I suggest the Council may wish to approach a town and parish council insurance specialist when seeking insurers for October 2020.

The Council has a well-established process for backing up computer data, with backups held at remote locations. Given that the Council has new ICT providers in place, I would recommend that back ups are retested in the next 6 months.

I am satisfied this control objective has been met.

### **Final Audit**

The Council reviewed the risk assessment at the Governance and Audit Committee meeting in February 2020 and this review was properly minuted. The assessment was due to be approved at the Full Council meeting in March, but this did not happen due to the Covid emergency. The risk assessment will be reviewed at the Full Council meeting on 25 June. This is satisfactory, given the circumstances faced by the Council.

I have reviewed the risk assessment; it is a detailed document and covers risks appropriate for a council of this level of activity. The risk assessment is clearly taken seriously and there is of proper annual review to ensure that it takes account of changing circumstances at the Council.

I am satisfied that this control objective has been met.

## **D. Budget, Precept & Reserves**

### **Interim Audit**

The Council is in the process of preparing the budgets for 2020/21. At the time of my audit, meetings had been held with budget managers. The RFO was in the middle of a cycle of meetings with committee chairs and council leaders. The RFO is next due to produce budget reports for the December cycle of committee meetings. The Policy and Finance Committee will consider the overall budget in December 2019, with Full Council due to approve the budget and precept on January 23<sup>rd</sup>. I was pleased to note that reserves statements are considered as part of the budget setting process. All precepting authority deadlines will therefore be met.

I have confirmed that regular budget monitoring reports are issued to committees in line with financial regulations. At the time of my audit, the budget reports for quarter 2 were passing through the committee cycle. I reviewed the budget v actual report on RBS as at mid November 2019. There were no significant overspends that were not covered by funding from earmarked reserves.

The Council has an investment policy in place which is compliant with statutory guidance on local government investments. The RFO is due to prepare report on Council investments before the end of the financial year.

### **Final Audit**

Reserves at 31 March 2020 were £2,566,171 (2018-19 £2,575,765).

Of this £253K is held in general reserves, plus £500k which is held as long term investment on the asset register. General reserves are therefore £753K, which is 57% of precept plus income. This is an appropriate level of general reserve for a council of this level of activity.

£2.3m is held in several well managed earmarked reserves. This includes £1.5m in the capital receipts reserve. I understand from the RFO that work continues proposals to utilise this capital receipt.

I confirmed that the budget and precept were set at the January meeting of Full Council and all precepting authority deadlines were therefore met. Proper recording of both budget and precept was evidenced in Full Council minutes

I am satisfied that this control objective is being met.

## **E. Income**

### **Interim Audit**

I carried out a small sample test of non-precept income. For all items sampled I was able to agree

- credit in the cashbook back to an appropriate voucher
- Entry on ledger could be agreed back to invoice
- Fees charged on invoice could be agreed back to approved hire rates ( e.g. room hire) or third party confirmation of income due
- Correct VAT levied

I confirmed fees and charges for 2019-20 had been properly approved at a meeting of the Council. A discount was offered to one hirer, due to the volume of hires being placed. This was properly recorded as an officer decision under delegated powers.

### **Final Audit**

Precept per box 2 to the accounts was £1,197,150 (2018-19 £1,132,449). This has been agreed to third party documentation provided by external audit.

Other income per box 3 to the accounts was £123,171, down from £132,666 in 2018-19.

I carried out a sample test of non-precept income from last 4 months of the financial year. For all items sampled I was able to agree credit in the cashbook back to invoice or remittance advice note. I am satisfied that the Council has met this control objective.

## **F. Petty Cash**

### **Final Audit**

Year end petty cash is £250. I was able to confirm amount held to year end petty cash count, signed off by RFO, plus cash top up drawn from bank

I am satisfied proper controls over petty cash are in place

## **G. Payroll**

### **Interim Audit**

The Council processes the payroll in house using Sage 50 payroll. The RFO inputs all payroll changes and expense claims each month. The payroll is processed and a telepay document is produced and faxed to the bank. Payments are made electronically to staff.

I tested the July 2019 payroll in detail. I was able to confirm the payroll posted to the general ledger back to the telepay document that had been authorised by the clerk and by the RFO. I then agreed pay for 4 officers back to payslips, Rates of pay were checked back to appropriate NJC scales. I am satisfied that the Council has satisfactory controls over payroll.

### **Final Audit**

Staff costs per box 4 to the accounts were £626,823 ( 2018-19 £622,789).

I confirmed that the January payroll per cashbook could be agreed to Telepay documentation, and that appropriate authorisation had been applied to the payroll by RFO and Town Clerk. No further testing was carried out at the final audit because of the complexity of auditing personal data remotely. However, I have sufficient assurance from interim audit testing to confirm that this control objective has been met

## **H. Assets and Investments**

### **Final Audit**

Fixed assets per box 9 to the accounts are £3,095,313 ( no change from 2018-19)

I have agreed the balance in the accounts back to the asset register. The asset register appears complete and to record assets at cost or proxy cost, as required by regulations. Long term investment with LAPF correctly recorded in the asset register. I have confirmed with the RFO that there were no additions or disposals of fixed assets in 19-20.

I am satisfied that the asset register can be reconciled to the fixed asset balance recorded in the accounts

## **I: Bank Reconciliations**

### **Interim Audit**

Reconciliations for all bank accounts are carried out regularly and in accordance with regulations. This is clearly evidenced in the Council's bank reconciliation file. The September 2019 bank reconciliation was tested in detail. I confirmed the following.

- The face of the bank statements and the bank reconciliations had been signed off by the reviewing councillor
- All balances on the bank reconciliation were agreed back to bank statements / cashbooks

- Cashbook /bank statement differences were explained by schedules of unrepresented cheques / lodgments. Testing of these items to subsequent clearance through the bank account confirmed these adjusting items to be genuine – I tested 5 large items to confirm this.
- Bank reconciliations were reported to a meeting of the Policy and Finance Committee, and this review was minuted.

### **Final Audit**

Cash per box 8 to the accounts was £2,562,021 (2018-19 £2,659,208)

I reperformed the year end bank reconciliation. For all bank accounts I was able to agree the balance on the bank reconciliation back to bank statements and cashbook balances recorded on RBS.

There are unrepresented cheques amounting to £123K on the year end bank reconciliation. I tested all unrepresented cheques above £2000 in value to presentation at bank in the new financial year. The purpose of this test is to confirm that entries on the bank reconciliation are genuine. With the exception of 1 cheque, I was able to confirm that cheques had cleared bank in the new financial year.

A cheque for £5,500 payable to the Littlehampton Bonfire Society had still not cleared bank by early June. The RFO confirmed that she had followed this up with the Society and asked them to bank the cheque – issues around changes in personnel at the Society had caused the delay. However, I am satisfied that this was a genuine unrepresented cheque at year end.

The Council has not yet completed the transfer to electronic banking, and at present payments are still made by cheque. The RFO is progressing work on this project, and card readers have recently been received by the Council. LTC is a large organisation to be reliant on cheque payments, and it is likely that this acceptance of cheques will reduce as a result of the Covid 19 situation. I therefore recommend that the move to electronic bank payments is completed as a matter of urgency.

Loans outstanding at year end per box 10 to the accounts were £60,000 (2018-19 £90,000). This has been agreed to the year end loans statement supplied by Public Works Loans Board.

I am satisfied that the Council is meeting this control objective.

### **J. Year-end accounts**

Littlehampton TC has produced accounts on an accruals basis, this is required as income / expenditure is above £200k. A reconciliation between Box 7-8 of the accounts has been prepared and can be agreed to supporting schedules of debtors and creditors. I do not audit this in detail, this is the responsibility of external audit.

An explanation of year on year variances has also been prepared and provides detailed explanations for review by external audit.

I am satisfied this control objective has been met.



## K. Trusteeship

No trusts – no change from last year, confirmed by RFO.

## L: Arrangements for Inspection of Accounts Final Audit

Inspection periods for 2018-19 accounts were set as follows

Inspection - Key date	2018-19 Actual
Accounts approved at Full Council	20 June 2019 Full Council
Date Inspection Notice Issued and how published	24 June 2019 - noticeboards and website
Inspection period begins	24 June 2019
Inspection period ends	2 August 2019
Correct length	Yes - 30 working days
Common period included?	Yes – 1 <sup>st</sup> 2 weeks of July

I can confirm that regulations were followed in this respect and that the Council can therefore sign off that it has met control objective 4 on the annual governance statement – inspection rights.

I recommend that the RFO takes care to set the inspection period correctly for the 2019-20 accounts, due to the exceptional circumstances in place due to Covid 19. Guidance from external audit can be found at <https://www.pkf-littlejohn.com/services-limited-assurance-regime-useful-documents-and-links>

I would like to take this opportunity to thank Laura and Clare for their assistance with the audit. I attach my invoice for your consideration. Please do not hesitate to contact me if I can be of any assistance, and I look forward to working with you in 2020-1.

Yours sincerely

*M Platten*

Mike Platten CPFA



## Points Forward – Action Plan - Interim Audit

Matter Arising	Recommendation	Council Response
<p>The Council made a payment of £81K to the District Council as a contribution towards works on the skate park. Whilst I was able to confirm the amount paid to reports presented to Council, there was no minute recording the decision to make this contribution.</p>	<p>I would expect to see explicit approval for a payment of this size.</p>	
<p>There is scope to strengthen the process for approving payments to made by direct debit or standing order.</p>	<p>I recommend an annual statement of all such payments should be taken to the Policy and Finance Committee for review and approval.</p>	
<p>The insurance policy is due for renewal next year.</p>	<p>I suggest the Council may wish to approach a town and parish council insurance specialist when seeking insurers for October 2020.</p>	
<p>The Council has a well-established process for backing up computer data, with backups held at remote locations.</p>	<p>Given that the Council has new ICT providers in place, I would recommend that back ups are retested in the next 6 months</p>	

## Points Forward – Action Plan - Final Audit

Matter Arising	Recommendation	Council Response
<p>Expenditure date on website - quarter 4 data not yet published</p>	<p>Update before accounts are submitted to audit</p>	
<p>The Council has not yet completed the transfer to electronic banking, and at present payments are still made by cheque.</p>	<p>I recommend that the move to electronic bank payments is completed as a matter of urgency</p>	

