

Public Sector Audit

Winterton Town Council

Internal Audit Report for the year ended 31 March 2019

Public Sector Audit

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Introduction

Part 2, paragraph 5 (1) of the Accounts and Audit Regulations 2015 imposes a duty on Local Councils to “undertake an effective Internal Audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”. Internal audit is a key component of the system of internal control. The purpose of internal audit is to review whether the systems of financial and other controls over a council's activities and operating procedures are effective.

I was advised by the council in July 2018 that the services of Public Sector Audit were no longer required. Following this the council did not arrange for the Internal Audit of its accounts for year ended 31st March 2019 and did not submit the statutory Governance and Accountability Return to the External Auditor. As a result of these failings the council has received a statutory Public Interest Report under Schedule 7 of the Local Audit and Accountability Act from the Government’s External Auditor.

Following the receipt of the Public Interest Report the council formally requested, on the 12th November, that I conduct an Internal Audit review of the council’s accounting records in respect of the financial year ended 31 March 2019.

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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 commenced on the 14th November and has been carried out to professional standards and in accordance with statutory requirements. 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 The council's financial records are maintained on a computerised system. The records submitted to audit were complete for the year and balanced at the year-end.</p> <p>The software system ensures that it is arithmetically correct and the cash book is sufficiently well analysed to provide the information required for the Annual Governance and Accountability Return.</p> <p>Checking and verification of the council's bank accounts has been undertaken each month and evidenced by reconciliation between the cash book and bank statements.</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 The council's Standing Orders and Financial Regulations were reviewed by council at the Annual Meeting held on the 15th May 2018. Both Standing Orders and Financial Regulations reflected the latest NALC Models at that time.</p>
3	Are payment controls effective and VAT properly accounted for? Has the council recorded s137 expenditure separately and is it within the statutory limit?	<p><u>Adequate payment controls</u></p> <p>Findings Payment schedules of all payments, per the bank statements and schedules of payments that are due to be paid by BACS, are prepared by the Clerk. All schedules are presented to members and signed by two nominated council members at each meeting.</p> <p>I have tested a large sample of payments for both the Town Council and Winterton Community Pavilion throughout the year to ensure that there is a formal invoice and that the expenditure has been reported to</p>

	<p>council. It was noted that documentary evidence in support of some payments throughout the year has not been included in the payments file.</p> <p>I have reviewed payments for completeness, accuracy, the correct year of account and compliance with the council's Financial Regulations. It is noted that competitive quotations for the Christmas lights contract have not been sought for some time.</p> <p>I have checked that VAT has been correctly identified in the council's accounting system to enable it to be reclaimed from HMRC. For the sample checked, two invoices that included VAT were recorded in the accounting system excluding VAT. A further invoice for electricity included VAT at 20% and this was recorded in the accounting system as 5%.</p> <p>As reported in 2017/18, the Clerk confirmed that the 2016/17 VAT reclaim was sent to HMRC during April 2017 but has not been reimbursed to the council. The Clerk queried this with HMRC and it was resubmitted, together with the reclaim for 2017/18, in accordance with new instructions given by HMRC. I recommended in 2017/18 that, if the previous two years reclaims are not paid by HMRC in the next two or three months the Clerk should take this up with HMRC to establish why they have not been paid. This has not been done, however, and the two reclaims are still outstanding. A reclaim has also not been submitted to HMRC for the current year of audit, i.e. 2018/19.</p> <p>The current account cheque books have been reviewed and no cheques have been issued during the year.</p> <p>It is noted that the invoices from the External Auditor for 2015/16 and 2017/18 had not been paid. They were paid in November this year when this was brought to the council's attention by PKF Littlejohn.</p> <p>The issue of councils requiring a licence if they play recorded music in public has recently been raised. It is NALC's view that a council will be obliged to pay for a PPL PRS Music Licence if it plays recorded music in public.</p>
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		<p>Recommendations</p> <ul style="list-style-type: none"> ● The council must pursue the refund of VAT from HMRC for the periods 2016/17 and 2017/18. ● The reclaim for 2018/19 should be submitted to HMRC without further delay. ● It is a concern that two invoices from previous years remained unpaid until this was brought to the council's attention as a result of the Public Interest Report. As a result of this the council should closely examine its internal control procedures to ensure that all payments due to be made by the council are paid on time. ● Invoices, receipts or other documentation should be included in the payments file in support of all payments made by the council. ● The council should ensure that all VAT incurred is correctly identified in the council's accounting system for reclaim from HMRC. ● The council may wish to seek competitive quotations for high value contracts, such as the Christmas lights, in accordance with Financial Regulations. ● 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. ● If the council plays recorded music in public it may wish to enquire whether a licence fee is payable to PPS PRS Ltd. Further information can be found at "www.gov.uk/licence-to-play-live-or-recorded-music"
4	Has the council assessed the significant risks in delivering its activities and services and regularly	<p><u>Assessment of significant risks</u></p> <p>Findings</p> <p>In April 2017 the council received a Risk Management Report and confirmed that it was happy for the Risk</p>

<p>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>Management Working Group to continue with the ongoing work to address the council's Risk Management. The Working Group did not, however, progress its work during 2018/19 and, as a result, the council did not formally review its risk management arrangements.</p> <p>Weekly inspections are carried out at West Street and Marmion Drive Parks for Health & Safety purposes. All play equipment is inspected and reported and any repairs required are detailed on the inspection sheets. It is noted that the any subsequent action taken to remedy defects is not always recorded on the inspection sheets; therefore, it is possible that if, for example, parts are ordered and not received, the fault may not be remedied. Weekly health and safety checks are also carried out and recorded in respect of the Pavilion and the council offices.</p> <p>The council's insurance policy was renewed on the 1st June 2018. I have reviewed the limits of indemnity and all were considered to be adequate with the exception of Fidelity Guarantee. The council's balances are sufficiently high that Fidelity Guarantee cover should be £225,000. At the time of the audit the Clerk contacted the brokers who have now increased the indemnity limit to £225,000 to adequately protect the council's interests.</p> <p>I have reviewed the council's security arrangements in respect of electronic data and confirmed that the system of maintaining records on cloud is UK based in accordance with Government legislation. All of the council's electronic records and financial systems are backed up weekly and the backup hard drive is removed from the council offices. The council's computers are password protected but the external hard drive has no such protection.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The council's current Risk Assessments should be reviewed as a matter of urgency, to ensure all council liabilities are identified and adequately protected. ● All of the councils Risk Assessments should be reviewed and approved by council annually.
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		<ul style="list-style-type: none"> ● A summary of any defects reported on the inspection sheets should be maintained and kept under review to ensure that all issues are subsequently dealt with. ● The council's external hard drive, used for data backup, should be password protected to safeguard the council's interests in the event of loss or theft.
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 in support of its Precept. The Precept of £114,125.79 and the discretionary Support Grant of £12,485 from NLC was accepted at the Policy and Finance Committee meetings held on the 7th January and 11th February 2019. The Precept and Grant was approved by council on the 19th February 2019.</p> <p>A half year budget monitoring report was presented to the Policy and Finance Committee held on the 8th October 2018. A further report was issued to the committee on the 11th February 2019 for the purpose of budget setting.</p> <p>At the Policy and Finance meeting held on the 13th November 2017 it was recommended that the council's Earmarked Reserves be increased to £40,000. These reserves are held for the development and maintenance of council owned land and property including the Council Offices, the Old School Hall, the Community Pavilion and Playing Fields, West Street Park, Marmion Drive Park and Winterton Cemetery and Chapels. Apart from the addition of a small amount of interest received, the total of Earmarked Reserves remained the same during 2018/19. The council's general reserves as at the 31st March 2019 are 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><u>Adequate income controls</u></p> <p>Findings</p> <p>Apart from the Precept and grants from NLC, the council received allotment and Pavilion income, bank interest and miscellaneous income, "In Bloom" receipts, the Civic Dinner, insurance claims, Christmas craft</p>

<p>Were security controls over cash and cash equivalents effective?</p>	<p>fair stalls and sundry income.</p> <p>The council's records identify 16 chargeable craft stalls at the Christmas Fayre. Income for 17 stalls has been recorded in the council's accounting system, however.</p> <p>I have agreed a sample of allotment income to the Allotment Register and the council's accounting system. The lack of cross referencing on the Allotment Register of the date income is paid into the bank made it difficult to balance the register to the income received.</p> <p>I have tested a sample of Pavilion bookings to confirm that the fee paid is correct and the income has been correctly accounted for and banked. It was possible to agree some casual booking forms to the booking diary, the council's accounts and the bank statements but a full audit of Pavilion income was not possible because;</p> <ul style="list-style-type: none"> • A formal Scale of Charges, approved by the council, was not available to verify the charges made, • Referencing from the booking diary to invoices for regular hire and to booking forms for casual hire was insufficient to provide an audit trail that could be followed. The dates on which deposits and final payments for casual hire were made were not always recorded in the booking diary, thus making checking to the accounting system and the bank difficult. • The invoices for regular bookings could not be found at the time of the audit. <p>Following the 2017/18 audit it was recommended that;</p> <ul style="list-style-type: none"> • The charges made by the council for the hire of craft fair stalls should be formally confirmed by the council and minuted. • The Policy and Finance Committee and council should review the charges it makes for the use of the Pavilion during 2018/19 <p>The Clerk has confirmed that, for the period covered by <i>this</i> audit, these charges were not formally reviewed by council.</p> <p>Cash income is received in respect of allotment rents and Pavilion bookings and security of cash prior to banking is good.</p>
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		<p>During discussions with other Town and Parish Councils during the year it has become apparent that the Clerks of some councils have received different and sometimes conflicting advice from consultants in respect of charging VAT on some council services.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The council should identify all charges that it makes and formally review and approve Scales of Charges for all areas of council income. This will provide a council approved basis from which to audit all council income in the future. ● The audit trail for income from bookings at the Pavilion should be improved to enable both regular and casual bookings to be agreed to the council's approved Scale of Charges, the booking diary, booking forms for casual hire, invoices for regular hire, the council's accounting system and the bank statements. ● The audit trail from the Allotment Register to the income received and subsequently paid into the bank would be improved by cross referencing the Allotment Register to the date on which income has been banked. ● All Christmas Fayre stalls should be recorded in the council's records for completeness and audit verification purposes. ● VAT is extremely complex and if the council is in any doubt about the correct VAT treatment in respect of providing goods or services to the public, detailed advice and guidance on the council's specific situation should be sought from HMRC.
7	<p>Were petty cash payments appropriate and supported by receipts?</p> <p>Was all expenditure approved and</p>	<p><u>Appropriate petty cash controls</u></p> <p>Findings</p> <p>The council has a separate petty cash bank account which is a Community Direct Plus Account with the Co-operative Bank. Petty cash payments from this account were made by debit card and supported by receipts and invoices. During the year this account was frozen by the bank owing to the current Clerk being in post</p>

	<p>reported to members?</p> <p>Has VAT been correctly accounted for?</p>	<p>when a replacement debit card was issued in the name of the council's previous Clerk. Since the account was frozen the Clerk and other council staff have used their own funds to purchase sundry items and have then been reimbursed through the normal payments system. Petty cash payments are reported to council together with all other payments.</p> <p>I have checked a sample of petty cash payments and all were supported by appropriate documentation and the VAT element of the payments had been correctly identified and analysed in the council's accounting system.</p> <p>A change float of £100 is maintained for events at the Pavilion to prevent the need for cash to be taken from income prior to banking.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● If the council wishes to reinstate the use of the petty cash account at the Co-op Bank it should arrange for the mandate to be changed to permit the current Clerk to access this account and receive future debit cards in her name.
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>For the year of audit all employees have received Contracts of Employment with clear terms and conditions. Following the 2017/18 Internal Audit it was recommended that the Contract of Employment for the council's previous Admin Assistant should be signed by the council. The contract was not, however, signed prior to the officer's resignation in August 2018.</p> <p>I have checked all employees' monthly gross pay to their contractual terms and conditions and hours worked for the year. The following issues arose:</p> <ul style="list-style-type: none"> ● The 2017/18 Internal Audit identified that the previous Admin Assistant had been overpaid by a total of £85.67 during December 2017 and January 2018. It was recommended that future salary payments should be adjusted to recover the overpayments. The total overpayment was not, however,

		<p>recovered prior to the officer leaving the council's employment.</p> <ul style="list-style-type: none"> • The salary for the Clerk and the previous Admin Assistant during the year of audit has been paid at the NJC pay scale applicable for 2017/18. From the 1st April 2018 the NJC pay scales were increased following the national settlement but these scales of pay have not been implemented. The effect of this is an underpayment of hourly rates for both the Clerk and previous Admin Assistant throughout 2018/19. • As reported to council, following the 2017/18 Internal Audit, the number of additional hours worked, at basic time, time and a half and double time, have not been summarised prior to notifying the council's payroll provider of the additional hours to be paid. The lack of an analysed summary makes checking and verification of the payment for overtime hours very difficult. This position has not changed and, as a result of this, I have not been able to verify the overtime hours paid to staff during the year. During the audit the Clerk summarised all overtime worked by her and all staff members to attempt to agree to the overtime hours paid during 2018/19. The Clerk, however, was unable to agree the overtime hours forwarded to the payroll provider for calculation of each month's salaries. <p>Not all of the council employees time sheets have been signed as authorised by the Clerk. The Clerk's time sheets have not been signed by either the Clerk or authorised by a member of the council.</p> <p>For the sample checked, National Insurance and PAYE deductions have been correctly paid to HMRC each month.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● As recommended in 2017/18 a summarised record of additional hours worked by the Clerk and all staff should be maintained to provide an audit trail for the verification of the number of hours paid each month. ● As recommended in 2017/18 Contracts of Employment are legally binding contracts and, as such, should be signed and dated by the employee and employer at the commencement of employment. ● The council should consider whether it wishes to pay the difference between the 2017/18 and 2018/19
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		<p>hourly rates of pay for the Clerk and previous Admin Assistant. Any underpayment in respect of the previous Admin Assistant would need to be adjusted to take account of the 2017/18 overpayments to this officer that have not yet been recovered.</p> <ul style="list-style-type: none"> ● All staff time sheets should be signed by the employees as a correct record and authorised by the Clerk. ● The Clerk's time sheets should be signed as a correct record and authorised by a nominated member of the council.
9	Is the Asset and Investment Register complete and accurate and reviewed on a regular basis?	<p><u>Appropriate recording of assets</u></p> <p>Findings</p> <p>The Asset Register is maintained in the form of a schedule. For the sample checked, assets purchased during the year have been added to the register.</p> <p>Some additions, however, have been added to the register at the full cost to the council including VAT. As the council is able to reclaim VAT the cost price of assets, excluding VAT, should be entered on the register.</p> <p>The council does not hold any investments.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● All assets purchased should be added to the register at the net cost to the council, excluding VAT. ● The register will require amendment to reflect the cost prices of the assets purchased during the year net of VAT.
10	Were bank reconciliations performed on a regular and timely basis?	<p><u>Adequate bank reconciliations</u></p> <p>Findings</p> <p>The council holds five bank accounts:</p> <ul style="list-style-type: none"> ● Current

	<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>	<ul style="list-style-type: none"> • General Reserves • Earmarked Reserves • Winterton Community Pavilion • Petty Cash (currently frozen) <p>Monthly reconciliations, in the recommended format, have been produced from the accounting system for all of the council's accounts and these have been presented to council, recorded in the minutes and authorised by two council members. It is noted that the bank statements for each of the accounts are not presented to council members at the time that the bank reconciliations are authorised.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● The bank statements for each of the council's accounts should be presented to council at the same time as the monthly bank reconciliation statements. This will allow for the authorising council members to compare and agree the month end balances and then also sign off the bank statements as being authorised.
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</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 cashbook and there is an audit trail from underlying financial records to the year-end statements.</p> <p>As reported in 2017/18, it was noted that the council's accounting package has not included the cost of staff travel, in box 4, staff costs, on the Annual Governance and Accountability Return in accordance with Government requirements.</p> <p>The figure declared in box 9, fixed assets, on the Annual Governance and Accountability Return will require amendment. This is to reflect the revised total on the Asset Register following amendment to the values of</p>

<p>Report been submitted to council and actioned as necessary?</p>	<p>recently added purchases to exclude the VAT element of the invoices.</p> <p>The final 2017/18 Internal Audit Report was presented to Policy and Finance Committee on the 11th June 2018. The committee acknowledged receipt of the report and agreed to the Clerk continuing with the action plan as previously agreed. It is noted that many of the recommendations in the 2017/18 report had not been implemented 17 months later at the time of the 2018/19 audit.</p> <p>The council did not arrange for an Internal Audit of its accounts for the year-ended 31st March 2019 and did not complete the statutory Annual Governance and Accountability Return for 2018/19. The council also failed to allow for the Exercise of Public Rights during the summer as required by sections 26 and 27 of the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015 (SI 2015/234). As a result of these failings the council received a Public Interest Report under Schedule 7 of the Local Audit and Accountability Act 2014 from the Government's External Auditor.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● All agreed Internal Audit recommendations should be implemented during the following year in accordance with the prioritisation of recommendations described on page 4 of this report and the 2019 Governance and Accountability Guide for Local Councils. ● As recommended in 2017/18 the council should contact RBS, its accounting software supplier, and request them to re-allocate the staff travel cost codes into "Staff costs", box 4, for the purpose of the Annual Governance and Accountability Return. ● The council must ensure that in the future it complies with all statutory requirements in respect of arranging for the completion of an annual Internal Audit, the completion and submission to the External Auditor of an Annual Governance and Accountability Return and the Exercise of Public Rights. ● The figure for fixed assets, in box 9 on the Annual Governance and Accountability Return, as at 31/03/18 should be amended to reflect the revised Asset Register total.
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12	Has the council met its responsibilities as a Trustee?	<p><u>Trustee responsibilities</u></p> <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	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	Are the council's minutes maintained in accordance with legislative requirements?	<p><u>Correct maintenance of council minutes</u></p> <p>Findings</p> <p>The official minutes of the council provided to audit cover the full year with the exception of the Policy and Finance Committee held on the 11th June 2018. The Clerk has now printed a copy of these minutes and will arrange to have them signed as a true record and included in the council's official minute record.</p> <p>The council's minutes are maintained in a loose leaf format.</p> <p>All of the pages of the council and committee minutes, except those of the Policy and Finance Committee held on the 11th June 2018, have been signed/initialled and consecutively numbered in accordance with the Local Government Act 1972.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● The minutes of the Policy and Finance Committee minutes held on the 11th June 2018 should be signed as a true record, numbered and included in the council's official minutes.

Executive Summary

Many of the issues highlighted in the above report raise serious concerns regarding the governance arrangements and financial control environment at the council during 2018/19. It is of particular concern that the council did not action the recommendations of the 2017/18 Internal Audit Report, failed to arrange for the Internal Audit of its accounts, did not meet its statutory responsibilities in relation to the submission of an Annual Governance and Accountability Return to the External Auditor and failed to comply with Public Rights Legislation for 2018/19.

The audit has identified that the accounts and governance arrangements of the council have been maintained to a less than adequate standard during 2018/19 and the internal financial control environment within the council is below acceptable standards.

The council should make urgent arrangements to review the findings of this report, ensure that all of its recommendations are implemented and maintain an ongoing review of its financial control environment and governance arrangements to ensure that the position the council finds itself in is not repeated.

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.

A copy of this report should be submitted to the External Auditor together with the Annual Governance and Accountability Return and associated documentation.

Richard Dixon

Public Sector Audit

20th November 2019

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