

Public Sector Audit

Kirton in Lindsey Council

Internal Audit Report for the year ended 31 March 2017

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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 2017. 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

	Tests Performed	Findings and Recommendations
1	Have appropriate books of account been properly maintained throughout the year?	<p><u>Appropriate accounting records</u> Findings The cash book has been completely re-written by the Locum Clerk and is maintained on a spread sheet basis.</p> <p>It is sufficiently well analysed to provide all of the information required for the purpose of the Annual Return</p> <p>The spread sheet formulas ensure that it is arithmetically correct and it has been reconciled to the bank monthly.</p> <p>The new composite cash book for the full year compiled by the Locum Clerk has been used for year-end and Annual Return purposes.</p>
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> Findings The council revised its Standing Orders and Financial Regulations during the year and they were adopted by the council at its meeting held on the 22nd June 2016 (minutes 41 and 42 16/17).</p> <p>The revised Standing Orders and Financial Regulations correctly include the requirements of the Public Contracts Regulations 2015 for the supply of goods and services.</p>
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> Findings I have tested a sample of payments throughout the year.</p> <p>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</p>

		<p>classification within the council's accounts.</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 £7,800 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>
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>Findings</p> <p>The council have the following Risk Assessments:</p> <ul style="list-style-type: none"> • Finance and Management. Reviewed by F & GP Committee on 15/05/17, • Christmas Festival. New Risk Assessment prepared but not yet approved by council, • Summer Festival. Reviewed by F & GP Committee on 12/10/15, • Play Area. New Risk Assessment prepared but not yet approved by council, • Cemetery. Reviewed by F & GP Committee on 12/10/15. • Health & Safety. Reviewed by council on 13/03/17. <p>I have reviewed the council's insurance cover and the levels of indemnity are considered to be adequate. It was noted that the War Memorial has not been included on the council's asset register.</p> <p>The Clerk has arranged for ROSPA to visit in the summer to carry out a safety inspection and also prepare new check sheets and risk assessments for the play area for the council to use in-between annual inspections.</p> <p>The Clerk inspects all play equipment weekly. The inspections are recorded and details of repairs etc. are noted for action.</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</p>

		<p>"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.</p> <p>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>Recommendations</p> <ul style="list-style-type: none"> ● The new Christmas Festival and Play Area Risk Assessments should be presented to council for review and approval. ● The Summer Festival and Cemetery Risk Assessments should be reviewed for continued relevance and reviewed and approved by council. ● All new safety inspection sheets used by the council should record any defects found and the date appropriate action was taken to remedy the defect and be retained as evidence in the event of an issue arising. ● All risk assessments should be presented to council for review and approval annually. ● The council's War Memorial should be added to the asset register when it is next reviewed. ● The council should re-examine its electronic storage arrangements to ensure that it fully meets regulatory and legislative requirements.
5	Has the annual precept requirement resulted from an adequate budgetary process?	<p><u>Adequate budgetary process</u></p> <p>Findings</p> <p>The council prepared a detailed annual budget that was adopted in setting the precept at an Extraordinary Meeting of the council held on the 11th January 2016.</p>

	<p>Has progress against budget been regularly monitored and reported?</p> <p>Are reserves adequate and appropriate?</p>	<p>The two precept instalments of £48,324.50 from NLC agree to the council's precept of £90,000 plus grant of £6,649.</p> <p>Budget monitoring reports in respect of quarters one, two and three of the financial year have been presented to council. The monitoring report in respect of quarter 3 was used at the budget setting meeting in January 2017.</p> <p>The Reserves Statement as at the 31st March 2017 identifies total reserves of £84,990. This comprises earmarked reserves of £53,000 and a general reserve of £31,990 which is considered to be both adequate and prudent.</p>
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></p> <p>Findings</p> <p>The precept for 2016/17 was received in 2 instalments. The payments were made by BACS directly into the council's Business Account.</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 statements.</p> <p>It was noted that documentary evidence in respect of some income received for the cemetery was missing at the time of the audit. The Clerk is aware of this and seeking to obtain duplicates.</p> <p>The council's scale of charges for cemetery fees was reviewed by F & GP committee in October 2015 and it was confirmed that it remains the same. It was due to be reviewed during 2016 for budget calculation purposes. This was not done, however, and will be reviewed during 2017/18.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● Documentation in support of all income received by the council should be obtained and retained for verification by audit. ● The council's scale of charges for cemetery fees should be reviewed during 2017/18.

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></p> <p>Findings</p> <p>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 expenditure 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 in accordance with council approvals?</p> <p>Has PAYE and NI been correctly deducted and paid to HMRC?</p>	<p><u>Adequate payroll controls</u></p> <p>Findings</p> <p>The previous Clerk's employment ended during August 2016 and a Locum Clerk was appointed on a contract basis.</p> <p>During October an Assistant Locum Clerk was also appointed on a contract basis. The Personnel & Disciplinary Committee held on the 23rd November 2016 (min. 1611/05) appointed the Locum Assistant Clerk as Assistant Town Clerk. The Personnel & Disciplinary Committee held on the 10th January 2017 (min. 1701/05) appointed the Assistant Clerk as the new Town Clerk.</p> <p>I have agreed all salary payments to those approved by the council, including any changes during the year, with the exception of the pay for the new Clerk for the months of December 2016 and January 2017.</p> <p>The new Clerk is now subject to PAYE and NI regulations using HMRC basic tools. For the period December 2016 to March 2017 the Clerk was paid gross without deduction of PAYE and NI as the council were unable to access the HMRC Basic Tools system. The Clerk is currently working with HMRC to re-establish access to the system. When this has been done any liability for PAYE and NI will be known and paid as necessary.</p> <p>Recommendations</p> <ul style="list-style-type: none"> Any liability for PAYE and NI for the period December 2016 to March 2017 should be assessed and paid to HMRC.

		<ul style="list-style-type: none"> • The Clerk and the Locum Clerk should review the number of hours worked by the Clerk for December 2016 and January 2017 and agree the correct number of hours worked. Any hours found to be overpaid can then, if the council agree, be corrected by adjusting the number of hours currently being worked. Documentation of any adjustment made should be retained for audit purpose. This method of correction will avoid the complication of an adjustment in pay between two tax years.
9	Is the asset and investment register complete and accurate and reviewed on a regular basis?	<p><u>Appropriate recording of assets</u></p> <p>Findings</p> <p>The asset register is updated annually to reflect changes during the year and the purchase of any new assets.</p> <p>It was noted that the War Memorial, has not been included on the council's Asset Register.</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 policy identifies that civic regalia is not insured.</p> <p>The council does not hold any investments.</p> <p>The register was reviewed and approved by F & GP committee on the 12th October 2015. It is not known whether it has since been submitted to council for review and approval.</p> <p>The valuation of assets in the Asset Register has been correctly stated at either cost or a nominal value if the cost is not known.</p> <p>The total asset valuation agrees to the declaration in box 9 on the Annual Return.</p> <p>Recommendations</p> <ul style="list-style-type: none"> • The council should review its Asset Register and compare the assets it holds with the insurance policy schedule. • The Asset Register should be reviewed and approved by council annually.

		<ul style="list-style-type: none"> ● The council may wish to consider adding its civic regalia to the insurance policy.
10	<p>Were bank reconciliations performed on a regular and timely basis? Has a year-end reconciliation been performed and balanced?</p> <p>Have all bank reconciliations been reviewed by an appointed member and evidenced as such?</p>	<p><u>Adequate bank reconciliations</u> Findings 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 deposit account and current account.</p> <p>There are no unusual or balancing figures included in the reconciliations.</p> <p>The reconciliations are presented to council monthly and, since September 2016, have been appropriately authorised.</p> <p>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?</p> <p>Is there is an adequate audit trail from underlying records and, where appropriate, have debtors and creditors been properly accounted for?</p> <p>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> Findings The year-end statements have been prepared on the correct accounting basis (Receipts and Payments) and, therefore, debtors and creditors have not been included.</p> <p>The statements agree with the cashbook.</p> <p>There is an audit trail from underlying financial records to the year-end statements.</p> <p>It is noted that the council has included Trust Fund income in the year-end Accounting Statements which is contrary to the guidance notes that accompany the Annual Return. I will provide a note of explanation, regarding the circumstances surrounding this issue, to the External Auditor.</p> <p>The 2015/16 Internal Audit Report was submitted to council on 25/05/16 and it was approved to action the matters arising.</p>

		<p>Recommendation</p> <ul style="list-style-type: none"> ● The council must not include any future Trust Fund income or expenditure in the council's bank accounts or Accounting Statements.
12	Has the council met its responsibilities as a trustee?	<p><u>Trustee responsibilities</u></p> <p>Findings</p> <p>The Locum Clerk has identified that the council does in fact have responsibility for several Trust Funds and that some cheques received during the last three years in respect of one of these Trusts have not been banked. Also, a large quantity of unopened envelopes containing bank statements for the Trust were found by the Locum Clerk</p> <p>One cheque for £500 in respect of the Poors Close Charity was paid into the council's bank account during the year. As the council should not include any Trust Fund income or expenditure in the Accounting Statements on the Annual Return, the £500 will need to be withdrawn from the council's bank account in the current year and deposited in an appropriate trust or holding account.</p> <p>It is acknowledged that the Locum Clerk and the council are currently investigating the implications and responsibilities in respect of the Trusts.</p> <p>There are certain regulations regarding the accounting and audit responsibilities for Parish and Town Councils acting as sole trustees for Trust Funds. When the status and conditions attaching to the council's Trusts have been clarified I will be pleased to provide guidance and audit services for the Trusts to the council if required.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● Detailed enquiries should continue to be undertaken to establish the council's responsibilities in respect of any Trust Funds for which it acts as sole trustee. ● The Trust deeds for any funds found to be the council's responsibility will need to be located and the charitable status of such funds established. If the funds do have charitable status, the Charity Commission's requirements will also need to be met.

		<ul style="list-style-type: none"> ● Any Trust Funds found to be the council's responsibility should be independently audited to ensure that the council has correctly accounted for the funds entrusted to its care. ● The council must withdraw the Trust Funds deposited in the council's bank account and deposit them in an appropriate Trust account or holding account until a suitable Trust account has been opened. ● When the position regarding the Trusts has been established, the council 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.
13	Are council's minutes maintained in accordance with legislative requirements?	<p><u>Correct maintenance of council minutes</u></p> <p>Findings</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 either signed or initialled as a true record of proceedings.</p> <p>The pages have not, however, been numbered consecutively throughout the year in accordance with the Local Government Act 1972.</p> <p>The Locum Clerk is aware of the incorrect numbering prior to her appointment and has introduced a new system to correct this in the future.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● All future council minutes should be consecutively numbered in accordance with legislative requirements.

Executive Summary

This year's audit has, of necessity, concentrated more on the council's financial control systems and governance arrangements in view of the resignation of the previous Clerk. More detailed checking work will be appropriate next year when new systems and procedures have bedded in and been operational for a longer period.

The Locum Clerk and new Town Clerk have had a challenging year and their hard work to recreate records and introduce new systems and procedures during the year is acknowledged.

In view of the recently discovered Trust Funds, which the council are apparently responsible for, additional audit resources have been applied to reviewing the council's duties and responsibilities in respect of the funds and advising the External Auditor accordingly.

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

17th May 2017

Public Sector Audit

