

# *Public Sector Audit*

## **Kirton in Lindsey Town Council**

### ***Interim Internal Audit Report for the year ended 31 March 2020***

*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 2020. 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> 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 (AGAR). It is noted that staff training has been included under "Staff Costs" in the cash book. For the purpose of the AGAR, staff training is an administrative expense and should be included in box 6, All Other Payments, on the year-end return.</p> <p>The spread sheets are arithmetically correct and bank reconciliations are undertaken monthly.</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 AGAR at the year-end.</p> <p><b>Recommendation</b> ● Staff training should be included under Administration in the cash book and hence not included in Staff Costs on the AGAR.</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> The council adopted revised Standing Orders at the Town Council meeting held on the 26th June 2019. The adopted version is the latest revised NALC Model that was issued in July 2018.</p> <p>During July 2019 NALC revised its Model Financial Regulations. The changes since the 2016 regulations are in respect of Contracts Regulations and other minor matters. The council reviewed and adopted the revised regulations (amended for the council's purposes) at the meeting held on the 25th September 2019.</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 From April to September. All payments up to 31<sup>st</sup> August 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. The contract for Grounds Maintenance is currently in year 2 of a 3 year contract and, therefore, 2020/21 is the final year of the present contract. The Grass Cutting contract was let for just one year.</p> <p>It is noted that the payment to the Mayor's chosen charity is not supported by a detailed calculation sheet and, hence, could not be verified to the surplus income received.</p> <p>I have tested that VAT has been correctly identified and recorded in the cash book for reclaim from HMRC. All payments tested which included a VAT element were found to have been correctly accounted for.</p> <p>S.137 expenditure to the 30th September totalled £15,645 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. It is noted that the council adopted the General Power of Competence at the Annual Meeting of the council held on the 22nd May 2019 and future grants, therefore, will be coded to this legislative power.</p> <p>I have examined the cheque stubs for compliance with the two signature rule and the council's Financial Regulations; all stubs have been correctly signed/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>● A detailed calculation of the payment to the Mayor's chosen charity should be prepared in support of the final payment for audit and verification purposes.</li> <li>● It should never be assumed that registration for VAT purposes means that <i>all</i> value added tax can be</li> </ul>
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		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.
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 was reviewed and approved by the same Committee on the 9<sup>th</sup> September 2019.</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 2019. The inspection report was presented to council on the 25th September 2019 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. The Clerk now maintains a log of any actions required 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. The hard drive is not currently password protected.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● The external hard drive used for the back-up of the council's electronic data should be password protected to safeguard the council's interests in the event of loss or theft.</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 for 2019/20 that was adopted at the Full Council Meeting held on the 23rd January 2019.</p> <p>The two Precept instalments of £46,574.50 received from NLC on the 26th April and 30th July 2019 agree to the council's Precept requirement of £93,149. The Council Tax Grant of £2,833 was received from NLC on the 26th April 2019.</p> <p>A detailed budget monitoring report in respect of quarter one was presented to council in July 2019. No actions were required. A second quarter monitoring report will be presented to council on the 23rd October.</p> <p>The council approved the 2019/20 Reserves Statement at the meeting held on the 22nd May 2019. The statement identifies earmarked reserves totalling £83,208 and a residual general reserve of £29,723.</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><u>Adequate income controls</u></p> <p><b>Findings</b></p> <p>The council's Precept for 2019/20 was received in 2 instalments in April and July 2019. The payment of the council tax grant was paid by NLC together with the first instalment of the Precept in April. The payments agree with the remittance advices received and bank statements.</p>

	<p>Were security controls over cash and cash equivalents effective?</p>	<p>I have checked a large sample of income from April to September and agreed all income receipts to the cash book and the bank. All income was well documented, accurately recorded and cross referenced to the cash book.</p> <p>Income received in respect of the cemetery was in accordance with the council's current Scale of Charges which was agreed by the General Purposes Committee held on the 24th June 2019, min. 1906/11. Some invoices raised early in the year were agreed to last year's Scale of Charges.</p> <p>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>
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 accounting system and reported to council for approval. It is noted that on one occasion, however, the VAT element of purchase of stationery was not recorded on the cash book for reclaim purposes. Under HMRC's simplified invoice/receipt rules, for purchases under £250, the VAT element of purchases can be reclaimed even though a till receipt does not show the customers/organisations name or the amount of VAT included in the vatable supply.</p> <p>All 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>● All VAT, under HMRC's simplified invoice/receipt rules, should be identified in the council's accounting system and subsequently reclaimed.</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>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 new contract of employment issued in April 2019 contains clear terms and conditions.</p> <p>All gross payments to the Clerk, from April to September 2019, have been agreed to the new contract of employment and the NJC National Pay Award.</p> <p>The Clerk is subject to PAYE and NI regulations using HMRC Basic Tools software and, for the sample checked, statutory deductions have been 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 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 noted on a separate record, at cost price excluding VAT, to facilitate their addition to the appropriate section of the register at the year-end.</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 previously confirmed that it requires notification of increases in sums owing to purchases during the year. This has not yet been done in respect of large items such as the safe and three Notice Boards purchased since April.</p> <p>The Asset Register was reviewed and approved by council on the 22nd May 2019. It will be reviewed in detail at the year-end audit.</p>

		<p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● The insurance company should be requested to increase the sums insured in respect of the purchase of a safe and three Notice Boards during the year.</li> </ul>
10	<p>Were bank reconciliations performed on a regular and timely basis? 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. For the sample checked, the reconciliations between the cash book and bank statements are accurate.</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 2018/19 Final Internal Audit Report was submitted to council for approval on the 22nd May 2019. All recommendations have been actioned.</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 amalgamated the Poores 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 were amalgamated into one during last year. Rent in respect of Ings Road and Scotter Road has been received into the account during September and October 2019 and interest has also been added during the year. 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. No funds have been distributed during the year to the date of the audit.</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</i></p>

*relieve their specific need."*

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".

To the date of the audit the council has recorded expenditure of £112.90 on the maintenance of the Green 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"*.

It is noted that the council has also purchased three mini bollards to complete the fence on the Green. The £120 cost of these has been coded to the council's Open Spaces cost code.

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 cost of completing the fence on the Green should be analysed as "The Green" expenditure rather than Open Spaces in the council's accounts.
- 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 such 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	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>I have reviewed all council minutes up to the Extraordinary council meeting held on the 12th August 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>
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## Executive Summary

The accounts and governance arrangements of the council have continued to be maintained to a very high standard and the assistance 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 Internal Audit has been conducted in accordance with the Governance and Accountability for Local Councils – Practitioners Guide 2019.

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*

12<sup>th</sup> October 2019

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