

Public Sector Audit

Kirton in Lindsey Town Council

Internal Audit Report for the year ended 31 March 2020

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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 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.

Prioritisation of recommendations

In accordance with good internal audit reporting practice and the Governance and Accountability for Local Councils Practitioners Guide, the recommendations contained in this report have been prioritised. The following 'traffic light' system for the prioritisation of recommendations has been adopted:

- Significant weakness in internal control requiring urgent attention.
- Moderate weakness in internal control requiring attention within the current year.
- Minor weakness in internal control, or matters of good practice the council may wish to consider, to be addressed within the current year.

Distribution List

Chairman of the Council

All members of the Council

Clerk to the Council

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The findings of the audit are summarised below

	Test	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 March 2020.</p> <p>It is comprehensively analysed for the purpose of completing the Annual Governance and Accountability Return (AGAR).</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>
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 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 council reviewed and adopted the revised regulations (amended for the council's purposes) at the meeting held on the 25th September 2019.</p>
3	Are payment controls effective and VAT properly accounted for? Has the council recorded s137	<p><u>Adequate payment controls</u></p> <p>Findings</p> <p>I have tested a large sample of payments up to the end of January 2020. Owing to Government restrictions I was unable to undertake detailed testing for February and March. System testing and sound internal control</p>

<p>expenditure separately and is it within the statutory limit?</p>	<p>systems mean, however, that a high degree of confidence can be placed on the correctness of these two months.</p> <p>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>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.</p> <p>Following a reallocation of some grants and expenditure to more specific cost codes, S.137 net expenditure totalled £7,750 for the year. This 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 appropriate grants will be coded to this legislative power.</p> <p>I have examined the cheque stubs up to the 14th January 2020 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>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).</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● A detailed record of receipts and payments in respect of the Mayor's chosen charity should be prepared to support the final payment(s) made, for audit and verification purposes.
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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 reviewed and approved at the meeting held on the 27th November 2019. 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 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.</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 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 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 re-assessed its 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>
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5	<p>Has the annual precept requirement resulted from an adequate budgetary process?</p> <p>Has progress against budget been regularly monitored and reported and were reserves appropriate?</p>	<p><u>Adequate budgetary process</u></p> <p>Findings</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>A detailed budget monitoring report in respect of quarter one was presented to council in July 2019. A second quarter monitoring report was presented to council on the 23rd October 2019 and a third quarter report was presented to council on the 22nd January 2020. It was noted that no actions were required.</p> <p>Owing to Government restrictions the council did not meet in April and is unlikely to meet in May. The council's total balances as at 31st March 2020 will not, therefore, be allocated between earmarked specific reserves (for future projects) and a general reserve until such time as the council is able to meet.</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 £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. The council also received income in respect of grants, VAT refunds, Christmas Festival stalls, donations, the cemetery, civic service and dinner and bank interest.</p> <p>I have checked a large sample of income from April 2019 to January 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. A review of the completed cash book for the year does not identify any unusual income received during February and March 2020.</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 agreed by the General Purposes Committee held on the 24th June 2019, min. 1906/11.</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.
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 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; 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, the VAT element for a purchase of napkins was incorrectly recorded in 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 amount of VAT included in the vatable supply. It is appreciated, however, that VAT rules are complex and, if there is any doubt whether goods are vatable or not, it is preferable to not reclaim it rather than to incorrectly include it in the HMRC reclaim.</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><u>Adequate payroll controls</u></p> <p>Findings</p> <p>The council's only employee is the Clerk and the contract of employment contains clear terms and conditions.</p> <p>All gross payments to the Clerk throughout the year have been agreed to the new contract of employment and the 2019 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 monthly.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● Following the issue of updated guidance from HMRC during September last year, the council should note

		<p>that it is unable to claim Employment Allowance unless it has charitable status. The council should, therefore, check that it is not claiming this allowance and, if it is, it should untick the box on the payroll software system to cease claiming it. Further advice can be obtained using the following link; www.gov.uk/government/publications/employment-allowance-more-detailed-guidance/eligibility-for-employment-allowance-further-employer-guidance</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. I have reviewed the register to confirm that it has been updated during the year to reflect any additions and deletions. All additions have been correctly recorded, at cost price excluding VAT.</p> <p>The council does not hold any investments.</p> <p>The Clerk has reconciled the descriptions of assets in the register to those included on the insurance schedule and is now confident that all assets that the council wish to insure are included on the insurance policy. The insurance company has previously confirmed that it requires immediate notification of increases in sums insured for 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 updated total on the Asset Register agrees to the declaration in box 9 of the Accounting Statement on the AGAR.</p> <p>The 2019/20 Asset Register was reviewed and approved by council on the 22nd May 2019; the updated register was due to be presented to the May 2020 meeting for review and approval. This will be done when the present restrictions have been lifted by the Government.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● 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>Has a year-end reconciliation been performed and balanced?</p> <p>Have all bank reconciliations been reviewed by an appointed member and evidenced as such?</p>	<p><u>Adequate bank reconciliations</u></p> <p>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. 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. The reconciliations between the cash book and bank statements are all accurate.</p>
11	<p>Were year-end accounts prepared on the correct accounting basis and supported by adequate working papers and adjustments, transfers, contra entries etc. which are fully explained and justified?</p> <p>Is there an adequate audit trail from underlying records and where appropriate have debtors and creditors have been properly accounted for?</p> <p>Has the previous Internal Audit Report been submitted to council and actioned as necessary?</p>	<p><u>Correct accounting basis and previous Internal Audit Report actioned</u></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>The statements agree with the cash book and there is an audit trail from underlying financial records to the year-end statements.</p> <p>The 2019/20 Interim Internal Audit Report was submitted to council on the 19th October 2019 and the ongoing actions required were noted.</p>

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 of both Trusts have been amalgamated into one account. 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. The, council as Trustees has provided two grants under the provisions of the charity and, owing to Government restrictions, these will be subject to audit later in the year.</p> <p>The Charitable objects have been amended with effect from the 25th March 2019 to:</p> <ul style="list-style-type: none"> • "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." <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".</p> <p>During the year the council has recorded expenditure 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".</p> <p>One further fund, known as The War Memorial and the Garden of Edward Elmhirst Duckering has been</p>
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		<p>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>It is noted that the council is currently progressing the transfer of the trusteeship of KLASSIC Park to the Town Council as sole Trustee. This will have implications for the separate accounting and bank account(s) for the charity as well as the identification of overhead costs (such as a proportion of the Clerk's time, insurances, audit, etc.) which will need to be recharged to the Trust. Any further Internal Audit work found to be necessary as the council assumes responsibility for the Trust will be considered at the Interim Audit for 2020/21.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● 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	If the council certified itself as exempt from an External Audit Limited Assurance Review last year, has it met the exemption criteria and correctly declared itself exempt?	<p><u>Exemption Certificate</u></p> <p>Findings</p> <p>The council, correctly, did not complete an Exemption Certificate under Section 9 of the Local Audit (Smaller Authorities) Regulations 2015.</p>
14	Did the council correctly provide, during the summer, the proper opportunity for the exercise of public rights in accordance with the requirements of the Accounts and Audit Regulations 2015?	<p><u>Exercise of Public Rights</u></p> <p>Findings</p> <p>The statutory Notice of Public Rights is not retained on the council's website after the notice period has expired. The Clerk has confirmed, however, that the Notice was correctly displayed on both the council's website and Notice Board during the notice period last summer.</p>

15	Are the 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 12th August 2019. Owing to Government restrictions I have not reviewed the council minutes for the remainder of the year</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 during the year 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 been 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 and consideration of the advisory notes will serve to further enhance and strengthen the systems, procedures and governance arrangements already in place.

Paragraph 5.106 of the NALC/SLCC 2019 Governance and accountability Guide identifies that:

“Authorities should note that it is not part of internal audit’s responsibility to review or ‘sign off’ the completed Annual Governance and Accountability Return. Internal audit report(s) should inform the authority’s responses to assertions 2 and 6 in the annual governance statement. Internal audit reports should therefore be made available to support and inform members considering the authority’s approval of the annual governance statement.”

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

27th April 2020

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