

# *Public Sector Audit*

## **Kirton in Lindsey Town Council**

### ***Interim Internal Audit Report for the year ended 31 March 2019***

*Public Sector Audit*

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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 interim Internal Audit review of the council's accounting records in respect of the financial year ended 31 March 2019. 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.

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## 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

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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></p> <p>The cash book is maintained on spread sheets on a receipts and payments basis and is arithmetically correct. It is sufficiently well analysed for the purpose of completing the Annual Return and, at the time of the audit, was completed and balanced to the end of November 2018.</p> <p>The spread sheets are arithmetically correct and have been reconciled to the bank monthly.</p> <p>All invoices and receipts are consecutively numbered and cross referenced to the cash book. This provides a good audit trail from original documentation to the council's financial records through to the Annual Governance and Accountability Return at the year-end.</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></p> <p><b>Findings</b></p> <p>The council's Standing Orders and Financial Regulations were reviewed and adopted by the council at its meeting held on the 23rd May 2018. It is noted, however, that the council's revised Standing Orders do not reflect the latest NALC Model which was issued in March 2018. This was introduced to reflect changes to Data Protection legislation brought about by the introduction of the General Data Protection Regulations which came into effect on the 25th May 2018.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● The council should update its Standing Orders to reflect the revised 2018 NALC Model which includes changes to Data Protection legislation as a result of the introduction of the General Data Protection Regulations.</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> <ul style="list-style-type: none"> <li>• On one occasion a minor overpayment of pence in respect of salary was made. The Clerk is aware of this and it will be corrected next month.</li> <li>• On another occasion sundry council expenditure was included in the cash book as staff mileage. As sundry administrative expenditure cannot be included with mileage in box 4, Staff Costs, on the Annual Governance and Accountability Return (AGAR), such expenditure should be classified as Administration in the cash book and be included in box 6, all other Payments, on the AGAR.</li> </ul> <p>I have tested that VAT has been correctly identified, recorded in the cash book and reclaimed from HMRC. All payments that included a VAT element, with the exception of small petty cash reimbursements, were found to have been correctly accounted for.</p> <p>S.137 expenditure to the end of November totals £10,800 which is well within the S.137 statutory limit for the number of electors in the Town 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 to signify agreement with the cheque and the documentation provided at the time of signing.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● Sundry council payments should be classified as Administration in the cash book and hence included in box 6 on the AGAR.</li> </ul>
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		<ul style="list-style-type: none"> <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> <li>● Following the release of a briefing note (LO1-18) from NALC this year, the council needs to be aware that section 8 of the 1894 Local Government Act prohibits a Parish Council from incurring expenditure on "property relating to the affairs of the church or held for an ecclesiastical charity". It is NALC's view that this prohibition still applies and is not overridden by the general provisions of section 137 of the 1972 Local Government Act. Section 137 expressly provides that expenditure cannot be incurred for purposes which are subject to a statutory prohibition, restriction or limitation and cannot, therefore, be used for the maintenance or upkeep of property or land owned by the church. It is acknowledged that the council has made no such payments during the year.</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's Health and Safety Policy was reviewed and approved at the meeting held on the 28th November 2018.</p> <p>The council reviewed and approved its Risk Assessments for the Cemetery and Play Area at the meeting held on the 28th March 2018. The council's Financial Risk Assessment was reviewed and approved on the 23rd May 2018. The council also maintain annual Risk Assessments in respect of the Summer Gala and Christmas Festival. These were reviewed and approved by the Promoting Kirton Committee on the 25th June 2018.</p> <p>I have reviewed the council's insurance cover and the levels of indemnity are considered to be adequate.</p> <p>The council's Play Area was inspected by Playsafety Ltd., an independent RoSPA accredited company, during August 2018. The inspection report was presented to council on the 26th September for formal review and approval.</p>

		<p>The council commenced monthly inspections of the Play Area in June 2018. RoSPA inspection sheets are completed for each inspection and details of the items checked and any action found to be required are recorded. The inspection sheets include provision to record the action taken to remedy faults. It is noted that the inspection sheets for July 2018 have not been completed and the sheets for all other months have not been fully completed to identify the date on which any necessary corrective action was taken. It is also noted that the inspection sheets have not been signed as reviewed and approved by the Town Clerk or a member of the council. The full completion of the inspection sheets is necessary to ensure that the council is safeguarded in the event of an accident or claim against the council.</p> <p>Basic Internal financial controls and procedures are included in the council's Financial Regulations.</p> <p>The council uses "Onedrive" cloud storage for the backup of its electronic records. The volume of records held on Onedrive, however, appear to be significantly less than the volume of records held on the council's computer hard drive.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● The Play Area inspection sheets should be completed monthly and should record the dates on which any action was taken to remedy identified defects or concerns. The sheets should be signed as reviewed and approved by the Town Clerk or a member of the council.</li> <li>● The council should re-examine its electronic storage arrangements to ensure that all of its electronic data is backed up and it fully meets regulatory and legislative requirements.</li> </ul>
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><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 24th January 2018.</p> <p>The two precept instalments of £45,000 from NLC agree to the council's precept requirement of £90,000. Additionally the council received a Council Tax Grant of £3,084 from NLC.</p>

		<p>Detailed budget monitoring reports in respect of quarters one and two were presented to council in July and October 2018. The minutes record the receipt and approval of the reports and the discussion held regarding the virement of funds from general reserves to administration.</p> <p>The council reviewed and approved the level of reserves it holds at the meeting held on the 23rd May 2018. At the meeting held on the 25th July 2018, the council agreed to vire funds from reserves to administration to cover the costs of the purchase and installation of a shed. The resultant change in earmarked and general reserves was reported to council on the 24th October as part of the budget monitoring report for the second quarter of the year. The current levels of earmarked and general reserves have been reviewed and are considered to be both adequate and prudent for the council.</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><b>Findings</b></p> <p>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 large sample of income throughout the year and agreed all income receipts to the cash book and the bank. All income was well documented and cross referenced to the cash book.</p> <p>All income received in respect of the cemetery was in accordance with the council's current Scale of Charges. Christmas stall income has been checked and the income received is in accordance with council minute 1807/11b of the council meeting held on the 25th July 2018. The council's scale of charges for cemetery fees was reviewed and agreed by council on the 25th May 2018, min 1805/09r.</p> <p>During discussions with other Town and Parish Councils during the year it has become apparent that the Clerks of some councils have received different and sometimes conflicting advice from consultants in respect of charging VAT on some council services. From the audit work I have undertaken on behalf of the council, I have seen no evidence that the council provides vatable supplies to the public.</p>



		<p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● VAT is extremely complex and if the council is in any doubt about the correct VAT treatment in respect of providing goods or services to the public, detailed advice and guidance on the council's specific situation should be sought from HMRC.</li> </ul>
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><b>Findings</b></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>I have checked a sample of petty cash payments and noted that, on some occasions, VAT has not been identified and recorded in the council's accounts for reclaim purposes from HMRC. Reference should be made to HMRC's rules on the recovery of VAT under the "Simplified invoice and receipts rules for retail supplies under £250."</p> <p>Reimbursements of small items of expenditure are included in the monthly payments analyses which are reported to council.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● The council should identify, and record in the council's accounts for reclaim purposes, the VAT element of all vatable supplies in accordance with the simplified invoice and receipts rules for retail supplies under £250.</li> </ul>
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><u>Adequate payroll controls</u></p> <p><b>Findings</b></p> <p>The council's only employee is the Clerk and the contract contains clear terms and conditions.</p> <p>All gross payments to the Clerk have been agreed to the contract of employment, the NJC National Pay Award and authorised changes to hours worked.</p> <p>The Clerk is subject to PAYE and NI regulations using HMRC Basic Tools software and statutory deductions</p>

	Has PAYE and NI been correctly deducted and paid to HMRC?	have been correctly paid to HMRC.
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><b>Findings</b></p> <p>The council maintains an Asset Register in the form of a spread sheet. I have reviewed the register to check that it has been updated during the year to reflect any additions and deletions since April; it was noted that four grit bins, purchased in October, have not been added to the register. Other additions have been correctly added at cost price excluding VAT.</p> <p>The council does not hold any investments.</p> <p>The Clerk has commenced some work in reconciling the descriptions of assets in the register to those included on the insurance schedule. The Clerk is confident that all assets that the council wish to insure are included on the insurance schedule. Following discussions with the Clerk, it is not clear whether the insurers require notification at the time of purchase of all new assets (street furniture for example) or whether an annual notification is sufficient.</p> <p>The Asset Register was reviewed and approved by council on the 25th May 2018.</p> <p>The register will be checked in more detail at the year-end and agreed to the declaration in box 9 on the Annual Governance and Accounting Return.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● The council should add the assets purchased during the year which have not yet been added to the Asset Register. It should highlight asset purchases in the cash book to ensure that they are not omitted when the Asset Register is updated.</li> <li>● The council should check with the insurer when notification of new assets purchased during the year is</li> </ul>

		required.
10	<p>Were bank reconciliations performed on a regular and timely basis?</p> <p>Have all bank reconciliations been reviewed by an appointed member and evidenced as such?</p>	<p><u>Adequate bank reconciliations</u></p> <p><b>Findings</b></p> <p>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.</p> <p>There are no unusual or balancing figures included in the reconciliations.</p> <p>The reconciliations are presented to council monthly and have been appropriately authorised.</p>
11	<p>Has the previous year's Internal Audit Report been submitted to council and actioned as necessary?</p>	<p><u>Previous Internal Audit Report actioned</u></p> <p><b>Findings</b></p> <p>The 2017/18 Internal Audit Report was submitted to council on the 23rd May 2018 and was duly minuted as being received.</p>
12	<p>Has the council met its responsibilities as a trustee?</p>	<p><u>Trustee responsibilities</u></p> <p><b>Findings</b></p> <p>The council has now amalgamated the Poors Close Trust and the Torksey Trust into one Charitable Trust known as Torksey Charity. This fund was originally registered with the Charity Commission in 1967. The bank accounts of both Trusts have been amalgamated into one during the current year and I have confirmed that the funds have been correctly combined. Rent has been received into the account during the year in respect of the previous Poors Close and the Torksey Trust. The council is currently trying to widen the scope of the Trust with the Charities Commission to enable it to spend Trust monies in an appropriate way. No funds have been spent in the current year.</p> <p>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. The Clerk has a bank statement dated September 2013 showing a nil balance and the bank has confirmed that the account contains no funds. The Charity Commission identifies that the activities of the Trust are to "maintain and preserve the Green and Market Place for the use and enjoyment of the residents of Kirton in Lindsey". The financial history on the Charity</p>

Commission website shows nil income and expenditure for the five years ended 4th April 2016. One further fund, known as The War Memorial and the Garden of Edward Elmhirst Duckering has been identified. The council has confirmed that there are no known bank accounts associated with this Trust. The council has incurred expenditure on both the maintenance of the Green and the cleaning of the War Memorial during the year as no Trust Funds were available to fund such expenditure. As the Government does not allow councils to include Trust expenditure on the Annual Governance and Accountability Return, I have sought advice from the External Auditor on this point. Their advice is that;

- a) the council has correctly completed the Annual Governance Statement and declared that it has, as sole Trustee, discharged it's accountability responsibilities correctly, and
- b) correctly included such expenditure on the council's Annual Accounting Statement in the absence of Trust Fund money being available.

The external Auditor has suggested, however, that, for transparency purposes, the council minutes record that, because there are no Trust Fund monies available, the council has spent its own funds on the maintenance and upkeep of these assets and areas for the good of the community as a whole.

**Recommendations**

- When the council is in a position to incur expenditure on behalf of the Torksey Charity it must ensure that it does not include any Trust Fund income or expenditure in the council's accounts. Any such Trust Fund transactions must be separately accounted for and maintained independently from the council's records and separate bank accounts must continue to be maintained and used solely for this Trust's transactions.
- The council should continue to ensure that it meets the Charity Commission's requirements in respect of the Trust Funds that it manages.
- It should be minuted that, because there are no Trust Fund monies available for the upkeep of the Green and Market Place and the War Memorial and Garden of Edward Elmhirst Duckering, the council has spent its own funds on the maintenance and upkeep of these assets and areas for the good of the community as a whole.

13	Are council's minutes maintained in accordance with legislative requirements?	<p><u>Correct maintenance of council minutes</u></p> <p><b>Findings</b> I have reviewed all council minutes up to the Promoting Kirton Committee held on the 12th November 2018.</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 the minutes of the Promoting Kirton meeting held on the 25th June 2018 and the minutes of the General Purposes Committee held on the 9th July 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 been maintained to a high standard and the assistance of the Town Clerk in the completion of this audit was much appreciated.

The internal financial control environment within the council is good and the hard work of the Clerk is acknowledged in achieving this standard in such a short space of time. The above recommendations and advisory notes 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 2018.

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*

15<sup>th</sup> December 2018

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