

Public Sector Audit

Kirton in Lindsey Town Council

Interim Internal Audit Report for the year ended 31 March 2021

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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 2021. 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

	Tests Performed	Findings and Recommendations
1	Have appropriate books of account been properly maintained throughout the year?	<p><u>Appropriate accounting records</u></p> <p>Findings</p> <p>The cash book is maintained on spread sheets on a receipts and payments basis and is balanced to the 31st October 2020.</p> <p>It is comprehensively analysed for the purpose of completing the Annual Governance and Accountability Return (AGAR).</p> <p>A revised Governance and Accountability Guide has been issued by the National Joint Panel this year. In accordance with the revised instructions for Town and Parish Councils the allocation of staff travelling costs is now required to be analysed as "All other payments" and included in box 6 on the year-end Annual Return.</p> <p>For clarification purposes, the 2020 Governance and Accountability Guide states: <i>"Staff costs for the purpose of Line 4 include gross salary of employees, employers' national insurance contributions, employers' pension contributions, gratuities for employees or former employees and severance or termination payments to employees. The following are not staff costs for the purpose of Line 4; mileage and other travelling and subsistence allowances, "Homeworking allowance" that is, an allowance paid to cover the extra costs of working from home, the provision of work related training, the reimbursement of childcare or other carers costs, the reimbursement of a staff members subscription to the Society of Local Council Clerks, the provision of office supplies such as laptop, scanner or stationery and consultants and agency staff. The definition of "staff costs" for the purposes of Line 4 may differ from what is, or is not, treated as taxable earnings by HMRC. In as much as this is a change of reporting basis, corresponding figures from the preceding year must be restated in a similar basis."</i></p> <p>The Clerk is aware of this change and will re-allocate staff mileage in the cash book in order for it to be allocated to box 6 on the AGAR in accordance with the revised Government guidance.</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 thus providing an audit trail from original documentation to the council's financial records.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● The cash book should be amended to ensure that staff mileage and travel costs are allocated to box 6, All Other Payments, on the AGAR.
2	<p>Have the council's Financial Regulations and Standing Orders been formally adopted and complied with?</p>	<p><u>Adherence to Financial Regulations and Standing Orders</u></p> <p>Findings</p> <p>The council adopted amended Standing Orders at the Town Council meeting held on the 26th February 2020. 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 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>Findings</p> <p>I have tested a large sample of payments up to the end of September 2020. All payments tested have been correctly reported to council for authorisation and approval.</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>It is noted that the final 2019/20 Internal Audit invoice in respect of the council's Trust funds has been entered in the Town Council's cash book and paid via the Council's bank account. As the council is not able to include Trust Fund expenditure on the year-end Accounting Statement which forms part of the AGAR, such expenditure should be met via the Trust Fund's bank accounts.</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 have been correctly accounted for.

Following the council's adoption of the General Power of Competence at the Annual Meeting held on the 22nd May 2019 all grant funding is now allocated to this legislative power unless a more specific power is available.

The council has traditionally provided grant funding to KLASSIC to assist the Trust in providing its services to the community. Since the 22nd June 2020 the council became the sole Trustee of KLASSIC and will in the future, as sole Trustees of the Charity, be applying to the Town Council for funding support. I do not regard this as a financial issue but I am aware that some may perceive that there could be a conflict of interest with the Council's Members being sole Trustees of the Charity at the same time as being Members of the Town Council. I think that in these circumstances, for openness and transparency, it would be wise for the council to seek the advice of the Local Council Association (ERLLCA) for a legal interpretation on this matter.

The Clerk has confirmed that no cheques have been issued during the year.

It is noted that the council does not maintain a separate bank account and accounting records for receipts and payments in respect of the Mayor's chosen charity(s). Owing to the Covid 19 pandemic, the Mayor has continued in office during the current year and any surplus accumulated funds for the Mayor's chosen charity(s) will be distributed at the end of her tenure.

Recommendations

- The council should seek an opinion from ERLLCA regarding the Town Council Members, acting in their capacity as Councillors, considering applications for grant funding from the sole Trustees of the KLASSIC Charity.
- A detailed record of receipts and payments in respect of the Mayor's chosen charity(s) should be prepared to support the final payment(s) and made available for audit and verification purposes.

		<ul style="list-style-type: none"> ● All Trust fund expenditure, including Internal Audit fees, should be met from the Trust Fund's bank accounts and not included in the Town Council's cash books or the year-end AGAR.
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's Health and Safety Policy was last reviewed and approved at the meeting held on the 27th November 2019. The Clerk has confirmed that the policy will be presented to council on the 25th November 2020 for review and re-approval.</p> <p>The council reviewed and approved the Financial Risk Assessment on the 22nd January 2020 and the Risk Assessments for the Cemetery and Play Area on the 26th February 2020.</p> <p>The council also maintain annual Risk Assessments in respect of the Summer Gala and Christmas Festival. The Summer Gala Risk Assessment was last 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 9th September 2019. Owing to the current pandemic the Summer Gala was not held this year and the Christmas Festival has been cancelled. The Risk Assessments for these events have not, therefore, needed to be reviewed during the year.</p> <p>Additional Covid 19 Risk Assessments in respect of the council's premises and play area were adopted at the Extraordinary Meeting of the Town Council on the 22nd July 2020.</p> <p>Following the financial crisis in 2007/8 the Government put in place measures to require banks to ring-fence their retail banking divisions from their investment banking arms to safeguard investors against riskier banking activities; other measures were also introduced to increase bank's capital reserves. The measures introduced by the Bank of England were designed to safeguard customers' bank deposits, together with the Financial Services Compensation Scheme covering the first £85,000 of deposits. The Covid 19 pandemic has again highlighted the fragility of large organisations in the face of global crises and the possible risk of councils maintaining all of their balances in a single institution. The risk of a major bank collapse is, currently, relatively low but, nevertheless, should be considered as part of the council's overall risk management strategy.</p>

Currently, interest rates are historically low but in the event of future increases in the levels of interest paid on deposit accounts the council may wish to consider placing reserves and other funds, not required for the day to day running of the council, into interest bearing accounts.

I have reviewed the council's insurance cover and the levels of indemnity, with the exception of Fidelity Guarantee, are considered to be adequate. The policy was renewed on the 1st June 2020 and the Fidelity Guarantee indemnity limit was reduced from £200,000 to £150,000. The balances brought forward at the 1st April 2020 plus the income received during April increased the balances available to the council to £173,000. As at the 31st July 2020 the funds available to the council increased to £193,000 and hence the reduced indemnity limit has remained insufficient to adequately protect the council's interests.

The council's Play Area was inspected by Playsafety Ltd., an independent RoSPA accredited company, during August 2020. The inspection report was presented to council on the 23rd September 2020 for formal review and approval.

When the lockdown restrictions were lifted and the play area was reopened in July 2020 the council reintroduced its usual monthly inspections. Inspection sheets are completed for each inspection and details of the items checked and any actions 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 maintains a log of any actions required to ensure that any essential repairs are completed in a timely manner and not forgotten.

It is noted that the Council Member who inspects the play area has reported continuing concerns regarding the wear and tear to the protective matting around pieces of equipment making them become a trip hazard. The council resolved in September that the play area five year plan working group meet as soon as possible to look at the matters raised.

Basic Internal financial controls and procedures are included in the council's Financial Regulations.

		<p>I have reviewed the council's electronic data storage arrangements. A full back up of all council information is carried out weekly and saved onto an external hard drive which is stored in a secure fire proof safe.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The council should consider whether it wishes to investigate the separation of the funds it holds between different institutions. ● The council should consider whether it wishes to place reserves and other funds, not required for the day to day running of the council, into interest bearing accounts. ● To adequately protect its interests the council should reinstate its Fidelity Guarantee indemnity limit to £200,000. There should be no additional cost to the council in doing this as the policy is subject to a long term agreement until 2021. ● The play area five year plan working group should urgently consider the issue of the trip hazards on the play area and resolve to take appropriate action in order to safeguard public safety.
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>Findings</p> <p>The council prepared a detailed annual budget for 2020/21 in the correct format; it was adopted at the Full Council Meeting held on the 22nd January 2020.</p> <p>A detailed budget monitoring report in respect of quarter one was presented to council in July 2020. A second quarter monitoring report was presented to council on the 28th October 2020. The minutes record that no actions were required.</p> <p>The council's Reserves Statement was presented to and approved at the Extraordinary Meeting of the Council held on the 24th June 2020. The council's balances brought forward on the 1st April 2020 totalled £110,925. Earmarked reserves totalled £70,925 and the remaining general balance of £40,000, which equates to 39% of the 2020/21 Precept, is considered to be both adequate and prudent for a council the size of Kirton in</p>

		Lindsey.
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> Findings The two Precept instalments of £51,369.50 received from NLC on the 21st April and 31st July 2020 agree to the council's Precept requirement of £102,739. The Council Tax Grant of £749.00 was received from NLC on the 21st April 2020 and agrees to the cash book and the bank.</p> <p>The council also received income in respect of devolved grass cutting and Parish paths funding, a VAT refund, the cemetery, donations and a grant for the Traingate project, a refund for a cancelled training event and bank interest.</p> <p>I have checked a large sample of income from April to October 2020 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>For the sample checked, income received in respect of the cemetery was in accordance with the council's current Scale of Charges which was approved by Full Council on the 11th December 2019.</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> Findings The council does not maintain a petty cash account. All petty items of expenditure are reimbursed to the Clerk and councillors via the normal payments system and reported to council together with all other council payments.</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. VAT had been correctly recorded in the accounting system when appropriate.</p>
8	Do all employees have contracts of employment with clear terms and	<p><u>Adequate payroll controls</u> Findings</p>

	<p>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>The council's employees have both received contracts of employment which contain clear terms and conditions.</p> <p>I have checked the gross pay calculations for the Clerk and Assistant Clerk from April to September 2020 by reference to the 2020 NJC National Pay Award, an authorised change of salary grade for the Clerk and hours worked per timesheets for the Assistant Clerk. I was unable to agree the calculation of back pay for the Clerk and the calculation of additional hours worked by the Assistant Clerk during August - which has also affected the Assistant Clerk's back pay calculation. At the time of the audit the Clerk recalculated the payments due for his back pay and I have agreed the recalculation which will be adjusted on the November payroll. Any adjustment that is found to be needed to the Assistant Clerk's additional hours worked and her back pay will also be adjusted on the November payroll and will be subject to audit review at the final audit.</p> <p>The council's employees are subject to PAYE and NI regulations using HMRC Basic Tools software and, for the sample checked, statutory deductions have been paid to HMRC monthly.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● The salary payments for November should be adjusted to correct the back pay due to the Clerk and, if found to be necessary, the hours worked by the Assistant Clerk and her resultant back pay calculation.
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>Findings</p> <p>The council maintains an Asset Register in the form of a spread sheet. Owing to current restrictions and workload recent purchases have not yet been added to the register. The council does not hold any investments.</p> <p>It is noted that a separate column has now been added to the cash book that highlights the assets purchased during the year which need to be added to the register. The Clerk has confirmed that, when time permits, he will update the cash book to identify such assets and add them to the Asset Register and the insurance policy if appropriate.</p>

		<p>The Asset Register will be reviewed in detail at the time of the final audit for 2020/21.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● The Asset Register should be updated to reflect new purchases during the year and the insurance company should be requested to increase the sums insured in respect of any new purchases during the year that the council wish to insure.
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>Findings</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. The respective bank statements are also provided to the authorising Members at the same time as the reconciliations and these have also been signed as authorised. I have also checked and agreed the balances on the Finance Reports each month to the bank statements.</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>Findings</p> <p>Following the Government's revised guidance on the treatment of staff travelling costs on the AGAR the council should note that the guidance states: "<i>In as much as this is a change of reporting basis, corresponding figures from the preceding year must be restated in a similar basis.</i>"</p> <p>The final 2019/20 Internal Audit Report was submitted to council on the 24th June 2020. The minutes record that the Council received the report and recommendations.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● Government guidance on the completion of the AGAR should be fully observed when completing the 2020/21 year-end returns for the External Auditor.

12	Has the council met its responsibilities as a trustee?	<p><u>Trustee responsibilities</u></p> <p>Findings</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 and the bank accounts from both Trusts have been amalgamated into the Torksey Charity and held in a Business Manager account and a Community account. At the date of the audit, rent in respect of Ings Lane and Scotter Road has been received into the accounts 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. The council as Trustees has provided two grants under the provisions of the charity since the first of April 2020. Both of the grants were in accordance with the widened scope of the charity.</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 – apart from the aforementioned Internal Audit invoice - has been recorded in the Town Council's accounts.</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". Apart from maintaining the grass, no additional expenditure has been incurred in respect of the Green and Market Place</p> <p>Such 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</p>
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	<p>own funds on the maintenance and upkeep of these assets and areas for the good of the community as a whole".</p> <p>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.</p> <p>The Clerk has confirmed that the transfer of the trusteeship of Kirton in Lindsey Actively Supporting Sport in the Community (KLASSIC) to the Town Council as sole Trustee was completed in June 2020. The council is currently arranging a change of mandate for the bank account.</p> <p>The Charity Commission website confirms that KLASSIC is a registered charity number 1115978. The purpose of the Charity is the provision of recreational and sports facilities for the community. The website confirms that Kirton in Lindsey Town Council was appointed as sole trustee on the 22nd June 2020 and the charity's financial reporting is up to date.</p> <p>The charitable objectives are confirmed as: the Trustees are to provide or assist in the provision of a recreation ground (grounds) involving the construction of pitches, greens, courts, pavilions, changing facilities and associated amenities to be held upon charitable trust namely for the purpose of providing recreation and leisure time occupation in the interest of social welfare and with the object of improving the conditions of life for the benefit of the inhabitants of Kirton in Lindsey and the neighbourhood (hereinafter called the "area of benefit") and for other charitable purposes for the benefit of the inhabitants in the area of benefit.</p> <p>It is noted that part of the Assistant Clerk's role is the administration of KLASSIC. Government guidance, however, does not permit the council to include Trustee expenditure on the year-end Accounting Statement in the AGAR. The Assistant Clerk's salary would normally be included as Staff Costs in box 4 on the Accounting Statement. To prevent the proportion of her salary that relates to KLASSIC being included as Council Staff Costs on the AGAR, the Clerk should calculate the proportion of her time spent on KLASSIC duties and re-allocate this at the year-end to the council's Power of Competence legislative power which is legitimate Council expenditure that is recorded in box 6, All Other Payments, on the AGAR.</p>
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		<p>Recommendations</p> <ul style="list-style-type: none"> ● The Clerk should calculate the proportion of the Assistant Clerk's time spent on KLASSIC duties during the year and re-allocate this at the year-end to the council's Power of Competence legislative power which can be included on the Accounting Statement in box 6, All Other Payments, on the AGAR. ● The council should continue to ensure that it meets the Charity Commission's requirements in respect of the Trust Funds that it administers.
13	Are council's minutes maintained in accordance with legislative requirements?	<p><u>Correct maintenance of council minutes</u></p> <p>Findings</p> <p>I have reviewed all council minutes up to the Extraordinary council meeting held on the 30th September 2020.</p> <p>The minutes are maintained in a loose leaf format and, for the minutes checked, each page has been numbered consecutively in accordance with the Local Government Act 1972 (Schedule 12.41(2)).</p> <p>For the minutes checked to the date of the audit, all pages comprising the council's minutes, with the exception the Promoting Kirton Committee meeting held on the 14th September, have been signed as a correct record by the person presiding thereat in accordance with legislative requirements. The Clerk is aware that the minutes of the 14th September still require signing and, when this is possible under the current restrictions, they will be provided to the Chair for signature.</p>

Executive Summary

This has not been a normal or straightforward year for the council. The continuation of the Covid 19 pandemic with its many challenges, changes in Government reporting requirements, additional staffing requirements and the acceptance of the Trusteeship of KLASSIC have all impacted heavily on the workload of the Council and the Clerk. In spite of this, the accounts and governance arrangements of the council have continued to be maintained to a high standard and the assistance of the Clerk in the completion of this audit was very much appreciated.

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The hard work of the Clerk and the Members of the Council in maintaining a sound internal financial control environment and strong governance arrangements during this difficult year is acknowledged.

The report identifies issues to be discussed and resolved during the remainder of the financial year and well as one matter which requires more urgent attention.

The Internal Audit has been conducted in accordance with the Governance and Accountability for Local Councils – Practitioners Guide 2020.

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

11th November 2020

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