



INTERNAL AUDIT REPORT WITH COUNCIL RESPONSES + ACTION PLAN 2022-2023

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

This report has been compiled in response to the conclusion of the Internal Audit Financial Year 2223, to recognise the positive assertions made regarding the Council's governance, and address any areas of weaknesses identified by the internal auditor that may require a closer focus on best practices in the future.

Out of the 15 internal audit control objectives tested by the Internal Auditor, it was found that 3 were not applicable to the authority, and 9 had been achieved by the Council.

The 3 areas for improvement raised by the Internal Auditor include:

- Requirements for a more robust budgetary process to adequately resource the Council, and maintain appropriate levels of General Reserves.
- Consolidation of information available on the Council's website, to ensure it is easily accessible to residents.
- Reduction in the period for which the Council permits its electors to view its accounts.

These areas are considered in greater detail through this document, accompanied by actions already taken (or proposed to be taken) by the Council to address these weaknesses for future years. It is important to highlight that no issues related to fraud or corruption were identified during testing.

Glossary:

AGAR = Annual Governance and Accountability Return

AGS = Annual Governance Statement

EA = External Auditor

F&G = Finance and Governance

FOI = Freedom of Information

FR = Financial Regulations

FY = Financial Year

IA = Internal Auditor

ICO = Information Commissioner's Office

JPAG = Joint Panel on Accountability and Governance

MTC = Morecambe Town Council

NALC = National Association of Local Councils

PO = Proper Officer

RFO = Responsible Financial Officer

SO = Standing Orders

ToR = Terms of Reference

VAT = Value Added Tax

MATTER 1

IA Weakness 1	IA Recommendation
<p>This is the second successive financial year that the council has not provided to the internal auditor the required books and records in advance of the approval of the AGAR, to enable the internal audit to be completed and the internal audit report issued to council BEFORE their completion of the Governance Statement.</p> <p>We consider this recurring delay in enabling the internal audit before approval of the AGAR to be deficient process and not in accordance with the practice stated in the Practitioners Guide (see below). We have also encountered significant delays in receiving responses to queries arising from review of books and records of the council.</p> <p>s5.96 of the 2023 Practitioners Guide states . <i>Internal audit report(s) should inform the authority’s responses to Assertions 2 and 6 in the AGS.</i></p> <p>The council’s own website states that ‘<i>The Council is required to complete an Annual Governance & Accountability Return (AGAR) which includes the findings of the Internal Auditor, together with Governance Statements and Financial Statements. The AGAR is then submitted to the independent external auditor for examination.</i>’</p>	<p><i>The council must ensure that they provide information required for internal audit on a timely basis such that the internal audit can be completed and the report issued to council PRIOR to their consideration of the Annual Governance Statement in the AGAR.</i></p>
<p>Morecambe Town Council Response / Action Plan</p>	

Summary: It is best practice, rather than a legal requirement, for the IA to be complete before the AGAR is signed off. The Council, which always aspires to meet best practice, wants to achieve this. However it hasn't been able to in recent years because staffing capacity has been overstretched. This is mainly due to the relentless number of FOIs and audit challenges submitted by a single individual which the Council believes are deliberately designed and timed to delay and derail internal governance processes. The Council has increased staffing resource and has contingencies in place to mitigate this disruption as far as possible in 24/25, but to some extent it will continue to be at the mercy of the issue identified above.

Detailed: The Council acknowledges operational delays due to staffing shortages exacerbated by a high volume of FOI requests, straining resources. The Council accepts the best practice recommendations in the Practitioner's Guide, and from the IA, and understands there is no legislative requirement to consider the IA report before completing the AGAR, as affirmed by the EA PKF Littlejohn in its email dated 16.1.24 (which withdraws the challenge correspondence submitted to the Council in relation to its FY2223 objection on the same matter). The Council accepts Regulation 5 of the Accounts and Audit Regulations 2015 (extract below) which mandates an effective internal audit, noting it does not specify a timeline for completion. The Council notes that many local authorities are faced with audit delays¹, as seen with Lancaster City Council's 2021-2022 audit. The Council has worked as quickly as practicable to respond to the enquiries raised by the IA, and it has provided the IA (on 8.1.24) with the requested copy of the challenge correspondence summary received from the EA PKF Littlejohn as requested.

Internal audit

5.-(1) A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

(2) Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit -

(a) make available such documents and records; and

(b) Supply such information and explanations; as are considered necessary by those conducting the internal audit;

(c) In this regulation "documents and records" includes information recorded in an electronic form.

Recognising the need for increased personnel, additional officers joined the authority in December 2023. While this has enhanced efficiency, a balanced approach to audits and FOI requests is necessary. The Council feels strongly that a policy on vexatious FOI requests is required and the authority will be undertaking full costing exercises to monitor the cost of document inspections, FOIs and Audits. The focus must also be maintained on delivering detailed and accurate responses to audit queries in order to maintain the integrity of the audit and ensure it achieves its purpose.

¹ <https://www.gov.uk/government/consultations/addressing-the-local-audit-backlog-in-england-consultation/local-audit-delays-joint-statement-on-update-to-proposals-to-clear-the-backlog-and-embed-timely-audit#:~:text=The%20backlog%20in%20the%20publication,audit%20opinions%20stood%20at%20771.>

MATTER 2

IA Weakness 2	IA Recommendation
<p>The council uses a spreadsheet as the prime book of record which is then further manually analysed for budgetary control reporting and expenditure reporting to council. This introduces a risk that transactions could be omitted or incorrectly recorded when compiling the reports from the spreadsheet, and the efficiencies are not realised from using an integrated accounting system populated into bespoke accounting software. This issue needs to be resolved as in 2022/23 the council met the threshold for income and expenditure accounting.</p>	<p><i>The council should consider implementing an integrated accounting system using bespoke accounting software for local councils.</i></p> <p><i>NB we have been informed that the council is implementing SCRIBE system for 2023/24 onwards.</i></p>
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<p>The Council has implemented Scribe software as recommended by the IA for the FY2324 and operational efficiencies are being realised as predicted by the IA.</p> <p>It is acknowledged that using accounting software does not eliminate the risk of transactional errors. Identifying these risks can be as challenging as maintaining records on spreadsheets and the Council must continue to maintain adequate internal controls.</p> <p>Historically, the Council used Scribe before 2020, but several errors were identified in audit reports, leading to incorrect recording of transactions and VAT. Consequently, the Council reverted to spreadsheets in FY2021 to rectify these errors. It has returned to using Scribe for FY2324 now a new Finance Officer is in post, and historic records have been corrected.</p> <p>It is worth noting that there have been no instances of inaccurate accounting identified or reported by the IA in the FY2021, FY2122, or FY2223 audit reports. Additionally, the accounts for the FY2021, FY2122, and FY2223 have been meticulously prepared and reconciled to the penny, with no write-offs during the tenure of the current officers.</p> <p style="text-align: right;">ACTIONED</p>	

MATTER 3

IA Weakness 3	IA Recommendation
<p>The procurement action taken for the two significant contracts below were reviewed:</p> <ul style="list-style-type: none">- 30/12/2022 Grimshaw Architects £40,000.00 net (Design plan for Frontierland)- 27/01/2023 Parkway Plant Sales £54,130.00 net (Electric quadbikes) <p>Instead of a formal tender process a selected group of economic operators were approached for the Frontierland design contract before determination of the supplier, and it was considered that only one supplier in the UK could provide the electric quad bikes compatible with the weed control spraying system the council required.</p> <p>The minutes do not record the actual exemptions from tendering relied upon from the procurement regulations in the FRs.</p>	<p><i>To improve transparency where a contract is not tendered, the exemption(s) relied upon in the procurement sections of the FRs should be stated in the minutes.</i></p>
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Summary: The Council followed its Financial Regulations regarding these two contract payments. This was the same process as followed in prior years, when similar payments had been audited and hadn't been raised as an issue by the IA. In the interests of maximising transparency, the Council will consider including supplementary information in minutes regarding payments above a particular threshold when the standard procedure isn't applicable.

Detailed: The Council's FRs require that where the Council intends to procure or award a public supply contract, public service contract or public works contract as defined by The Public Contracts Regulations 2015 ("the Regulations") which is valued at £25,000 or more (updated since to £30K effective 1.1.24), the council shall comply with the relevant requirements of the Regulations. The Regulations (at the time) required that any public contract that exceeded £213,477 must be advertised on contracts finder as a tender. Section 10.2 of the Council's FRs also outline the procedures for procurement, including situations where obtaining multiple quotes may not be feasible (for procurement up to the £213K threshold). In the instances of the ATV purchase and Grimshaw engagement, reports to the Council addressed the inability to provide multiple quotes, demonstrating transparency and accountability in its decision-making process.

Subject to the above paragraph on the changes post 31 December 2020, a council must advertise the contract opportunity on the "Contracts Finder" website only when it advertises the contract opportunity elsewhere. Additionally, a council does not need to advertise an opportunity where it makes the opportunity available only to a number of particular economic operators who have been selected for that purpose (whether ad hoc or by virtue of their membership of some closed category such as a framework agreement), regardless of how it draws the opportunity to the attention of those economic operators (i.e. if a council has an arrangement with a limited number of approved organisations to undertake work for the council); Regulation 33 defines a "framework agreement" as an agreement between one or more contracting authorities and one or more economic operators, the purpose of which is to establish the terms governing contracts to be awarded during a given period, in particular with regard to price and, where appropriate, the quantity envisaged.

The Council followed the process as detailed above. The Council followed the same process in FY2223 as it did when purchasing the Renault Master E-Tech van in FY2122 (a payment which was also sample tested by the IA). No issues were raised by IA regarding this process (or subsequent minutes) in FY2122, and in FY2223 it was assumed the same reliance on Section 10.2 of Financial Regulations was deemed appropriate (S10.2 allows for exceptions when obtaining more than one quote is impractical, especially for specific products or services).

The Council is of the understanding that Section 11(d) in the FRs relate to prior iterations of the Council's FRs which were based on the NALC model template. The prior iteration details a requirement in Section 11(h) that the "RFO **shall** obtain 3 quotations" between a value of £1K and £5K. Since adopting the model FRs some years ago, the Council has subsequently amended its policy to remove the absolute requirement for 3 quotations, accepting exemptions as 'a rule' within its current FRs. Subsequently, the Council would not usually resolve or minute to "waive its financial regulations" as it has in fact relied upon its FRs to enable the process it has followed. Based on the adherence to current FRs, procurement guidelines, and legal requirements, it is the officers view that the Council has acted within its obligations, and (if anything) consideration should be given to rephrasing Section 11(d).

Further evidence that the Council has adhered to its legal obligations of the Regulations can be found on Contracts Finder:

<https://www.contractsfinder.service.gov.uk/Notice/760caaf3-ecd5-495f-83ec-ead40f0c0590>
<https://www.contractsfinder.service.gov.uk/Notice/3bf51b1e-47bd-4b80-a1a5-a82db0da2cef>

To address the IA's concerns, the Council can consider including additional FRs to require supplementary information be included within minutes for payments above a particular threshold, clarifying legislative compliance, and the reasons why three quotes were unobtainable. However, it's essential to maintain clarity and readability in meeting minutes for residents, and minutes should not be overly difficult to follow as this could risk further confusion.

MATTER 4

IA Weakness 4	IA Recommendation
<p>The Finance and Governance Committee did not meet in 2022/23 so none of the delegated functions of that committee were considered by that committee during the financial year.</p> <p>We were informed that the previous committee Terms of Reference (ToR) was out of date with some deficiencies with regard to delegated authority and a new ToR was adopted in May 2023 with key delegated responsibilities. However, this committee did not meet for the first nine months of 2023/24 either. Feedback from the council indicates staffing constraints played a part in the lack of scheduled meetings for this committee. The new ToR delegated responsibilities are as follows:</p> <p><i>i) To liaise with the Proper Officer regarding the budget for the Council's administrative requirements for each financial year;</i> <i>ii) To ensure that the financial risk assessment is reviewed annually;</i> <i>iii) To ensure that the risk register is reviewed annually;</i> <i>iv) To ensure that the Council's asset register is monitored and updated annually;</i> <i>v) To monitor the Council's overall compliance with the Financial Regulations to ensure the sound and open governance of financial matters and actions taken in the name of the Council;</i> <i>vi) To review the Financial Regulations annually;</i> <i>vii) To make recommendations, where necessary, to the Council following an annual 'fit for purpose' review of governance and oversee actions undertaken as recommended by audit;</i></p> <p>A meeting of the committee was programmed for January 2024, however, review of the agenda indicates that only one of the above delegated responsibilities is covered which is the consideration of the draft budget.</p>	<p><i>Meetings of the Finance and Governance committee must be programmed for the financial year to enable the committee to deliver on their devolved responsibilities.</i></p> <p><i>Staffing resources should be sufficient to enable the council committee program to be delivered effectively.</i></p>
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Throughout FY22/23 and the first half of FY23/24, the business nominally delegated to the Finance and Governance Committee was in practice conducted in Full Council, which was a necessity to reduce duplication of administration given the limited staffing resource. For FY24/25 regular Finance and Governance Committee meetings have now been scheduled into the Council's diary and proper staffing resource is in place.

It is the view of officers that the F&G Committee meeting held on 9.1.24 included agenda items for more than one of the Committee's delegated responsibilities. The Committee did consider the Council's FY2425 budget. The Committee also considered a review of updates to FRs and the Council's Publication Scheme (Agenda Items 7, 8, and 9), presenting recommendations to the full council for adoption at its meeting held on 18.1.24. The F&G Committee also met on 6.2.24 and considered further delegated responsibilities of the Committee.

In line with the Council's Standing Orders, delegation to a committee does not preclude the Council from considering any business itself, and indeed sometimes it is not practical to call a separate committee meeting.

Matters such as the budget, Financial Risk Assessment, Asset Register, and FRs, have all been considered by full council no less than annually.

FRs - approved by full council 25.5.23. Financial Risk Assessment - approved by full council 29.6.23. Asset Register - approved by full council 29.6.23.

ACTIONED

MATTER 5

IA Weakness 5	IA Recommendation
<p>We recommended the following in 2020/21:</p> <p><i>'Expenditure should be reported monthly to each council meeting for approval. The minutes should record the total of the payments that were approved to improve the audit trail. The Chair should initial the schedule of monthly payments to evidence that this was the list approved by council which should be retained on file as evidence.'</i></p> <p>As a result, the council implemented improved internal controls in 2021/22 and the clerk noted that quarterly transaction lists would be reported to full council and expenditure presented to each bi-monthly meeting. However, the improvement in internal controls has lapsed in 2022/23 as, for instance, the minutes in 2022/23 do not record that payment transaction schedules were reported to council for any of the months of the financial year.</p> <p>The Practitioners Guide also contains guidance regarding reporting payments to council. For the Annual Governance Statement Assertion 2 Internal control (Safe and efficient arrangements to safeguard public money) the following is stated for Accounts for Payment:</p> <p><i>'All payments made since the last meeting should be reported to the next authority meeting.'</i></p>	<p><i>The council should consider either reinstating the previous internal control of reporting payment transactions to council meetings (which would also meet the good practice included in the Practitioners Guide), or establish a compensating internal control.</i></p>

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Summary: The Council has delegated authority to officers to incur expenditure between meetings to keep services ticking over. This is the same practice and procedure followed by many similarly sized town/parish councils, where it is deemed impractical to present full transaction lists for approval at each Council meeting. Furthermore it is not a legal requirement to do so, nor is it mandated in the Council's financial regulations, the National Association of Local Councils' model financial regulations, or the Accounts and Audits Regulations. Instead, the Council provides quarterly budget updates to the Council, practices monthly payment sample testing with members of the Finance and Governance Committee, and will consider having representatives from the F&G Committee scrutinising a complete lists of transactions on a regular basis, enabling them to report back to the Full Council that all transactions have been reviewed. It believes this will help it achieve best practice for a Council of its size.

Detailed: In FY2021, the Council lacked a scheme of delegation, requiring approval for every payment at meetings if not previously agreed. Current officers presented payments for approval, a practice consistent with historical procedures. However, prior audits revealed not all historic payments (prior to existing officers) received pre-approval before release from the bank account. During FY2021 and FY2122, payments needing approval went to full council. However, meetings became fraught, risking ineffective business transactions and Council fulfilment of obligations. Residents attended meetings to speak about wide ranging issues (whether it was on the agenda or not) simply by virtue of the fact that payments relating to each area of service delivery would be on a payment schedule considered at the meeting, resulting in meetings that were difficult to manage and strayed from adherence to the Council's SOs. Providing payment lists as an agenda item, for which debate could be opened on any expenditure line, is not considered pragmatic for a large council which will see an average of approximately £100K payments per month in FY2425. Council meetings already exceed their two hour allocated slot, and this is not considered an efficient use of time, or the correct platform in which to scrutinise payment lists.

To find resolution in FY2122, the Council met less frequently (bimonthly) and implemented a delegation scheme, requesting officers to incur expenditure between meetings to maintain service delivery. Members were also able to view payment lists by appointment, a practice which continues today (in addition to payment sample testing which has also been introduced in FY2324 with the F&G Committee). This ensures meetings are more focused on specific business, and if an issue arises that a member wishes the Council to review it is possible for members to request a matter be included as a future agenda item.

As it stands, the Council's Financial Regulations (FRs) do not mandate presenting full transaction lists to Council, aligning with NALC's model FRs.

The Accounts and Audit Regulations also do not mandate this practice, and similar larger councils in England (such as Salisbury City Council, Chippenham Town Council, Weymouth Town Council, Falmouth Town Council) also do not follow such a practice.

The Accounts and Audit Regulations do require budget updates to be provided to the Council, which MTC receives at least quarterly. And the Local Government Act 1972 permits delegation to officers, enabling MTC officers to incur expenditure on behalf of the authority.

The Practitioner's Guide suggests reporting 'all payments' made since the last meeting, but interpretation varies. In other areas of the guide reference is made to a 'payment list', and it is not considered these are one and the same. It is the interpretation of many authorities that the Council receiving its budget update (as per Accounts and Audit Regulations) provides members with the total payments made, satisfying the Practitioner's Guide, NALC's FRs and legislation.

Further, the Local Government Act 1972 also reserves that council agendas should be strictly for business that is to be transacted (presenting an argument that any business already concluded, i.e payments that have already been made, should not be presented as business to be transacted).

The Council will need to establish a way forward that is practical and it may wish to adopt the practice observed by some other authorities, in that a list of transactions is provided to no less than two signatories each month and they will then report to members that they have reviewed the payment list (as is practiced at Shrewsbury Town Council).

MATTER 6

IA Weakness 6	IA Recommendation
<p>We expected the council to have reclaimed and received the outstanding VAT relating to previous years in 2022/23, however, this did not occur. We were informed that this delay was due to the need to review previous years VAT claims to ensure complete and accurate reclaims were submitted, and that officer capacity had not been sufficient to undertake this work until 2023/24.</p> <p>The clerk has confirmed that in 2023/24, VAT reclaims for the years 2020/2021, 2021/2022, and 2022/2023 have been submitted via a VAT 126 reclaim form.</p> <p>Financial Regulations require the following with respect to VAT returns:</p> <p><i>9.8. The RFO shall promptly complete any VAT Return that is required. Any repayment claim due in accordance with VAT Act 1994 section 33 shall be made at least annually coinciding with the financial year end.</i></p> <p>It should be noted that the council is projecting that new income transaction streams such as training and grounds maintenance are due to be implemented.</p>	<p><i>The council should ensure staff resources are sufficient to enable the council to comply with its Financial Regulations and ensure annual VAT returns are submitted to HMRC on a timely basis.</i></p> <p><i>The council need to carry out a review of VAT to determine whether VAT registration is required due to the new income generating services being established.</i></p>
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<p>The Council has submitted its reclaims for FY2021, FY2122, and FY2223.</p> <p>The Council has already undertaken a review of VAT to determine whether VAT registration is required. So far, it is not as the weeding service is undertaken on behalf of another local authority and is exempt from VAT.</p> <p>At the point in time in which the Council delivers training to external participants, it will undertake a further assessment.</p>	
ACTIONED	

MATTER 7

IA Weakness 7	IA Recommendation
<p>The following Financial Regulation doesn't clarify at what thresholds the proper officer, delegated committee, or the full council need to authorise expenditure. The model FRs include increasing thresholds of authorisation in this section.</p> <p>Financial Regulation 4.1: 'Expenditure on revenue items may be authorised up to the amounts included for that class of expenditure in the approved budget. This authority is to be determined by:</p> <ul style="list-style-type: none"> • the council; • a duly delegated committee of the council; or • the Proper Officer. <p>Such authority is to be evidenced by a minute or by an authorisation slip duly signed by the Proper Officer, and where necessary also by the appropriate Chairman.'</p>	<p><i>The council should review section 4.1 of the Financial Regulations with reference to the good practice included in the model FRs and consider including thresholds of expenditure authorisation in the adopted regulations.</i></p>
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<p>The Council reviews its Financial Regulations (FRs) annually.</p> <p>Different thresholds apply to different areas of Council expenditure, depending on the area of Council activity to which they belong. For instance, the Grants Committee approves grants up to £3K, while the Environment Committee limits expenditure per item to £3K and delegates full expenditure authority to officers for maintaining the public realm service. These thresholds are all identified in the individual Terms of Reference for each Committee.</p> <p>During annual budget considerations (link below), the Council specifies delegation preferences for each budget line. In FY2223, the PO was delegated responsibility for the 'office equipment' budget line of £10K and the 'Professional Services' budget line of £15K. In future years, other responsibilities may be passed to the Finance Officer.</p> <p>Although discussions have occurred regarding a standardised approach, the current tailored method allows each budget line to be evaluated independently, ensuring optimal resource allocation without a blanket policy.</p> <p>https://www.morecambe.gov.uk/wp-content/uploads/2023/03/Approved-MTC-Budget-Precept-Proposal-2023-2024-Final.pdf</p>	

MATTER 8

IA Weakness 8	IA Recommendation
<p>The data protection recommendations below were issued during the 2022/23 financial year:</p> <p>The use of private email addresses by councillors creates significant data protection risks as follows:</p> <ol style="list-style-type: none">1.) The clerk will be unable to apply the limits set in the retention policy to private emails and any attachments in the emails. Therefore, the council will be unable to comply with the adopted retention policy and may be keeping personal data longer than necessary which is a breach of one of the DPA 2018 principles.2.) If a Subject Access Request (or FOI request) is received, the clerk will be unable to access and secure relevant information from the private email accounts to ensure all required data for the council response is completely and accurately captured3.) The risk of a data breach is increased as the council security envelope does not extend to private councillor email accounts. If there is a personal data breach via a private email account, the council will be unable to demonstrate to the ICO in the data breach report that the council adequately secured and controlled the personal data held in a private email account.	<p><i>Members should use town council email addresses for town council business.</i></p> <p><i>When a member ceases to be a member, the limits set in the retention policy must be applied to the email history of the councillor</i></p>
Morecambe Town Council Response / Action Plan	
<p>The Council sought this advice from the IA during the FY2223.</p> <p>A report was presented to members highlighting the concerns expressed by the IA.</p> <p>The Council considered the recommendation at its meeting held on 3.11.22 and resolved to implement corporate email addresses for all members. Minutes below.</p> <p>https://www.morecambe.gov.uk/wp-content/uploads/2023/01/Minutes-3rd-November-2022-Full-Council.pdf</p> <p style="text-align: right;">ACTIONED</p>	

MATTER 9

IA Weakness 9	IA Recommendation
<p>The 2023/24 budget and precept were approved during the 2022/23 financial year. Pages 9. and 10. of the 2023/24 precept and budget proposal indicates that the entire projected brought forward reserves of £105,218 plus projected income for the year of £634,000 (inclusive of the revenue precept request) was to be used to finance the planned expenditure of the year of £739,000. Therefore, in February 2023, a 2023/24 budget was set that would expend the entire general reserves of the council.</p> <p>The budget set during 2022/23 for the 2023/24 financial year did not take account of ‘an amount that the council estimates will be appropriate to meet future estimated expenditure’ (ie to hold in general reserves). This is a requirement of sections 32 and 43 of the Local Government Finance Act 1992. It is fortunate that the additional earmarked precept of £1 million raised for the Community Fund reserve for Frontierland is no longer to be earmarked for that specific purpose so the council at least has substantial remaining reserves.</p> <p>It is important to note that the budget document recommendation to council for the £1 million ‘earmarked reserve’ precept was that the ‘Proposed earmarked reserve to be collected to safeguard the former Frontierland site for community use.’ Therefore, at the time of the 2023/24 precept setting there was no intention for any of the £1million earmarked precept to be transferred to general reserves.</p>	<p><i>The council must ensure that the annual budget to support the precept takes account of both brought forward and carried forward general reserves as required by the Local Government Finance Act 1992.</i></p> <p><i>As the additional £1 million earmarked precept is no longer to be applied for the original stated purpose, the Council must ensure during the budgetary process to set the 2024/25 and later year’s precepts that:</i></p> <ul style="list-style-type: none"> - <i>the adequacy of the overall level of general and earmarked reserves is reviewed</i> - <i>the precept level is reviewed if total general reserves are deemed excessive to requirements.</i>
<p>Morecambe Town Council Response / Action Plan</p>	
<p>The Council made provision for (limited) General Reserves in FY2223 of £40K.</p> <p>The Council acknowledges that it made inadequate provision for general reserves in FY2324 and it has resolved (within the FY2324) to reallocate the Community Fund (earmarked reserve) as a General Reserve to rectify this. The amount now held in General Reserves falls within the bracket of 25%-100% of anticipated annual expenditure recommended by the Joint Panel on Accountability and Governance (JPAG). Minutes below.</p> <p>https://www.morecambe.gov.uk/wp-content/uploads/2024/01/MTC-proposed-budget-2024-25-1.pdf</p> <p style="text-align: right;">ACTIONED</p>	

MATTER 10

IA Weakness 10	IA Recommendation
<p>Page 8. of the 2023/24 budget and precept setting proposal from 2022/23 (February 2023) states <i>‘It is estimated that approximately £105,218.95 will remain in the Council’s bank account as of 31 March 2023.’</i></p> <p>As this document was produced in February 2023, the council should have been in a position to forecast accurately the remaining March 2023 transactions for the 2022/23 financial year to provide an accurate prediction of bank balances remaining at the 2022/23 year end. The final cash and bank outturn was that only £56,745 remained in the bank accounts of the authority at the 2022/23 year end. Therefore, the assumptions and calculations used to forecast the 2022/23 closing cash and bank balances used for the 2023/24 budget setting were materially incorrect.</p> <p>Following on from the commentary in issue 9.) above, not only did the council set a 2023/24 budget to expend all general reserves, but also the assumption that opening bank balances would be available of £105,218 were overstated by an amount of £105,218-£56,745) = £48,473. Therefore, in effect the council set a budget to expend all general reserves plus a further £48.473. This could have put the council in an adverse financial position.</p>	<p><i>The accuracy of the assumptions, forecasts, and calculations supporting the budget process must be improved.</i></p>
Morecambe Town Council Response / Action Plan	
<p>The Council notes the IA has not raised any issues with the budget and precept setting proposal for FY2223.</p> <p>At the time that the Council considered its budget and precept for FY2324 (in February 2023) the Council was continuing to undergo a period of evolution, changing in size, structure, and function. The Council had difficulty in accurately assessing the remaining forecasted expenditure for the financial year, especially as it was embarking upon undertaking new service delivery (which at the time had not been fully costed, and lead-times for orders were still unknown). The Council did spend more money than anticipated towards the end of the financial year in preparation for additional service delivery and to host a celebration for the King’s Coronation. However, it should also be noted that some payments (as stated in Issue 15 - totalling £13,831.56) were refunded at the beginning of the next financial year.</p> <p>The Council accepts it did not accurately estimate its predicted year end expenditure, nor make adequate provision for general reserves.</p>	

MATTER 11

IA Weakness 11	IA Recommendation
<p>The council reserves policy states that ‘<i>The Council will at all times hold no less than twenty-five percent of annual expenditure and at all times work towards maintaining a reserve equivalent to at least fifty percent of annual expenditure</i>’. However, the budget and precept setting process carried out in 2022/23 to set the next year’s precept took no account of this requirement and, as described in issue 9) above, the council set a budget that expended all general reserves and this would have resulted in critically low levels of general reserves if the £1million community project had proceeded in full.</p>	<p><i>The council must have regard to its adopted reserve policy when setting the annual budget and precept request.</i></p>
Morecambe Town Council Response / Action Plan	
<p>The Council made provision for (limited) General Reserves in FY2223 of £40K.</p> <p>The Council acknowledges that it made inadequate provision for general reserves in FY2324 and it has resolved (within the FY2324) to reallocate the Community Fund (earmarked reserve) as a General Reserve to rectify this. The amount now held in General Reserves falls within the bracket of 25%-100% of anticipated annual expenditure recommended by the Joint Panel on Accountability and Governance (JPAG), and meets the Council’s existing Reserves Policy, which requires the Council to hold reserves no less than twenty-five percent of annual expenditure and at all times work towards maintaining a reserve equivalent to at least fifty percent of annual expenditure. Minutes below.</p> <p>https://www.morecambe.gov.uk/wp-content/uploads/2024/01/MTC-proposed-budget-2024-25-1.pdf</p> <p style="text-align: right;">ACTIONED</p>	

MATTER 12

IA Weakness 12	IA Recommendation
<p>Although we have seen evidence of budgetary control reporting to council, there was no evidence of explanations of material variances as required by the Financial Regulations:</p> <p><i>'4.8. The RFO shall regularly provide the council with a statement of receipts and payments to date under each head of the budgets, comparing actual expenditure to the appropriate date against that planned as shown in the budget. These statements are to be prepared at least at the end of each financial quarter and shall show explanations of material variances.'</i></p>	<p><i>The council must comply with the budgetary control requirements of the Financial regulations</i></p>
Morecambe Town Council Response / Action Plan	
<p>The Council has begun to address this with minutes providing more detail of material variances (examples below).</p> <p>https://www.morecambe.gov.uk/wp-content/uploads/2024/02/Finance-and-Governance-Minutes-090124.pdf</p> <p>https://www.morecambe.gov.uk/wp-content/uploads/2024/03/MINUTES-18-JANUARY-2024.pdf</p> <p>https://www.morecambe.gov.uk/wp-content/uploads/2024/01/MTC-proposed-budget-2024-25-1.pdf</p> <p>Council officers will continue to develop the reporting of material variances, providing updates to members at least quarterly.</p>	
ACTIONED	

MATTER 13

IA Weakness 13	IA Recommendation
<p>The council has moved from a basic receipts and payments council to an income and expenditure council with significant income transaction streams due to be implemented. Therefore, the budgeting process will become more complex and we note there is currently no formal adopted budget timetable in place evidencing the key milestones leading to the agreement of the precept request for the year and approval of the annual budget. The Financial Regulations require that the precept is set no later than the end of January each year and the final precept was set at the February meeting. Therefore, an adopted budget timetable would also help the council meet the requirement in the Financial Regulations.</p>	<p><i>A comprehensive formal budget timetable should be established annually covering the main elements of the Council's budget setting process together with key dates and responsibilities.</i></p>
Morecambe Town Council Response / Action Plan	
<p>The Council has begun to address this and it approved a budget timetable for FY2526 at its F&G Committee meeting held on 6.2.24.</p> <p style="text-align: right;">ACTIONED</p>	

MATTER 14

IA Weakness 14	IA Recommendation
<p>Budgeting for Income:</p> <ul style="list-style-type: none"> - The ticket sales projected for the Gaia arts project were £30,000 but only £13,983 were actually sold. We could not identify any underlying detailed budget assumptions to support the calculation of the £30000 figure. We were informed that ticket sales were impacted by a key staff member leaving the council before the event occurred. - We could not identify any detailed plan showing activity and price per unit that underpinned the £25,000 training centre income budget included in the 2023/24 budget to support the precept request. 	<p><i>When income budgets are established they must be underpinned by realistic assumptions and achievable detailed activity and pricing projections.</i></p>
<p>Morecambe Town Council Response / Action Plan</p>	
<p>The Council estimated income for training at £7,170 per quarter (approx 90% occupancy).</p> <p>Predicting income estimates for arts and culture is challenging and even regular annual events can vary greatly year on year due to unforeseen circumstances such as the weather. The Council had initially estimated an income for Mars from ticket sales of £30K. This figure was based on data received from the artist regarding numbers of visitors to similar exhibitions elsewhere (the Moon and Earth). When the Council agreed the budget for the event, it was aware of the impact a lack of ticket sales may have on the annual budget. The Council was aware that if anticipated ticket sales were not achieved, then expenditure for events throughout the rest of the year would need to take this into consideration, to ensure there was not a net overspend during the financial year. The Council's Events Officer also unfortunately resigned a week prior to the event and this impacted the promotion schedule, and subsequent ticket sales.</p> <p>Notwithstanding the above, the Council's decision to host an international art exhibition was not solely dependent upon revenue generation, and the Council has committed funding to other large events such as Morecambe Sparkle (a contribution of £20Kpa, for three years).</p> <p>The key to the future success and vibrancy of Morecambe lies in investment and regeneration, particularly in the areas of leisure and recreation. The events organised by the Town Council have gained Morecambe both national and international press coverage over the past twelve months - featuring on BBC, SKY, ITV, in addition to several national broadsheet newspapers including The Times, Telegraph, and Guardian.</p> <p>Arts and culture plays a significant and multifaceted role. The sector is not only about aesthetic and creative expression, but has a tangible impact on economic development, building resilient economies by supporting job creation, contributing to economic diversification, attracting tourists, improving the quality of life for local people, fostering cultural innovation, contributing to place-making, enhancing education, building reputation, and supporting social cohesion.</p> <p>The Government says "culture can have a positive impact on a place: helping to bring partners together, forging new and lasting relationships, unlocking ambition, and developing strategic cultural leadership; as well as and showcasing and opening up access to local heritage, art and culture to local, regional, and wider audiences"².</p>	

²<https://publications.parliament.uk/pa/cm5803/cmselect/cmcmds/1104/report.html#:~:text=In%20addition%20to%20signposting%20best,economy%20that%20supports%20and%20is>

Arts Council England recognises that “local authorities are the biggest funders of arts and culture in England”, “faced by a challenging financial environment, many are responding with imaginative and innovative ideas about how they can continue their vital support for arts and culture”⁴.

The Local Government Association advises “culture, heritage and creativity are essential to our future national prosperity, levelling up, wellbeing, and recovery from crisis. The arts, museums and libraries bring people together at times of crisis and celebration, they provide support and social connection, create jobs, develop new adaptive skills, and underpin empathy and critical thinking.

A strong local cultural offer improves quality of life and supports the health and wellbeing of communities, it enhances learning, builds cultural and social capital and opens up opportunities for children and young people who might otherwise not have access to great cultural experiences. It draws people to the high street and enhances the visitor and night-time economies, underpins growth in the burgeoning creative industries, supports our international reputation and helps to make the unique and fascinating places that are so fundamental to our country.

Councils are the biggest public funders of culture nationally, spending £2.4 billion a year in England alone on culture and related services. They run a nationwide network of local cultural organisations, which in England includes 3,000 libraries, 350 museums, 116 theatres and numerous castles, amusement parks, monuments, historic buildings, parks and heritage sites. This core funding keeps the civic infrastructure of culture running within places⁵.”

In response to the IA recommendation, and the difficulty in estimating income for arts and culture in general, the Council has decided not to estimate any unconfirmed income in its FY2425 budget.

The Council will also consider producing reports to measure the economic impact and social value that each activity delivers.

ACTIONED

⁴ <https://www.artscouncil.org.uk/developing-creativity-and-culture/working-local-authorities>

⁵ <https://www.local.gov.uk/topics/culture-tourism-leisure-and-sport/arts-council-england-and-lga-joint-statement-2023-2025>

MATTER 15

IA Weakness 15

After consideration of three suppliers, Seton Brady were selected by the council to provide four fire rated COSHH safety cabinets. In March 2023 a payment of £13,831.56 was made, however, the provider did not have these items in stock and due to delays in fulfilling the order the council subsequently cancelled the order. A full refund was received in April 2023, however, the fact that the monies were received in full just after the year end was not reflected in the income and expenditure accounts by recording this refund due as a debtor.

This is evidence that comprehensive year end procedures to capture all balance sheet items had not been applied fully.

IA Recommendation

Year end procedures must include a review of post year end transactions to help identify Balance Sheet items such as debtors and creditors.

Morecambe Town Council Response / Action Plan

The Council primarily prepared its FY2223 AGAR on an income and expenditure basis for the purpose of setting up its accounts for FY2324 in the right manner.

The Council did not receive the refund from Seton Brady until ten days following year end. It was therefore considered at the time (in liaison with Scribe) that this credit fell within the new financial year.

The Council agrees that a more comprehensive year end procedure will be required in future years, and it has already begun to put processes in place to achieve this.

MATTER 16

IA Weakness 16	IA Recommendation
<p>The information provided by the council in respect of balance sheet items was that there were ‘no creditors / accruals / debtors (amounts considered under the threshold of negligibility)’. Therefore, the only item included in the conversion of the current and prior years accounts from receipts and payments to income and expenditure accounts was the annual VAT debtor.</p> <p>No balance sheet supported by an extended trial balance had been produced although with just a VAT debtor disclosed for 2022/23 and prior years, this is a more comprehensive exercise for the 2023/24 financial year.</p>	<p><i>The council is now an income and expenditure council and must ensure at each year end that comprehensive year end procedures are applied to completely and accurately capture all accruals, creditors, non VAT debtors, prepayments and receipts in advance for inclusion in the year end trial balance and balance sheet and income and expenditure accounts.</i></p> <p><i>Clear evidence should be retained of the year end procedures applied to identify balance sheet items for 2023/24, with a complete analysis of items included in the balance sheet retained for audit trail purposes.</i></p>

Morecambe Town Council Response / Action Plan

The Council primarily prepared its FY2223 AGAR on an income and expenditure basis for the purpose of setting up its accounts for FY2324 in the right manner.

The Council did consider the annual VAT debtor and, as permitted by the JPAG, considered other creditors/debtors/accruals under the threshold of negligibility.

The Council is a much larger authority in FY2324, and will ensure it applies comprehensive year end procedures to completely and accurately capture all accruals, creditors, non VAT debtors, prepayments and receipts in advance for inclusion in the year end trial balance and balance sheet and income and expenditure accounts. Significant work has already been undertaken to improve year end procedures now that the Council has additional staffing capacity.

MATTER 17

IA Weakness 17	IA Recommendation
The approved and published AGAR accounts contain the incorrect figure for fixed assets for the 2021/22 comparative figures. The council have incorrectly included the 2020/21 figure of £66,431 rather than 2021/22 figure of £111,956.	<i>The correct fixed asset values should be disclosed in the AGAR accounts.</i>
Morecambe Town Council Response / Action Plan	
<p>Officers have raised this recommendation with the F&G Committee, full council, and EA PKF Littlejohn.</p> <p>The Council has restated and signed its AGAR. Minutes below.</p> <p>https://www.morecambe.gov.uk/wp-content/uploads/2024/03/February-2024-full-council-minutes.pdf</p> <p style="text-align: right;">ACTIONED</p>	

MATTER 18

IA Weakness 18

IA Recommendation

The council website was not up to date at the time of review for the internal audit, for instance, there were no minutes of the Staffing Committee available. We were informed that there were operational issues with the website during 2022/2023, leading to data loss upon rebooting from the historic backup. It is not clear from the current council website that the following information is published as required by the Local Authority Transparency Code 2015:

PUBLICATION 32. Local authorities must also publish details of any contract, commissioned activity, purchase order, framework agreement and any other legally enforceable agreement with a value that exceeds £5,000. For each contract, the following details must be published:

- *reference number*
- *title of agreement*
- *LA department responsible*
- *description of the goods and/or services being provided*
- *supplier name and details*
- *sum to be paid over the length of the contract or the estimated annual spending or budget for the contract*
- *Value Added Tax that cannot be recovered*
- *start, end and review dates*
- *whether or not the contract was the result of an invitation to quote or a published invitation to tender, and*
- *whether or not the supplier is a small or medium sized enterprise and/or a voluntary or community sector organisation and where it is, provide the relevant registration number*
-

The council should ensure the website is maintained up to date and that it complies fully with the publication requirements of the Local Authority Transparency Code 2015.

Morecambe Town Council Response / Action Plan

In FY2223 all of this information was published and made publicly available, albeit not all in one place. Some of this information is detailed in minutes, and some in expenditure reports exceeding £500, and elsewhere on portals such as the below.

<https://www.contractsfinder.service.gov.uk/Notice/760caaf3-ecd5-495f-83ec-ead40f0c0590>
<https://www.contractsfinder.service.gov.uk/Notice/3bf51b1e-47bd-4b80-a1a5-a82db0da2cef>

The Council has now populated all information to appear in one place on the link below.

<https://www.morecambe.gov.uk/data-transparency/>

The Council has worked to increase its staffing capacity to ensure its website remains updated.

ACTIONED

MATTER 19

IA Weakness 19	IA Recommendation
<p>Internal control objective (Objective M) in the AGAR internal audit certificate requires internal audit to conclude whether the Public Rights Notice during the previous Summer (2021/22 financial year) was compliant with the Regulations.</p> <p>The 2021/22 public notice is for a 41 day period rather than the required 30 day period. However, only the required 30 working day timeframe can cover the statutory period that covers objections to the external auditor.</p>	<p><i>The council must comply with the publication requirements of the Accounts and Audit Regulations 2015.</i></p>
Morecambe Town Council Response / Action Plan	
<p>The Council was acting under the presumption that providing an extended period for inspection of accounts would help improve transparency and accountability.</p> <p>In an email dated 5.7.23, EA PKF Littlejohn clarified that the Council cannot extend the period since it is set by statute. PKF Littlejohn also stated “the Council can provide additional inspection appointments throughout the year and we are pleased to see such transparency, but they are not part of the statutory period”.</p> <p>The Council ensured its notice period was amended for FY2324.</p> <p style="text-align: right;">ACTIONED</p>	

MATTER 20

IA Weakness 20	IA Recommendation
<p>We note the council could not meet the publication deadline of September 30th 2022 for the ‘notice of conclusion of audit’ as external audit did not complete the audit until after that date.</p>	<p><i>No recommendation as it was not possible to public the notice as the external audit had not been completed.</i></p>
Morecambe Town Council Response / Action Plan	
<p>It is understood from EA PKF Littlejohn that their interim external audit report adheres to the legislative requirements of AGAR Internal Control Objective N, and there is no legislative requirement for the audit to conclude by the end of September.</p>	