

# *Public Sector Audit*

## **Kirton in Lindsey Town Council**

***Internal Audit Report for the year ended 31 March 2018***

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#### Introduction

Part 2, paragraph 5 (1) of the Accounts and Audit Regulations 2015 imposes a duty on Local Councils to “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”.

Internal audit is a key component of the system of internal control. The purpose of internal audit is to review whether the systems of financial and other controls over a council's activities and operating procedures are effective.

At the request of the council I have conducted an Internal Audit review of the council's accounting records in respect of the financial year ended 31 March 2018. I have acted independently and, on the basis of an assessment of risk, carried out a selective assessment of compliance with relevant procedures and controls expected to be in place during the financial year.

The audit has been carried out in accordance with the council's needs and planned coverage. On the basis of the findings in the areas examined, the internal audit conclusions and recommendations have been recorded in the table below.

### Prioritisation of recommendations

In accordance with good internal audit reporting practice and the Governance and Accountability for Local Councils Practitioners Guide, the recommendations contained in this report have been prioritised. The following 'traffic light' system for the prioritisation of recommendations has been adopted: Page | 3

- Significant weakness in internal control requiring urgent attention.
- Moderate weakness in internal control requiring attention within the current year.
- Minor weakness in internal control, or matters of good practice the council may wish to consider, to be addressed within the current year.

#### Distribution List

Chairman of the Council

All members of the Council

Clerk to the Council

The findings of the audit are summarised below

	<b>Tests Performed</b>	<b>Findings and Recommendations</b>
1	Have appropriate books of account been properly maintained throughout the year?	<p><u>Appropriate accounting records</u></p> <p><b>Findings</b>                      During the previous Town Clerk's period in office a formal cash book was not maintained. Monthly schedules of payments were prepared for council but a formal cash book was not prepared.</p> <p>The council's new Clerk has constructed a cash book from the previous Clerk's records and used this to prepare the Annual Return. It is noted, however, that the staff costs columns in the cash book do not contain the figures required for box 4, staff costs, on the Annual Return. The basis of the total for the staff costs figure is contained in the 2018 NALC/SLCC Governance and Accountability Guide for Local Councils.</p> <p>The spread sheet for the year is arithmetically correct and it has been reconciled to the bank monthly.</p> <p>The consecutive numbering of invoices, which are cross referenced to the cash book, would be useful to both the Clerk and auditor.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● The cash book should be constructed in such a way as to provide the figures for box 4, staff costs, and box 6, all other payments, on the Annual Return in accordance with the Governments requirements.</li> <li>● The council should consider numbering all invoices and cross referencing these to the cash book.</li> </ul>
2	Have the council's Financial Regulations and Standing Orders been formally adopted and complied with?	<p><u>Adherence to Financial Regulations and Standing Orders</u></p> <p><b>Findings</b>                      The council's Standing Orders and Financial Regulations were adopted by the council at its meeting held on the 28th June 2017.</p> <p>In 2018 NALC updated its Standing Orders to reflect changes in legislation since the previous NALC Model.</p>

		<p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● The council should update its Standing Orders to the revised 2018 NALC Model to reflect the changes in legislation since the previous NALC Model.</li> </ul>
3	<p>Are payment controls effective and VAT properly accounted for?</p> <p>Has the council recorded s137 expenditure separately and is it within the statutory limit?</p>	<p><u>Adequate payment controls</u></p> <p><b>Findings</b></p> <p>I have tested a large sample of payments throughout the year. All payments tested have been reported to council and authorised.</p> <p>For the sample of invoices tested I have reviewed for completeness, accuracy, the correct year of account and classification within the council's accounts.</p> <p>I have tested that VAT has been correctly identified, recorded in the cash book and reclaimed from HMRC. It was noted that, on one occasion, VAT had been reclaimed when the council was not in possession of a formal VAT invoice.</p> <p>I have identified no unusual items of expenditure or items which are ultra vires.</p> <p>S.137 expenditure for the year totals £4,300 which is well within the S.137 statutory limit for the number of electors in the Parish and is appropriate expenditure for this legislative power.</p> <p>I have examined the cheque stubs for compliance with the two signature rule and the council's Financial Regulations and all stubs have been correctly initialled by both signatories.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● The council should obtain a valid VAT invoice to enable it to reclaim VAT from HMRC.</li> <li>● It should never be assumed that registration for VAT purposes means that <i>all</i> value added tax can be recovered. Owing to the complexity of VAT legislation, it is recommended that advice be sought from HMRC when any new projects are undertaken, significant capital expenditure is being considered or any new matters arise.</li> </ul>

4	<p>Has the council assessed the significant risks in delivering its activities and services and regularly reviewed the adequacy of these assessments?</p> <p>Is insurance cover appropriate and adequate?</p> <p>Are financial controls documented and regularly reviewed?</p>	<p><u>Assessment of significant risks</u></p> <p><b>Findings</b></p> <p>The council have the following Risk Assessments: Finance and Management, Christmas Festival, Summer Gala, Play Area, Cemetery and Health &amp; Safety. All of the Risk Assessments have been reviewed and approved by council during the year.</p> <p>I have reviewed the council's insurance cover and the levels of indemnity are considered to be adequate.</p> <p>ROSPA carry out an annual safety inspection and have provided inspection check sheets for the play area for the council to use in-between annual inspections. These inspections, however, have not been carried out during the year. The council's insurers should be able to advise on the recommended frequency of such inspections</p> <p>Internal financial controls are included in the council's Financial Procedures.</p> <p>I have reviewed the council's back up arrangements for its electronic records and note that all data is held on cloud on "Onedrive". Onedrive is an American based facility and it is the Information Commissioner's view that if the data is not held in the UK it is not deemed to have adequate data protection standards. The UK Government has published a document on implementing cloud security principals which states: "<i>The locations, at which consumer data is stored, processed and managed from, must be identified so that organisations can understand the legal circumstances in which their data could be accessed without their consent. Public sector organisations will also need to understand how data handling controls within the service are enforced, relative to UK legislation. Inappropriate protection of consumer data could result in legal and regulatory sanction or reputational damage.</i>"</p> <p>It is noted that the Clerk is preparing for the requirements of the General Data Protection Regulations (GDPR) which come into effect on the 25th may 2018.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● As recommended last year, the ROSPA safety inspection sheets should be regularly completed by the council. They should record any defects found and the date appropriate action was taken to remedy the defects and be retained as evidence in the event of an issue arising.</li> </ul>
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		<ul style="list-style-type: none"> <li>● The council should re-examine its electronic storage arrangements to ensure that regulatory and legislative requirements are fully met.</li> <li>● The council should continue to prepare to comply with the GDPR by: <ul style="list-style-type: none"> <li>● Undertaking an audit of all personal data held including staff, councillors and the public.</li> <li>● If deemed appropriate by the council, appointing a Data Protection Officer who has sufficient skills and knowledge about the GDPR and other Data Protection laws to adequately discharge the role.</li> </ul> </li> </ul> <p>More information, if required, can be found on the Information Commissioners website, ico.org.uk. The site has links to two useful guides, "GDPR: 12 steps to take now" and "Getting ready for the GDPR checklist"</p>
5	<p>Has the annual precept requirement resulted from an adequate budgetary process?</p> <p>Has progress against budget been regularly monitored and reported?</p> <p>Are reserves adequate and appropriate?</p>	<p><u>Adequate budgetary process</u></p> <p><b>Findings</b></p> <p>The council prepared a detailed annual budget that was adopted in setting the precept at the Full Council Meeting held on the 21st December 2017.</p> <p>The two precept instalments of £48,324.50 from NLC agree to the council's precept of £96,649 including the Council Tax Grant of £6,649.</p> <p>Budget monitoring reports in respect of quarters one, two and three of the financial year were presented to council in July and October 2017 and January 2018. The minutes, however, record the receipt of quarterly "bank reconciliations" not budget monitoring reports. It is noted that subsequent minutes now confirm that the council have received and reviewed budget monitoring reports.</p> <p>The council has reviewed the level of reserves it holds and, at the meeting held on the 25th April 2018, it agreed adjustments to its reserves statement. The council's balances as at the 31st March 2018 total £107,856. This comprises earmarked reserves of £64,500 and a general reserve of £43,356 which is considered to be both adequate and prudent.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● It is understood that North Lincolnshire Council has imposed stringent conditions on Local Councils for the receipt of Council Tax Grant for 2018/19. The council should ensure, therefore, that it fully considers the legal</li> </ul>

		and financial implications of these conditions if it wishes to continue to receive the Grant element of the Precept.
6	<p>Was all expected income fully received in accordance with the current scale of charges, properly accounted for and promptly banked?</p> <p>Were security controls over cash and cash equivalents effective?</p>	<p><u>Adequate income controls</u>  <b>Findings</b>  The council's Precept and Grant for 2017/18 was received in 2 instalments. The payments, made by BACS, agree to the cash book and NLC remittance advices.</p> <p>I have checked a sample of income throughout the year to the current scale of charges and balanced income receipts to the schedules of income and the bank.</p> <p>The council's Scale of Charges for cemetery fees was reviewed and agreed by council on the 24th May 2017. Also min. 1709/6 of FGP &amp; P Committee on the 11th September 2017 confirmed the prices for indoor and outdoor stalls at the Christmas market.</p>
7	<p>Were petty cash payments appropriate and supported by receipts?</p> <p>Was all expenditure approved and reported to members?</p> <p>Has VAT been correctly accounted for?</p>	<p><u>Appropriate petty cash controls</u>  <b>Findings</b>  The council does not maintain a petty cash account. All petty items of expenditure are reimbursed to the Clerk and members via the normal payments system.</p> <p>For the sample checked, all VAT, with the exception of one item noted in 3 above, has been correctly analysed.</p> <p>Reimbursements of small items of expenditure are included in the monthly payments analyses which are reported to council.</p>
8	<p>Do all employees have contracts of employment with clear terms and conditions?</p> <p>Are salaries to employees and all other payments and allowances paid</p>	<p><u>Adequate payroll controls</u>  <b>Findings</b>  Gross salary payments to the previous Town Clerk have been agreed to her contract of employment and NJC salary scales. The final payment in March 2018 was adjusted to take account of outstanding holiday pay and the repayment of previous overpayment of salary in December 2016 and January 2017.</p>



	<p>in accordance with council approvals?</p> <p>Has PAYE and NI been correctly deducted and paid to HMRC?</p>	<p>All gross payments to the council's new Clerk have been agreed to the current contract of employment and previous contract as Assistant Clerk.</p> <p>The Clerk is subject to PAYE and NI regulations using HMRC Basic Tools software and statutory deductions have been correctly paid to HMRC.</p>
9	<p>Is the asset and investment register complete and accurate and reviewed on a regular basis?</p>	<p><u>Appropriate recording of assets</u></p> <p><b>Findings</b></p> <p>The asset register is updated annually to reflect changes during the year and the new assets purchased during the year have been correctly added.</p> <p>The council does not hold any investments.</p> <p>The descriptions of assets on the register differ from those on the insurance policy and it is difficult, therefore, to confirm that all council owned assets are adequately insured.</p> <p>It is noted that the council's marquee has not been included on the Asset Register. Also, two flag poles purchased during the year have been added to the register at the price paid including VAT. As the council are able to recover the VAT element of the invoice, the valuation for Asset Register purposes should be the net cost to the council in accordance with recommended practice.</p> <p>The register was reviewed and approved by council on the 24th May 2017.</p> <p>The total asset valuation agrees to the declaration in box 9 on the Annual Return.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● The council should review its Asset Register and compare the assets it holds with the insurance policy schedule and consider regrouping the assets in the register to mirror those declared on the insurance schedule.</li> <li>● The marquee should be added to the register and the valuation of the flag poles should be amended to reflect the net cost of these assets.</li> </ul>

		<ul style="list-style-type: none"> <li>● The Asset Register should be reviewed and approved by council annually.</li> </ul>
10	<p>Were bank reconciliations performed on a regular and timely basis? Has a year-end reconciliation been performed and balanced?  Have all bank reconciliations been reviewed by an appointed member and evidenced as such?</p>	<p><u>Adequate bank reconciliations</u> <b>Findings</b> The council's bank reconciliations are carried out monthly and are reconciled to the cash book and bank statements. They correctly include both the council's savings accounts and current account.  There are no unusual or balancing figures included in the reconciliations. The reconciliations are presented to council monthly and have been appropriately authorised.  The council does not hold any short term investments.</p>
11	<p>Were the year-end accounts prepared on the correct accounting basis and are they supported by adequate working papers and adjustments, transfers, contra entries etc. which are fully explained and justified?  Is there is an adequate audit trail from underlying records and, where appropriate, have debtors and creditors been properly accounted for?  Has the previous year's Internal Audit Report been submitted to council and actioned as necessary?</p>	<p><u>Correct accounting basis and previous Internal Audit Report actioned</u> <b>Findings</b> The year-end statements have been prepared on the correct accounting basis (Receipts and Payments) and, therefore, debtors and creditors have not been included.  It was noted in 1 above that the figure for staff costs in box 4 on the Annual Return had not been stated in accordance with current guidance. During the audit the staff cost column in the cash book was re-analysed and correct figures for box 4, staff costs, and box 6, all other payments, have now been entered on the Annual Return.  The 2016/17 Internal Audit Report was submitted to council on the 24th May 2017 and was duly minuted as being received.</p>

12	Has the council met its responsibilities as a trustee?	<p><u>Trustee responsibilities</u></p> <p><b>Findings</b></p> <p>The council has now identified that it has responsibility for four Trust Funds. Two of these are in the process of being amalgamated into one, known as Torksey Charity. This fund was registered with the Charity Commission in 1967. This fund currently has two bank accounts which will be amalgamated into one during the current year. One other fund is known as The Green and the Market place and was registered with the Charity Commission in 1974. This fund has a dormant bank account which is currently being re activated. A further fund, known as The War Memorial and the Garden of Edward Elmhirst Duckering, has been identified. This was registered with the Charity Commission in 1966. The council has not been able to locate any bank accounts associated with this Trust.</p> <p>No funds have been spent during the year and hence my only responsibility as the council's auditor is to confirm that no Trust Fund income or expenditure has been included in the Annual Return. I have confirmed that this is the case during the audit of the Town Council's accounts.</p> <p>The council should ensure that it meets the Charity Commission's requirements in respect of the funds that it manages.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● When the council is in a position to incur expenditure on behalf of one or more of the Trust Funds it must ensure that it does not include any Trust Fund income or expenditure in the council's accounts. Any Trust Fund transactions must be separately accounted for and maintained independently from the council's records. Separate bank accounts must be maintained and used solely for Trust transactions.</li> </ul>
13	Are council's minutes maintained in accordance with legislative requirements?	<p><u>Correct maintenance of council minutes</u></p> <p><b>Findings</b></p> <p>The minutes provided to audit cover the whole year.</p> <p>The minutes are maintained in a loose leaf format and each page has been numbered consecutively in accordance with the Local Government Act 1972 (Schedule 12.41(2)).</p> <p>It is noted, however, that all of the minutes of the council meeting held on the 22nd November 2017 and</p>

		<p>Pages 135 and 136 of the minutes of the meeting on the 28th February 2018 have not been signed by the person presiding thereat in accordance with the above legislation.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"><li>● The unsigned pages of the above minutes should be signed in accordance with legislative requirements.</li></ul>
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Executive Summary

The accounts and governance arrangements of the council have improved significantly during the year and the hard work the council's new Clerk in achieving this is to be acknowledged.

The internal financial control environment within the council is good and the adoption of the above recommendations will serve to further enhance and strengthen the systems, procedures and governance arrangements already in place.

The Internal Audit has been conducted in accordance with the Governance and Accountability for Local Councils – Practitioners Guide 2016.

I confirm that I have no relationship or interest, financial or otherwise, with any member or officer of the council.

Richard Dixon

*Public Sector Audit*

11<sup>th</sup> May 2018

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