

Lichfield City Council

Minutes of the Audit Committee held at 6.30pm on Tuesday, 18 March 2019 in the Moulton Room, Guildhall

Present: Councillors B Cocksey (Chairman), J Brooks, D Leytham, Mrs J Greaves, C Spruce and Mrs L Warfield

Apologies: None

In Attendance: Mr A Briggs (Town Clerk and RFO), Mr G Keatley (Internal Auditor). Ms A James (Accounts Officer), Ms S Thomas (Deputy Town Clerk)

5 MINUTES

RESOLVED: *That the Minutes of the meeting of the Audit Committee meeting held on 7 June 2018 [Minutes approved by the City Council on 18 June 2018] be confirmed as a correct record.*

6 INTERNAL AUDIT ANNUAL REPORT 2018-2019

The Internal Auditor presented his Internal Audit Annual Report 2018-2019, (which incorporated the Management Risk Register). Members discussed the detail of the report and the recommendations therein and agreed the management response.

Members of the Committee expressed their appreciation to the Internal Auditor for producing a clear and comprehensive report.

RECOMMENDED: *That the Council note the Internal Audit Annual Report 2018-2019, and adopt the recommendations and timescales as contained in that Report.*

7 ANNUAL REVIEW OF EFFECTIVENESS OF SYSTEM OF INTERNAL CONTROL

Members undertook a review of the effectiveness of the System of Internal Control as required by Regulation 5 of the Accounts and Audit Regulations 2015 (Internal Audit).

RECOMMENDED: *That the Review findings as contained in Appendix A to these Minutes be presented to Council for adoption.*

8 TREASURY MANAGEMENT POLICY AND STRATEGY STATEMENT 2019-2020

Consideration was given to the Treasury Management Policy and Strategy Statement.

RECOMMENDED: *That the Council adopt the Treasury Management Policy and Strategy Statement 2019-2020, as contained in Appendix B to these Minutes.*

9 RESERVES POLICY

Consideration was given to the City Council's Reserves Policy.

RECOMMENDED: *That the Council adopt the Reserves Policy as contained in Appendix C to these Minutes.*

10 AUDIT PLAN

The Committee considered the Audit Plan which set out the proposed work programme for the Internal Auditor for 2019-2020 and beyond.

RECOMMENDED: That the Council adopt the Audit Plan as contained in Appendix D to these Minutes.

11 DATE AND TIME OF NEXT MEETING

Scheduled for Thursday 6 June 2019 at 6.30pm.

**THERE BEING NO FURTHER BUSINESS
THE CHAIRMAN DECLARED THE MEETING CLOSED AT 7.25 PM**

THE REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

Legislative framework

1 Regulation 4 of the Accounts and Audit Regulations 2015 (Accounting records and control systems) requires The authorities responsible financial officer must determine, on behalf of the authority-

- 1) The form of its accounting records and supporting records ensuring that the authorities accounting records are kept up to date
- 2) Its financial control system including measures. To ensure that the financial records are recorded timely and accurately, enable prevention and detection of inaccuracies and fraud ensure risk is appropriately managed and identification of the duties of officers dealing with financial transactions and division of responsibilities of those officers

Regulation 5 of the Accounts and Audit Regulation 2015 (Internal Audit) requires that “ a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance process, taking into account public sector internal auditing standards or guidance”

2 The starting point for the review will usually be an assessment against the internal audit standards set out in the guide. These include making an assessment in relation to:

- Scope of internal Audit
- Independence
- Competence
- Relationships
- Audit planning and reporting

3 A key point is that it is the responsibility of the body to conduct the annual review; it is not a review that will be carried out by the external auditor as part of the annual audit.

4 Whilst there will usually be input from the internal audit provider, he or she cannot be allowed to influence the direction or extent of the review.

5 The results of the review are then reported to and considered by a full meeting of the members for consideration. There are no hard and fast rules as to who actually performs the review, but bodies may wish to set up a small working party for this purpose.

What should the review of the system of internal audit cover?

Under the 2015 Regulations a relevant authority must conduct an annual review of the system of internal audit which-

- a) Facilitates the effective exercise of its functions and achievement of its aims and objectives;
- b) Ensures that the financial and operational management of the authority is effective; and
- c) Includes effective arrangements for the management of risk.

The outcome of the review

The review of the effectiveness of the system of internal audit cannot be considered in isolation as it feeds into the review of the wider system of internal control. The report on the review should include an opinion as to whether or not the internal audit system is effective. Any areas for development or change should be identified in the report and an action plan produced, setting out the proposed remedial actions, the people responsible for delivering them, and the deadlines for completion of the actions.

1 Meeting the Standards

Expected Standard	Evidence of Achievement	Response
1. Scope of internal audit	Terms of reference were approved by full Council	Yes, Council adopts the <i>Internal Audit Action Plan and work programme</i>
	Scope of audit work takes into account risk management processes and wider internal control	Yes, included in checks undertaken by Internal Auditor
	Terms of reference define audit responsibilities in relation to fraud	Yes, detailed in approved <i>Anti-Fraud manual</i>
2. Independence	Internal Auditor has direct access to those charged with governance.	Yes
	Reports are made in own name to management.	Yes
	Auditor does not have any other role within the council.	Yes
3. Competence	No evidence that internal audit work has not been carried out ethically, with integrity and objectivity.	Yes
4. Relationships	Responsible officers (Town Clerk (RFO), etc) are consulted on the internal audit plan and on the scope of each audit.	Yes
	Responsibilities for officers and internal audit are defined in relation to internal control, risk management and fraud and corruption matters.	Yes, defined in approved <i>Standing Orders, Whistle-Blowing Policy and Fraud manual</i>
	The responsibilities of board/council members are understood; training of members is carried out as necessary.	Yes
5 Audit Planning and reporting	The Audit Plan properly takes account of corporate risk.	Yes
	The Audit Plan has been approved by the council	Yes
	Internal Audit has reported in accordance with the Plan	Yes. Will be reported to full Council 23 April 2019

2 Review of Effectiveness

Characteristics of 'effectiveness'	Evidence of Achievement	Suggested Response
Internal audit work is planned	Planned Internal audit work is based on risk assessment and designed to meet the body's governance assurance needs.	Yes
Understanding the whole organisation its needs and objectives	The annual audit plan demonstrates how audit work will provide assurance in relation to the body's annual governance statement.	Yes
Add value and assist the organisation in achieving its objectives	Demonstrated through positive management responses to recommendations and follow up action where called for.	Yes
Be forward looking	When identifying risks and in formulating the annual audit plan, changes on national agenda are considered. Internal audit maintains awareness of new developments in the services, risk management and corporate governance.	Yes
Be challenging	Internal audit focuses on risks and encourages managers/members to develop their own responses to risks, rather than relying solely on audit recommendations. The aim of this is to encourage greater ownership of the control environment.	Yes
Ensure the right resources are available	Adequate resource is made available for internal audit to complete its work.	Yes
	Internal auditor understands the body and the legal and corporate framework in which it operates.	Yes. <i>Internal Auditor has worked for the City Council/Charter Trustees continuously since 1974.</i>

Lichfield City Council

TREASURY MANAGEMENT POLICY AND STRATEGY STATEMENT 2019-2020

As part of the monitoring of the Treasury Management Operation, the Town Clerk (RFO) will submit a financial progress report to Council each year on the activities of the Treasury Management Operation.

THE POLICY

That the Council adopts the CIPFA Treasury Management Code modified to the Council's requirements.

Treasury Management is defined as “the management of the local authority's cash flow, its borrowing and its investments, the management of the associated risks, and the pursuit of the optimum performance or return consistent with those risks”. (CIPFA)

The Council's treasury activities are for debt and investment management, and the Council will not take up speculative positions which may be interpreted as trading activities.

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

Borrowing

Local council borrowing is governed by Schedule I of the Local Government Act 2003. Parish and town councils in England have to apply and receive permission from the Department for Communities and Local Government, before taking any borrowing. Temporary borrowing (i.e. up to 364 days) does not require such approval.

The authority will review its borrowing requirements annually when formulating its annual budget. The Council currently has no borrowing, and no borrowing requirement has been identified for 2017-2018

Investments

The Council adopts the guidance under section 15(1)(a) of the Local Government Act 2003.

The authority will review its Investment Strategy annually (see investment Policy below).

Treasury Management Practices

The Council adopts the Treasury Management Practices (TMP) which set out the manner in which the authority will seek to achieve its treasury management policies and objectives and how it will manage and control those activities. (See Treasury Management Practices below).

The Treasury Management Strategy Statement 2019-2020

The Treasury Management Strategy details the expected activities of the treasury function in the financial year 2019-2020.

Borrowing - there is not anticipated to be any borrowing requirement for the year.

Investments - to be in accordance with the approved Investment Strategy.

INVESTMENT POLICY

With reference to Secretary of State's Guidance under section 15 (1)(a) of the Local government Act 2003 and the CIPFA Code of Practice for Treasury Management in the Public Services.

ANNUAL INVESTMENT STRATEGY

Definition of Treasury Management in the Public Services: "The management of the organisation's cash flow, its banking, money market and capital transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

Strategy Guidelines

The main principles governing the Council's investment criteria are the security and liquidity of its investments before yield, although the yield or return on the investment will be a consideration, subject to adequate security and liquidity.

The Council will ensure it has sufficient liquidity in its investments. For this purpose it will set a minimum amount to be held in short term investments (specified investments). This is set out in liquidity investments below.

The RFO will maintain a counterparty list in compliance with these criteria and will revise and submit to Council for approval as necessary.

Liquidity of Investments

The Council will carefully balance the use of short term or specified investments and non-specified investments. All the core investment balance and any cash flow investments will be maintained as short term or specified investments.

Specified Investments

These investments are sterling investments of not more than one-year maturity. These are low risk assets where the possibility of loss of principle or investment income is low. These would include investment with:

- The UK government (such as the Debt Management Office, UK Treasury Bills or a Gilt with less than one year to maturity)
- A Local authority, parish or community council
- An investment scheme that has been awarded a high credit rating by a credit rating agency
- A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society).

Credit Rating Agency - Standards & Poor's, Moody's or Fitch rating agencies. Within these bodies, and in accordance with the Code, the Council has set additional criteria to say the time and amount of monies which will be invested in these bodies. These criteria are:

Security	Limit
Marketable securities issued or guaranteed by the UK Government i.e. UK Treasury bills or a gilt with less than one year to mature	The authority has no plans to invest in such securities and would require specialist advice in order to do so.
Other Local authorities, parish councils or community councils.	The authority has no plans to invest in these institutions
Fixed Term Time deposits.	Approve – UK clearing Banks Nat West to a maximum limit of £2,000,000
Money Market Funds	The authority currently has no plans to invest in these funds. Any change to this policy would be require approval by full Council

Non Specified Investments

Non-specified investments are any other type of investment (i.e. not defined as specified above). These would include sterling investments with:

- Securities admitted to the Official List of the Stock Exchange which are guaranteed by the UK Government (such as supranational bonds). These are fixed income bonds although the value of the bond may rise or fall before maturity. The bond may be sold before maturity.
- Gilt edged securities with a maturity of greater than one year
- Institutions not meeting the basic security of greater than one year
- A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society) for deposits with a majority of greater than one year

Security	Limit
Security issued or guaranteed by non-UK EU governments and Supranational securities	The authority has no plans to invest in such securities and would require specialist financial advice in order to do so.
Gilt edge securities	The authority has no plans to invest in such securities and would require specialist financial advice in order to do so.
Securities issued by corporate, banks and building societies, including floating rate notes, commercial paper, assets backed securities and certificates of deposits longer than 1 year.	The authority has no plans to invest in such securities and would require specialist financial advice in order to do so.

The Monitoring of Investment Counterparties Listing

The authority is required to monitor the credit rating listing of its counterparties. Any counterparty failing to meet the criteria will be removed from the list immediately by the RFO and if required new counterparties which will meet the criteria will be added to the list.

The use of External Fund Managers

It is the Council’s policy not to use external fund managers.

LICHFIELD CITY COUNCIL

RESERVES POLICY

1. Introduction

The Council is required, under statute, to maintain adequate financial reserves in order to meet the needs of the organisation. Section 50 of the Local Government Act 1992 requires that local precepting authorities have regard to the level of reserves needed to meet estimated future expenditure when calculating the budget requirement.

The Council's policy on the establishment, maintenance and adequacy of reserves and balances will be considered annually.

The Council will hold reserves for these three purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing-this forms part of the general reserves;
- A contingency to cushion the impact of unexpected events or emergencies - this also forms part of general reserves;
- A means of building up funds often referred to as earmarked reserves, to meet known or predicted requirements.

2. General Fund Balance

The general fund balance, commonly termed the 'working balance' is a balance on the councils revenue account which is not held for any specific purpose other than to cushion the council's finances against any unexpected short term cash flow problems.

The general fund balance is to be maintained at a level based upon a risk assessment carried out by the Responsible Finance Officer (RFO).

When setting the budget for the forthcoming year. Any surplus on the reserve above the required balance may be used to fund capital expenditure, be appropriated to earmarked reserves or used to limit any increase in the precept.

3. Financial Risk Management

In order to assess the adequacy of the general fund when setting the annual budget, the RFO will take account of the strategic, operational and financial risks facing the council. The requirement of the level of the general fund balance for the forthcoming year will therefore be based upon a risk assessment of the council's main areas of income and expenditure and take into account provisions and contingencies that may be required.

The main items to be considered are:

Financial Risk	Analysis of risk
Inflation assumptions	Inflation increases at a higher rate than assumed for items such as Pay Awards, Utilities and Supplies and Service Costs.
Insurance	To enable the Council to meet the excesses of claims not covered by insurance
Collection of Income	There is a reduction in collection performance from Guildhall and Markets
Elections/referendum	Sufficient resources to meet Parish elections/referendum costs
Grounds Maintenance costs	Impact of unexpected increase in costs
Impact of Vat Tribunal Decisions	Impact of back dated Vat liability
Contingencies	To meet unexpected events or emergencies

4. Statutory Reserves

Local Authorities also hold reserves that arise out of the interaction of legislation and proper accounting practices.

- Section 106 agreements with Developers
- Neighbourhood Plan – Community Infrastructure Levy (CIL)

5. Earmarked Reserves

Earmarked Reserves represent amounts that are generally built up over a period of time which are earmarked for specific items of expenditure to meet known or anticipated liabilities or projects. The 'setting aside' of funds to meet known future expenditure reduces the impact of meeting the full expenditure in one year. The Council, when establishing an earmarked reserve, will set out:

- The reason/purpose of the reserve;
- How and when the reserve can be used;
- Procedures for the management and control of the reserve; a process and timescale for review of the reserve to ensure continuing relevance and adequacy.

The following earmarked reserves will be held by the council;

Budget description	Use	Total Reserve 2018/19 £	Total Reserve 2019/20 £
Repairs and Renewal-Buildings			
Dr Johnson Birthplace Listed Building No 1292492 Grade I	To provide for future capital works	353,000	353,000
Guildhall Listed Building No 1187740 Grade II			
Donegal House Listed Building No 1209722 Grade II*			
Cruck House Listed Building No 1194899 Grade II*			
Friary Clock Tower Listed Building No 1218909 Grade II			
War Memorial and Garden Wall, Balastrade and Gate Listed Building No 1187733 Grade II*			
Boswell Statute Listed Building No 1187726 Grade: II			
Dr Johnson Statute Listed Building No 1217846 Grade: II*			
Stafford Road ,Pinfold Listed Building No 1194898 Grade: II			
Borrowcop Pavilion Listed Building No 1187718 Grade: II			
Prince Rupert's Mound Listed Building No 1021362 Ancient monument			
Grey Friars Listed Building No 1008544 Ancient Monument			
Community Centres -Curborough, -Boley Hall, -Darwin Hall.			
All Properties	Quinquennial inspection of property portfolio		
Repairs and Renewals-Street Lighting			
Street Lighting	To provide for replacement and updating of Street Lighting	0	0
Repairs and Renewals-Open Spaces			
Open Spaces	To provide for footpath resurfacing and replacement of equipment	0	0
	Total	£353,000	£353,000
Rent Deposit Scheme			
Donegal House-Tenants	In accordance with the Rent Deposit Deed	450	450
Market Traders Retainer	In Accordance with Market Traders Licence	500	500
	Total	£950	£950
Election Reserve			
Parish Election	To build up the reserve over 4 years to fund the elections in May 2023	40,000	0
	Total	£40,000	£0
Community Infrastructure Levy(CIL)			
Neighbourhood Plan-Meaningful Proportion	In accordance with the requirements of CIL	14,037	14,037
	Total	£14,037	£14,037
Total Earmarked Reserves		£407,987	£367,987

6. Review of adequacy of balances and reserves

In assessing the adequacy of reserves the strategic, operational and financial risks facing the authority will be taken into account. The level of earmarked reserves will be reviewed as part of the annual budget preparation.

LICHFIELD CITY COUNCIL

AUDIT PLAN

1. Purpose of the Report

To consider the work programme for the Internal Auditor for the year 2019-2020 onwards.

2. Statement of Reasons

The internal Auditor must ensure that all activities of the Council are subject to an internal audit review in accordance with the Accounts and Audit (England) Regulations 2011

The identification of these activities has been agreed with the Town Clerk, taking into account perceived priorities and risks, which cumulates in the production of a three-year strategic plan.

The Audit Plan has been compiled and is set out below.

The plan is based upon the following principles:

- An attempt has been made, based upon the internal auditor's experience, to target areas that are known to be high risk
- Based on information available, to include those areas which have not been subject to a recent audit review

By achieving the Audit Plan, the internal auditor will be providing the Town Clerk and councillors, with the necessary assurance that the internal controls are in place and are operating effectively.

At the end of each year, an audit report will be issued detailing the findings of the reviews together with any recommendations required to be implemented in order to achieve the required level of control

3. Recommendation

To approve the Audit Plan.

AUDIT PLAN

1. Financial Services

- 1.1. Fraud and Corruption Checklist
- 1.2. Main Accounting System
- 1.3. Creditors
- 1.4. Sundry Debtors
- 1.5. Payroll
- 1.6. Management of VAT
- 1.7. Banking Arrangements
- 1.8. Petty Cash
- 1.9. Income Monitoring
- 1.10. Budgetary Controls
- 1.11. End of year closedown
- 1.12. Statement of Account

2. Strategic policies

- 2.1 Treasury Management Policy and Strategy Statement
- 2.2 Investment Policy
- 2.3 Treasury Management Practices

3. Specific Reviews

- 3.1 Financial Regulations and procedures
- 3.2 Contract Standing Orders
- 3.3 Review Internal Audit Recommendations
- 3.4 Capital Works
- 3.5 Local Government Transparency Code 2015
- 3.6 Insurance
- 3.7 Members Code of Conduct and Disclosure of Interests
- 3.8 The Samuel Johnson Birthplace Museum
- 3.9 Policy and Procedure Documentation-Employees
- 3.10 Further Developments
- 3.11 Review of Corporate Governance
- 3.12 Any other areas Identified during the year of Audit

4. Management and Insurance Risk Register