

Public Sector Audit

Kirton in Lindsey Town Council

Internal Audit Report for the year ended 31 March 2016

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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 Internal Audit review of the council's accounting records in respect of the financial year ended 31 March 2016. 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.

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

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>Findings</p> <p>The cash book is maintained on spread sheets. It has been correctly maintained and is arithmetically correct.</p> <p>It is analysed to identify the classification of the council's income and expenditure but requires further analysis to identify the figure of staff costs for the Annual Return.</p> <p>Monthly bank reconciliations are performed which are presented to council and authorised by the Chairman.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● The cash book should be analysed in such a way as to provide the information required for the Annual Return without requiring further analysis.
2	Have the council's Financial Regulations and Standing Orders been formally adopted and complied with?	<p>Findings</p> <p>The council formally reviewed and re-confirmed Standing Orders and Financial Regulations at the meeting held on the 19th May 2015, min. 15.15 and 16.15.</p> <p>During 2015 NALC revised its Model Standing Orders to acknowledge that the introduction of the Public Contracts Regulations 2015 impacts on all parish and town councils. The Regulations apply whenever a council procures a contract with a value in excess of £25,000 (net of VAT). The council must advertise the contract opportunity on the Contracts Finder website (www.gov.uk/contracts-finder) irrespective of wherever else it may be advertised.</p> <p>NALC also revised its Model Financial Regulations in 2016 to reflect changes in the contracting arrangements for the supply of goods and services.</p> <p>Financial Regulations formally confirm that the clerk holds the statutory office of the council's Responsible Financial Officer.</p>

		<p>Recommendations</p> <ul style="list-style-type: none"> ● The council should update its Standing Orders to the revised 2015 NALC Model to reflect the changes in procurement legislation. ● The council should adopt the 2016 revised NALC Model Financial Regulations which have been amended to reflect changes in the contracting arrangements for the supply of goods and services.
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>Findings</p> <p>I have tested all high value expenditure and a large sample of all other payments throughout the year. All payments have been reported to council and authorised.</p> <p>For the sample of invoices tested I have reviewed for completeness, accuracy, the correct year of account and classification within the council's accounts.</p> <ul style="list-style-type: none"> ● A payment to BT for £287.80 on 04/08/15 does not match the invoices on file and the coding to VAT does not agree with the bills and is incorrectly calculated in the cash book. ● A payment to Argos for a printer - £229.99. VAT of £45.99 has been claimed. The VAT calculation is incorrect and the document in support of the payment is not a VAT invoice. ● A payment to ERNLLCA for training for £480 includes VAT but no VAT has been allocated to the VAT column and reclaimed from HMRC. <p>I have identified no unusual items of expenditure or items which are ultra vires.</p> <p>S. 137 expenditure for the year totals £10,075 which is well within the S.137 statutory limit for the number of electors in the Parish.</p> <p>Only four cheques have been issued during the year. The cheque stubs, however, have not been initialled to demonstrate compliance with the two signature rule and the council's Financial Regulations.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The queries in relation to the BT invoice and the VAT on several invoices should be examined, the correct position established and the next VAT return adjusted accordingly.

		<ul style="list-style-type: none"> ● All cheque stubs should be initialled to evidence the two signature rule and confirm that the detail on the stub agrees to the cheque and the supporting documentation seen at the time of signing. ● It should never be assumed that registration for VAT purposes means that <i>all</i> value added tax can be recovered. Owing to the complexity of VAT legislation, it is recommended that advice be sought from HMRC when any new projects are undertaken, significant capital expenditure is being considered or any new matters arise. ● The Council is reminded that it must not incur expenditure based on a decision made from an issue raised during "matters arising from the minutes of the previous meeting." In accordance with the Local Government Act 1972, Schedule 12, paragraph 10(2) (b) such expenditure could be held to be unlawful.
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>Findings</p> <p>The council holds Risk Assessments in respect of; Finance and Management, Christmas Lights Switch On and Market, Summer Festival, Lone Working, Fire, Play Area and Cemetery. All of the Risk Assessments were reviewed by F & GP Committee on 12th October 2016.</p> <p>I have reviewed the council's insurance cover and the levels of indemnity are considered to be adequate.</p> <p>The policy schedule confirms that the Fidelity Guarantee covers any employee but it does not state that members are also covered.</p> <p>It was noted that the War Memorial, with a declared value of £40,000 and insured value of £48,000, had not been included on the council's asset register.</p> <p>It was noted that the council's play equipment was not inspected by North Lincs. Council during the year. It is, however, inspected weekly by Countrywide as part of their contract and the Clerk has arranged for ROSPA to visit in the summer to carry out a safety inspection and also prepare new check sheets and risk assessments for the play area for use in-between annual inspections.</p> <p>Internal financial controls are included in the council's Financial Procedures.</p>

		<p>Recommendations</p> <ul style="list-style-type: none"> ● The insurance policy must be extended to cover both officers and members of the council. ● The council's War Memorial should be added to the asset register.
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>Are reserves adequate and appropriate?</p>	<p>Findings</p> <p>The council prepared a detailed annual budget that was adopted in setting the precept at an Extraordinary Meeting of the council held on the 12th January 2015.</p> <p>The two precept instalments of £47,333 from NLC agree to the council's precept of £87,500 plus grant of £7,166.</p> <p>Budget monitoring reports, which include detailed variance analyses, have been presented to council quarterly.</p> <p>The reserves Statement as at the 31st March 2016 identifies total reserves of £78,116. This comprises earmarked reserves of £41,000 and a general reserve of £37,116 which is considered to be both adequate and prudent.</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>Findings</p> <p>The precept for 2015/16 was received in 2 instalments and agrees to NLC's remittance Advices in April and July. The payments are made by BACS directly into the council's Business Account.</p> <p>I have checked a large sample of income throughout the year to the current scales of charges and balanced income receipts to the schedules of income and the bank.</p> <p>The council's scale of charges for cemetery fees was reviewed by F & GP committee in October 2015 and it was confirmed that this remains the same. It was due to be reviewed again by F & GP on the 8th February 2016. This further review has not yet taken place and it is expected by the Clerk that charges will be re-reviewed in October 2016 for budget calculation purposes.</p> <p>There have been no undue delays in banking income.</p>

		Cash security prior to banking is considered to be adequate.
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>Findings</p> <p>The council does not maintain a petty cash account. All petty items of expenditure are reimbursed to the clerk via the normal payments procedure.</p> <p>For the sample checked, all VAT expenditure has been correctly analysed.</p> <p>Reimbursements of small items of expenditure are included in the monthly payments analyses which are reported to council.</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 in accordance with council approvals?</p> <p>Has PAYE and NI been correctly deducted and paid to HMRC?</p>	<p>Findings</p> <p>The clerk is the only council employee. There is a formal Contract of Employment in place which contains clear terms and conditions.</p> <p>I have agreed all salary payments to those approved by the council, including any changes during the year.</p> <p>It was noted that the non-consolidated element of the NLC 2014/2016 pay award has not been paid. This would be a one off lump sum payment of £21.08 payable in April 2015.</p> <p>The SSP paid to the Clerk during the year has been included in the end of year returns to HMRC. It is expected that this will be refunded to the council during 2016/17.</p> <p>The clerk is subject to PAYE and NI regulations.</p> <p>During the absence of the Town Clerk the council appointed a locum clerk during August and September. The clerk could find no evidence however of correspondence or a minute reference authorising the rate of pay and mileage which has been paid to the Acting Clerk during August and September.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● In the absence of a minute reference, a letter of appointment identifying terms and conditions for temporary staff, such as the rate of pay and reimbursement of travel expenses, should be maintained for

		<p>audit evidence.</p> <ul style="list-style-type: none"> ● The council may wish to consider paying the one off lump sum payment of £21.08 in accordance with the 2014/16 NJC pay award.
9	<p>Is the asset and investment register complete and accurate and reviewed on a regular basis?</p>	<p>Findings</p> <p>The asset register is updated annually to reflect changes during the year and the new assets purchased during the year have been correctly added.</p> <p>The council does not hold any investments.</p> <p>It was noted that the War Memorial, with a declared value of £40,000 and insured value of £48,000 per the insurance schedule, has not been included on the council's asset register.</p> <p>The register was reviewed and approved by F & GP committee on the 12th October 2015. Min. FGP.15.17.f.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● The War Memorial should be added to the council's Asset Register.
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>Findings</p> <p>The bank reconciliations include the council's deposit and current accounts. They are carried out monthly and are reconciled to the cash book and bank statements.</p> <p>There were no unusual or balancing figures included in the reconciliations.</p> <p>They were presented to and approved by council monthly and appropriately authorised.</p> <p>The council does not hold any short term investments.</p>
11	<p>Were the year-end accounts prepared on the correct accounting basis and are they supported by</p>	<p>Findings</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>adequate working papers and adjustments, transfers, contra entries etc. which are fully explained and justified?</p> <p>Is there is an adequate audit trail from underlying records and, where appropriate, have debtors and creditors been properly accounted for?</p> <p>Has the previous year's Internal Audit Report been submitted to council and actioned as necessary?</p>	<p>There is not a clear audit trail in respect of staff costs from underlying financial records to the year-end statements and I have been unable, therefore, to agree the figure for staff costs on the Annual Return.</p> <p>The council's accounting code for Administration and Salary needs to be re-analysed to identify staff costs for the purpose of the Annual Return. See section 1 above.</p> <p>In accordance with the Governance & Accountability Guide, staff costs should include mileage, travel, pension payments, working from home allowance, etc., but not items of reimbursement of expenses for postage, stationery or other outlays made on behalf of the council (including phone and broadband). Such expenses should be included in box 6, all other expenses, on the Annual Return.</p> <p>The value of all fixed assets, shown in box 9 of the Annual Return, agrees to the council's Asset Register. The Clerk has confirmed that nominal values have been used if the cost prices have not been known. It was noted that the War Memorial has not been included in the councils Asset Register and hence does not appear on the Annual Return.</p> <p>The Internal Audit Report for 2014/15 was reviewed at the council meeting held in May 2015 (min 20.15) and it was resolved to accept the report with the matters arising being actioned as appropriate.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● Box 4, staff costs, and box 6, all other expenses, on the Annual Return should be completed in accordance with the 2014 NALC/SLCC Governance and Accountability Guide for Local Councils. ● The War Memorial should be added to box 9 of the Annual Return.
12	Has the council met its responsibilities as a trustee?	<p>Findings</p> <p>I have seen no evidence that the council has responsibility for Trust Funds and the Clerk has confirmed that this is the case.</p>
13	Are council's minutes maintained in accordance with legislative requirements?	<p>Findings</p> <p>The minutes provided to audit cover the whole year.</p>

		<p>The minutes are maintained in a loose leaf format and each page has been either signed or initialled as a true record of proceedings.</p> <p>The pages are numbered consecutively throughout the year in accordance with the Local Government Act 1972. Some page numbers have been amended for the October and November meetings and there is not now a page number 202. This appears to be a clerical error, however, and the continuity of the minutes suggests that there are no missing pages.</p> <p>Recommendation</p> <ul style="list-style-type: none">● Care should be taken to ensure that all official minutes of the council comply with legislative requirements.
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Executive Summary

The accounts and governance arrangements of the council continue to be maintained to a high standard and the co-operation of the Clerk of the council in the completion of this audit was much appreciated. It is acknowledged, however, that during the period of the Clerk's absence during the year the financial control environment was not maintained to the same high standard.

The internal financial control environment within the council is good 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 2014.

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

10th May 2016

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