

Public Sector Audit

Kirton In Lindsey Town Council

Interim Internal Audit Report for the year ended 31 March 2023

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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 2023. I have acted independently and, on the basis of an assessment of risk, conducted a selective assessment of compliance with relevant procedures and controls expected to be in place during the financial year.

The audit has been conducted 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 has been balanced to the 30th September 2022.</p> <p>It is comprehensively analysed to provide all the information required for the completion of the Annual Governance and Accountability Return (AGAR).</p> <p>For the period of audit, the spread sheets are arithmetically correct and bank reconciliations have been undertaken monthly.</p> <p>All invoices and receipts are consecutively numbered and cross referenced to the cash book which provides an audit trail from original documentation to the council's financial records.</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>Findings</p> <p>The council adopted Standing Orders, with revised wording to take account of the Government's updated procurement thresholds, at the Town Council meeting held on the 25th May 2022. Financial Regulations, which required no amendment, were also re-approved at this meeting. Both Standing Orders, as amended, and Financial Regulations are the latest NALC Models.</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 From April to September 2022. All payments tested have been correctly reported to council for authorisation and approval.</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.

- It was noted that a supporting invoice/receipt for reimbursement of craft materials for the Jubilee is missing from the vouchers submitted for reimbursement.

I have tested that VAT has been correctly identified and recorded in the cash book for reclaim from HMRC.

- It is noted that two reimbursements of expenditure in respect of Promoting Kirton and one for community painting (refs. 11, 45 and 46), that included VAT, have been analysed in the cash book gross and the VAT elements have not been recorded for reclaim from HMRC.

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 does, however, need to use s.137 of the 1972 Local Government Act for certain specific expenditure. To the date of the audit, however, no expenditure has been coded to s.137.

To the end of September, no cheques have been issued by the council.

As the council does not maintain a separate bank account for receipts and payments in respect of the Mayor's chosen charity(s), payments have been made via the council's bank account. As reported in section 10 of this report, the Clerk now maintains a document which identifies both receipts and payments during each civic year. This provides a record of funds raised and subsequently dispersed to the Mayor's chosen charity(s) or cause.

Recommendations

- All council payments and reimbursements should be supported by either an invoice or receipt.
- The VAT element of all VAT invoices and receipts should be recorded in the cash book for inclusion in the VAT reclaim from HMRC.

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 approved, with amendments, at the Town Council meeting held on the 22nd June 2022.</p> <p>The council reviewed and re-approved the Cemetery Risk Assessment, with no amendment, at the Town Council meeting held on the 23rd March 2022. At the same meeting the council approved, with a minor amendment, the Play Area Risk Assessment. At the Annual Town Council meeting, held on the 25th May 2022, the council's Financial Risk Assessment was re-approved. The Extraordinary meeting of the Town Council held on the 7th September 2022 approved the Allotment Risk Assessment. On the 10th October 2022 the Promoting Kirton Committee approved in principle, with amendments regarding indoor activities which needed to be added, the Christmas Festival Risk Assessment. The Summer Gala was not held during 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, and the inspection report was presented to Town Council on the 28th September 2022. The meeting also received the weekly play inspection rota and monthly play park inspection reports from Councillor Fox and actions required were noted.</p> <p>Inspection sheets are completed for weekly play area inspections 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.</p> <p>Basic Internal financial controls and procedures are included in the council's Financial Regulations.</p>
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		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 fireproof safe.
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 2022/23 in the correct format; it was adopted at the Full Council Meeting held on the 22nd December 2021. A Precept of £97,500 was approved.</p> <p>A detailed budget monitoring report in respect of quarter one was presented to council on the 27th July 2022. At the time of the audit the second quarter's monitoring report had been presented to the General Purposes Committee held on the 10th October 2022 and it was minuted that no actions were required.</p> <p>The council's Reserves Policy as at April 2022 was presented to and agreed at the Town Council meeting held on the 27th April 2022. The council's balances brought forward on the 1st April 2022 totalled £134,556. Earmarked reserves totalled £94,566 and the remaining general balance of £40,000, which equates to 41% of the 2022/23 Precept, is considered to be adequate and prudent for a council the size of Kirton in Lindsey Town 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>Findings</p> <p>The two Precept instalments of £48,750.00 received from NLC on the 29th April and 2nd August 2022 agree to the council's Precept requirement of £97,500.</p> <p>The council also received income in respect of devolved grass cutting and Parish paths funding, an NLC Community Grant for the allotments, Lottery funding for the play area, a VAT refund, the cemetery, allotment rent, Christmas lights stalls, sportszone fees, an insurance claim, miscellaneous, a small amount of bank interest and compensation for a bank delay in processing a business deposit card.</p> <p>The Allotments are new this year and a tenants' deposit of £30 was agreed at the Extraordinary meeting of the council on the 7th September 2022. At the date of the audit, nine allotments have been let and £270</p>

income has been received. At the Town Council meeting held on the 22nd June a rent of £30, to be reviewed annually, was agreed. It is noted that that no rent has been charged for the current year, but this has not been authorised in the council's minutes.

At the time of the audit an allotment register has not been created. Such a register should include all plot numbers, the current tenant, the rent due for the year, the amount and date paid, and the date paid into the bank if paid by cheque or cash.

I have checked a large sample of income throughout the year and agreed receipt documentation to the cash book. All income was well documented, accurately recorded, and cross referenced to the cash book. I was unable, however, to check the income received for community sports sessions because the Kirton Community Sports Register, which identified the number of people attending each session, was not available at the time of the audit.

It is noted that two Christmas Light switch-on stall bookings in October have been charged at £20.00 per stall. This charge has not been officially minuted or included in a formal Scale of Charges. At the time of the audit the Clerk was unable to confirm who had agreed this reduced charge to stall holders. The interim Audit Report for 2021/22 recommended that "All charges should be agreed by council and identified on a formal Scale of Charges, agreed by council, or noted in council minutes."

All income received in respect of the cemetery was in accordance with the council's current Scale of Charges which was re-approved, without change, at the Annual Council meeting held on the 25th May 2022.

As the council does not maintain a separate bank account for receipts and payments in respect of the Mayor's chosen charity(s), income in respect of the Mayor's civic service, dinner, and charity event is paid into the council's bank account. As reported in section 10 of this report, the Clerk now maintains a document which identifies both receipts and payments during each civic year. This provides a record of funds raised and subsequently dispersed to the Mayor's chosen charity(s) or cause.

		<p>Recommendations</p> <ul style="list-style-type: none"> ● All charges, or any remission of fees or charges, should be authorised and recorded in the council's minutes. As recommended last year, all fees and charges must be formally minuted by the council. This is necessary to enable me to certify to the external auditor that <i>"Expected income was fully received, based on correct prices."</i> ● I am required to certify to the External Auditor that <i>"Expected income was fully received, based on correct prices, properly recorded and promptly banked."</i> To enable me to do this, the Community Sports Register should be made available at the time of audit to enable the income received to be examined and checked against the number of people attending the sessions. ● An Allotment Register should be established prior to the commencement of the 2023/24 financial year.
7	<p>Were petty cash payments appropriate and supported by receipts?</p> <p>Was all expenditure approved and reported to members?</p> <p>Has VAT been correctly accounted for?</p>	<p><u>Appropriate petty cash controls</u></p> <p>Findings</p> <p>The council does not maintain a petty cash account. All petty items of expenditure are reimbursed to the Clerk and council members via the normal payments system and reported to council together with all other council payments.</p> <p>I have checked a large sample of petty cash payments and all of those checked have been recorded in the council's accounting system and reported to council for approval. As reported in section 3 of this report, however, VAT - where appropriate - has not always been correctly recorded in the accounting system to facilitate reclaim from HMRC.</p>
8	<p>Do all employees have contracts of employment with clear terms and conditions?</p> <p>Are salaries to employees and all other payments and allowances paid</p>	<p><u>Adequate payroll controls</u></p> <p>Findings</p> <p>The council's employees have received contracts of employment which contain clear terms and conditions.</p>

	<p>in accordance with council approvals?</p> <p>Has PAYE and NI been correctly deducted and paid to HMRC?</p>	<p>I have checked and agreed the gross pay calculations for the Clerk and Assistant Clerk from April to September 2022 by reference to the current NJC Pay Scales, authorised changes to the Clerk and Assistant Clerk's terms and conditions and additional hours worked by the Assistant Clerk.</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 correctly 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>Findings</p> <p>The council maintains an Asset Register in the form of a spread sheet. For the sample tested, new assets purchased during the year have been added to the register using the correct valuation method, i.e., cost price, net of VAT and £1 nominal value for gifted assets.</p> <p>The Clerk has contacted the insurance company regarding the new allotment sheds purchased during the year in order to add these to the policy.</p> <p>The register will be subject to a full review at the year-end audit.</p>
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 and the deposits held in the Public Sector Deposit Fund are identified on each month's Finance Report which are submitted to council and is signed by the Chairman and one other council member. The respective bank statements are also provided to the authorising councillors at the same time as the reconciliations and these have also been signed as authorised. I have checked and agreed the balances on the Finance Reports from April to August 2022 to the bank and Public Sector Deposit Fund statements.</p> <p>As a separate bank account is not held for the Mayor's Charity account, the Clerk maintains a detailed spreadsheet which identifies both receipts and payments during each civic year. This provides a record of</p>

		<p>funds raised, and subsequently dispersed to the Mayor's chosen charity(s) or cause. The spreadsheet, however, does not identify the dates and reference numbers to facilitate reconciliation with the cash books for the two financial years that comprise the Civic year.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● The spreadsheet that identifies the receipts and payments in respect of the Mayor's charitable events should also identify the dates and reference numbers from the cash books for the years that comprise the Civic year. This will then facilitate both reconciliation for the council and the independent audit of these funds.
11	Has the previous year's Internal Audit Report been submitted to council and actioned as necessary?	<p><u>Previous Internal Audit Report actioned</u></p> <p>Findings</p> <p>The 2021/22 final Internal Audit Report was submitted to the Town Council meeting held on the 27th April 2022 and the action required regarding the recommendations was noted.</p> <p>An audit recommendation last year however, regarding all fees and charges being formally minuted by the council, has not been actioned in respect of reduced stall bookings for the Christmas light switch-on and the remission of allotments rents for the current year. This is important because I am required to certify on the AGAR that "<i>Expected income was fully received, based on correct prices.</i>" If I am unable to do this, I have to provide a negative response on the audit certificate in respect of the control objective for council income.</p> <p>The 2022 NALC/SLCC/External Audit Governance and Accountability Practitioners Guide confirms for the completion of the Annual Governance Statement:</p> <ul style="list-style-type: none"> ➤ <u>Assertion 7 – Reports from Auditors.</u> <i>We took appropriate action on all matters raised in reports from internal and external audit.</i> 1.37. To warrant a positive response to this assertion, the authority needs to have considered all matters brought to its attention by its external auditor and internal audit and taken corrective action as appropriate.

		<p>The Practitioners Guide also confirms:</p> <ul style="list-style-type: none"> ➤ <u>Assertion 7 — Reports from Auditors.</u> 5.98. Authorities will receive reports from both their internal and external auditors. An authority should consider the matters included in these reports and decide what action it needs to take to prevent recurrence of the issues raised. The consideration and decisions should be included in formal minutes. <p>Recommendations</p> <ul style="list-style-type: none"> ● All audit reports should be reviewed by council and an action plan drawn up, with a timeline for the completion of any recommendations to ensure that any control issues are actioned prior to the certification of the Internal Audit Report on the AGAR. The action plan should be included in the council’s minutes. ● As a matter of some urgency, the council should minute confirmation of the remission of the 2022/23 allotment rents and figure for the reduced fees payable for Christmas lights switch-on stall bookings. This must be done prior to the financial year-end to enable me to provide a positive response to the income control objective on the 2022/23 Audit Certificate on the AGAR.
12	Has the council met its responsibilities as a trustee?	<p><u>Trustee responsibilities</u></p> <p>Findings</p> <p>The council 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 and the bank accounts from both Trusts have been amalgamated into the Torksey Charity. During the year the council transferred the funds from the HSBC Business Manager and Community Accounts into a single Community Direct Plus Account at the Co-operative Bank. Funds are also held in a CCLA Deposit Account. The council has, with the permission of the Charities Commission, widened the scope of the Trust to enable it to spend Trust monies in an appropriate way.</p> <p>The Charitable objects were amended with effect from the 25th March 2019 to:</p>

- "Provide 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."

As required by the External Auditor, I have confirmed that the two payments made this financial 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. The council's records for this Trust have not yet been completed for the transactions that took place in the first half of the year and these should be updated in time for the year-end audit.

Another 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, additional expenditure has been incurred in respect of painting the bollards and chain link fencing. 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 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 and a small amount of expenditure has been incurred on painting the railings surrounding the War Memorial on behalf of this Trust.

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's Personnel and Disciplinary Committee held on the 6th July 2021 confirmed that the management of KLASSIC finances is to be under the control of the Assistant Clerk. As the staff cost attributable to this Trust (50% of the Assistant Clerk's time) cannot be included in the AGAR as staff costs, this percentage has previously been transferred out of staff costs on the accounting system to the Power of Competence prior to completion of the AGAR. I have been

made aware that the council is considering charging the KLASSIC Trust the cost of the Assistant Clerk's time that she spends on Trust duties. The only audit issue that arises from this is that the External Auditor does not allow Trust income and expenditure to be included in the AGAR.

The council has now completed the change of bank accounts for the KLASSIC Charity from HSBC to the Co-operative Bank. I have reviewed the respective bank statements and confirmed that the closing HSBC bank account balances were completely and accurately transferred to the Co-operative bank

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 date for the charity's financial reporting is the 31st March 2022.

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.”

Recommendations

- The council's records in respect of the Torksey Trust transactions during the year should be completed prior to the year-end audit.
- If the council wishes to re-charge the KLASSIC Trust the cost of the Assistant Clerk's time spent on Trust duties, the income the council receives from the Trust when it is invoiced, should be credited to the staff cost column in the cash book and not added to the income spreadsheet in the cash book. This methodology, of netting the income and expenditure, will have the effect of excluding Trust Fund income and expenditure from the council's records, and hence the AGAR.

Executive Summary

The assistance of the Clerk of the council in the completion of this audit was very much appreciated.

The report has identified control issues, in respect of the authorisation of council charges, which require the Clerk's and council member's attention. The issues have highlighted the need to formalise the council's processes regarding the review of Internal Audit Reports and implementation of recommendations in a timely manner. Also, the records necessary to enable the audit to be undertaken need to be made available at the time of audit.

The key (red) recommendations should be actioned as a matter of priority. This will then provide the basis for positive responses on to the control objectives on the Internal Audit certificate on the 2022/23 year-end AGAR.

The Internal Audit has been conducted in accordance with the Governance and Accountability for Local Councils – Practitioners Guide 2022.

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

15th October 2022

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