

# *Public Sector Audit*

## **Kirton in Lindsey Town Council**

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

*Public Sector Audit*

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

#### 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 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:

- 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>Test</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.</p> <p>It is comprehensively analysed for the purpose of completing the Annual Governance and Accountability Return and has been balanced and reconciled to the 31st March 2019.</p> <p>The spread sheets are arithmetically correct and monthly reconciliations to the bank statements commenced in February 2019.</p> <p>All invoices and receipts are consecutively numbered and cross referenced to the cash book. This provides an 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. Updated Standing Orders, which include the latest legislative changes, were reviewed and adopted by council at the meeting held on the 23rd January 2019. The council's Standing Orders are currently being reviewed by a working group to ensure that they are suitable for the council's requirements and these, together with Financial Regulations, will be re-presented to council for review and re-adoption during May 2019. It is understood that NALC is currently revising their Model Standing Orders but, at the time of the audit, they have not been published.</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></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, classification within the council's accounts and compliance with Financial Regulations.</p> <p>I have tested that VAT has been correctly identified and recorded in the cash book for reclaim from HMRC. All payments tested that included a VAT element were found to have been correctly accounted for.</p> <p>S.137 expenditure during the year 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>The issue of councils requiring a licence if they play recorded music in public has recently been raised. It is NALC's view that a council will be obliged to pay for a PPL PRS Music Licence if it plays recorded music in public.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● If the council plays recorded music in public it may wish to enquire whether a licence fee is payable to PPS PRS Ltd. Further information can be found at "<a href="http://www.gov.uk/licence-to-play-live-or-recorded-music">www.gov.uk/licence-to-play-live-or-recorded-music</a>"</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</li> </ul>
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		matters arise.
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 Risk Assessments for the Cemetery and Play Area and the Financial Risk Assessment on the 27th March 2019.</p> <p>The council also maintain annual Risk Assessments in respect of the Summer Gala and Christmas Festival. The Summer Gala Risk Assessment was reviewed and approved by the Promoting Kirton Committee on the 11th February 2019 and the Christmas Festival Risk Assessment will be reviewed by the committee later in the year.</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 undertakes monthly inspections of the Play Area. 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. The sheets are completed and presented to council monthly for review and approval. They are signed as reviewed and approved by a member of the council. When any actions required have been completed the Clerk adds the date completed to the inspection sheets. It is considered that the maintenance of an "actions required" document would be useful to ensure that any essential repairs are completed in a timely manner and not forgotten.</p>

		<p>Basic Internal financial controls and procedures are included in the council's Financial Regulations.</p> <p>The council has reviewed its electronic data storage arrangements. A full back up of all council information is carried out weekly and saved onto an external hard drive. The hard drive is removed from the council's offices for safety and security purposes.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● The Clerk should consider introducing of a record of issues arising from the monthly inspections, which records when remedial action has been taken, to ensure that all issues are dealt with in a timely manner and not overlooked.</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 and were reserves appropriate?</p>	<p><u>Adequate budgetary process</u></p> <p><b>Findings</b></p> <p>The council prepared a detailed annual budget for 2018/19 that was adopted 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. Quarter three was reviewed and approved by council in January 2019 and was used to inform the budget setting process for 2019/20. The Clerk prepares a detailed analysis of the monitoring reports for members to consider and the minutes record the receipt and approval of the reports and the discussion held regarding the outturn figures.</p> <p>The council is due to review the level of reserves it holds at the meeting to be held on the 22nd May 2019. At the April 2019 council meeting, a provisional reserves statement was considered which identified earmarked reserves totalling £83,208 and a residual general reserve of £29,723. The general reserve equates to 32% of the 2019/20 Precept and is considered to be slightly low for a council the size of Kirton in Lindsey. However,</p>

		the council holds significant earmarked reserves and, in the event of a major unforeseen or uninsured event occurring, the council would have the option of using such reserves as a temporary measure.
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 for 2018/19 was received in 2 instalments in April and July 2018. The payment of the council tax grant was paid by NLC together with the first instalment of the Precept in April. All payments agree with the remittance advices and bank statements.</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.</p> <p>The council's Scale of Charges for cemetery fees was reviewed and agreed by council on the 25th May 2018, min 1805/09r.</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></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 all of those checked have been correctly recorded in the council's accounts.</p> <p>Reimbursements of small items of expenditure are included in the monthly payments analyses which are reported to council.</p>



		It is noted that some small items of expenditure that included VAT have not been included on the VAT reclaim from HMRC. This was as a result of the Clerk's attendance at a seminar held by ERNLLCA at which the speaker stated that there was a limit to the amount of VAT that could be claimed. This reference, however, was in relation to business related activity and not the VAT regime under which the council operates. The Clerk is now aware of the rules that apply to councils and completes the VAT reclaims accordingly.
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><b>Findings</b></p> <p>The council's only employee is the Clerk and the contract of employment 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 have been paid to HMRC monthly.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● The council should be aware that the Pensions Regulator has advised of statutory minimum pension contributions which came into effect on the 6th April 2019. The minimum employer contribution of 3% of salary and minimum employee contribution of 5% of salary apply if the council employ staff in an automatic enrolment pension scheme.</li> </ul>
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 confirm that it has been updated during the year to reflect any additions and deletions since April. All additions have been correctly added at cost price excluding VAT.</p> <p>The council does not hold any investments.</p>

		<p>The Clerk has reconciled the descriptions of assets in the register to those included on the insurance schedule and is now confident that all assets that the council wish to insure are included on the insurance policy. The insurance company has confirmed that it does require notification if any sums insured increase during the year and the Clerk has updated the policy accordingly.</p> <p>The Asset Register was reviewed and approved by council on the 25th May 2018 and is due to be represented to the May 2019 meeting.</p> <p>The total of all council assets on the Asset Register agrees to the declaration in box 9, fixed assets, on the Accounting Statement in the Annual Governance and Accountability Return.</p>
10	<p>Were bank reconciliations performed on a regular and timely basis?</p> <p>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></p> <p><b>Findings</b></p> <p>The council's bank balances for both the current and savings accounts are identified on each month's Finance Report which is signed by the Chairman and one other member. I have agreed the balances on the Finance Reports each month to the bank statements. Bank reconciliations, between the council's cash book and bank statements, are now included on each Finance Report submitted to council for approval.</p>
11	<p>Were year-end accounts prepared on the correct accounting basis and supported by adequate working papers and adjustments, transfers, contra entries etc. which are fully explained and justified?</p>	<p><u>Correct accounting basis and previous Internal Audit Report actioned</u></p> <p><b>Findings</b></p> <p>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 cash book and there is an audit trail from underlying financial records to the year-end statements.</p>

	<p>Is there an adequate audit trail from underlying records and where appropriate have debtors and creditors have been properly accounted for?</p> <p>Has the previous year's Internal Audit Report been submitted to council and actioned as necessary?</p>	<p>The 2018/19 Interim Internal Audit Report was submitted to council on the 23rd January 2019. The recommendations were considered and an action plan confirmed.</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 (Charity number 251454). 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 has now, with the permission of the Charities Commission, widened the scope of the Trust to enable it to spend Trust monies in an appropriate way and a small amount of funds have been distributed in accordance with the Trust's stated purpose.</p> <p>The Charitable objects have been amended with effect from the 25th March 2019 to:</p> <p><i>"The charity provides the relief of residents in Kirton in Lindsey in need, by reason of youth, age, ill health, disability, financial hardship or other disadvantage by providing finance, services or facilities to relieve their specific need."</i></p> <p>As required by the External Auditor, I have confirmed that the monies paid out during the year are in accordance with the stated charitable objects and that none of the Trust Fund's expenditure has been recorded in the Town Council's accounts.</p>

It is noted, however, that the year-end balance on the Statement of Accounts for the Torksey Charity, as at the 31st March 2019, does not reflect the year end bank statement for one of the bank accounts. 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 Commission website shows nil income and expenditure for the five years ended 4th April 2016.

The council has incurred expenditure of £370.00 on the maintenance of the Green during the year as no Trust Funds were available to fund such expenditure. This expenditure is in accordance with the view of the External Auditor and the council minute of the 23rd January 2019 that confirmed; "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".

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. No income has been received or expenditure incurred on behalf of this Trust.

#### **Recommendations**

- The annual Statement of Account for the Torksey Charity should be amended to reflect the bank balance as at the 31<sup>st</sup> March 2019, prior to submission to the Charity Commission.
- The council should continue to separately account for both income and expenditure on behalf of the Torksey Charity and ensure that it does not include any Trust Fund transactions in the council's accounts.
- The council should continue to ensure that it meets the Charity Commission's requirements in respect of the Trust Funds that it manages.

13	If the council certified itself as exempt from an External Audit Limited Assurance Review last year, has it met the exemption criteria and correctly declared itself exempt?	<p><u>Exemption Certificate</u></p> <p><b>Findings</b> The council, correctly, did not complete an Exemption Certificate under Section 9 of the Local Audit (Smaller Authorities) Regulations 2015.</p>
14	Are the 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 council meeting held on the 27th March 2019.</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>All pages comprising the council's minutes have been signed as a correct record by the person presiding thereat in accordance with legislative requirements.</p>

## Executive Summary

The accounts and governance arrangements of the council have again been maintained to a very high standard and the co-operation of the Clerk of the council in the completion of this audit was much appreciated.

The internal financial control environment within the council is excellent and the adoption of the above recommendations will serve to further enhance and strengthen the systems, procedures and governance arrangements already in place. The hard work of the Clerk in achieving such a high standard governance and internal financial control in a short space of time is acknowledged.

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*

27<sup>th</sup> April 2019

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