

# *Public Sector Audit*

## Winterton Town Council

### *Internal Audit Report for the year ended 31 March 2020*

*Public Sector Audit*

**UK©CS**

Registered with  
UK Copyright Service  
Reg. No.: 284714616

# *Public Sector Audit*

## Winterton Town Council

### **Internal Audit Report for the year ended 31 March 2020**

#### 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 a Final 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.

*Public Sector Audit*

**UKCS**

Registered with  
UK Copyright Service  
Reg. No.: 284714616

## 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

*Public Sector Audit*

**UKCS**

Registered with  
UK Copyright Service  
Reg. No.: 284714616

The findings of the audit are summarised below

	<b>Test</b>	<b>Findings and Recommendations</b>
1	Have appropriate books of account been properly maintained throughout the year?	<p><u>Appropriate accounting records</u></p> <p><b>Findings</b>                      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 (AGAR).</p> <p>It is noted that staff clothing &amp; PPE and staff training costs have been included in box 4, Staff Costs, on the AGAR. Such costs are considered by the Government to be administration expenses and as such should be analysed in the accounting system under box 6, all other payments.</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> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● The council should contact RBS, the council's computerised accounting system provider, and arrange for staff clothing &amp; PPE and staff training to be re-allocated to box 6 for the purposes of completion of the AGAR.</li> </ul>
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><b>Findings</b>                      The council's Standing Orders and Financial Regulations were reviewed by council at the Annual Meeting held on the 21st May 2019. At the time of the meeting The Financial Regulations presented were the latest NALC Model. During July 2019, however, NALC revised its Model Financial Regulations. The changes were in respect of Contracts Regulations. The council has since reviewed the revised regulations and adopted these at the meeting held on the 10th December 2019.</p>

		The minutes of the meeting held on the 11th February 2020 record that the council considered and adopted the latest NALC Model Standing Orders. These will be reviewed at the next Internal Audit during 2020/21.
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><b>Findings</b></p> <p>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 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>It is noted that competitive quotations have been sought for landscaping work in the cemetery.</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 excluded VAT were recorded in the accounting system including VAT and hence included on the VAT reclaim.</p> <p>It is noted that the council has now successfully reclaimed a total of £22,605.14 VAT it incurred in respect of 2016/17, 2017/18 and 2018/19.</p> <p>S.137 is separately recorded in the cash book and £51 has been coded to this statutory power. The expenditure was appropriate for this power and well within the statutory limit.</p> <p>The current account cheque books have been reviewed; no cheques have been issued during the year.</p>

		<p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● Invoices, receipts or other documentation should be included in the payments' file in support of all payments made by the council.</li> <li>● The council should ensure that all VAT incurred is correctly identified in the council's accounting system for reclaim from HMRC.</li> </ul>
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><b>Findings</b></p> <p>At the council meeting held on the 10th December 2019 a large number of Risk Assessments, that had been reviewed and amended as necessary by the Clerk, were adopted. It was minuted that Risk Management would be a rolling agenda item to allow all assessments to be brought up to date in the coming months.</p> <p>At the council meeting held on the 14th January 2020 a further seven Risk Assessments were reviewed and approved. Two further Risk Assessments were also reviewed and approved at each of the February and March council meetings as part of the ongoing rolling programme.</p> <p>Weekly inspections are carried out at West Street and Marmion Drive Parks for Health &amp; Safety purposes. All play equipment is inspected and reported and any repairs required are detailed on the inspection sheets. Following the previous audit, the council now separately records any issues or faults that are identified and notes the action taken to remedy these. The officer undertaking the action and the date of completion is also recorded.</p> <p>The council also contracts with a ROSPA approved company that undertakes an annual playground inspection.</p> <p>The council's insurance policy was renewed on the 1st June 2019. I have reviewed the limits of indemnity and all are considered to be adequate with the exception of Fidelity Guarantee. The council's balances are such that the indemnity limit for Fidelity Guarantee should now be increased to 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 and the backup hard drive are password protected.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● The indemnity limit for Fidelity Guarantee should be increased to £250,000 to adequately protect the council's interests. Written confirmation of the increase should be obtained and filed with the policy documents.</li> </ul>
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><b>Findings</b></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 budget monitoring report, up to 31st August 2019, was presented to the Policy and Finance Committee held on the 26th September 2019. It was resolved to provide a budget of £500 for additional spending on Neighbourhood Planning. An updated budget position was provided by the Clerk to council on the 14th January 2020 for the purpose of setting the budget for 2020/21.</p> <p>The council's Reserves Statement was due to be reviewed at the F &amp; P Committee in February 2020. The Clerk has confirmed that the Committee did not meet however and the Reserves Statement has not, therefore, been reviewed and approved. It is noted that there was a suggestion that £4000 be transferred to Earmarked Reserves for proposed works in the closed churchyard.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● The council should ensure that it has the legal power, under the provisions of s.215 of the 1972 Local</li> </ul>

		Government Act, to provide a grant to the church towards the <i>specific</i> proposed works in the churchyard, before incurring such expenditure.
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><b>Findings</b></p> <p>Apart from the Precept and grants from NLC, the council received VAT refunds, allotment and Pavilion income, bank interest and miscellaneous income, "In Bloom" receipts, the Civic Dinner, insurance claims, Christmas craft fair stalls and sundry income. A large sample of these income streams have been agreed to supporting documentation, the accounting records and bank statements.</p> <p>At the council meeting held on the 10th December 2019 the council agreed its current Scale of Charges.</p> <p>Christmas Craft Fayre income has been agreed to the council's accounting system and bank statements. Owing to Government restrictions I have been unable to review and verify allotment income.</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.</p> <p>It was possible to agree a sample of casual booking forms to the booking diary, the council's accounts and the bank statements. This was not possible for regular bookings owing to insufficient information in the booking diary and cross referencing to the amounts charged and subsequently received. The Clerk is aware of this issue and is working to improve the audit trail by providing more detail and cross referencing to the council's accounts and bank statements for such bookings.</p> <p>Cash income is received in respect of allotment rents and Pavilion bookings; security of cash prior to banking is good.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● The audit trail for income from bookings at the Pavilion should be improved to enable both regular and</li> </ul>

		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.
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><b>Findings</b></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 were supported by receipts and invoices. During the year this account was frozen by the bank owing to the current Clerk being in post 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. The Clerk has confirmed that, as the position of Responsible Finance Officer (RFO) has now been filled, the mandate can be changed to allow access to this account.</p> <p>I have checked a sample of petty cash payments to ensure that 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. It was noted that, on several occasions, VAT had not been recorded in the cash book for reclaim from HMRC for vatable supplies. These have been in respect of a standard VAT invoice and receipts from suppliers which meet the criteria of a VAT invoice under HMRC's simplified invoice rules.</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><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● 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 RFO to access this account and receive future debit cards in her name.</li> <li>● Vat should be identified in the cash book for all vatable supplies, including those which meet the criteria under HMRC's simplified invoice rules.</li> </ul>

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><b>Findings</b></p> <p>All employees have received Contracts of Employment with clear terms and conditions. I have checked and agreed all employees' rates of pay to their contractual terms and conditions.</p> <p>Last year's Internal Audit Report recorded that the 2018/19 NJC National Pay Award had not been implemented for the Clerk. The action plan following the report confirms that the "payment should be made with appropriate adjustments". Although the 2019/20 pay award has been implemented for this year of audit, the adjustment for 2018/19 has not yet been actioned.</p> <p>A diary record is maintained of the additional hours worked each month by both the Clerk and Admin. Assistant. Following the 2018/19 Internal Audit, commencing in December 2019, the number of additional hours, at basic time, time and a half and double time, have been summarised. This provides information for the council's payroll provider of the additional hours to be paid. Detailed timesheets are prepared by the council's Lengthsman, Grounds Maintenance Worker and Pavilion Cleaner. The audit trail, however, is still insufficiently robust to facilitate checking from timesheets and diaries for hours worked each month to the actual number of hours paid at time, time a half and double time. More detailed records were required to facilitate this important audit procedure. The Clerk has confirmed that a monthly payroll record has now been established to make it clearer from where overtime payments have come. The Clerk has also confirmed that; <i>"the record has been signed by the Mayor to approve the payroll."</i></p> <p>The council's employees' time sheets have been signed as authorised by the Clerk and, since December, the Chairman has authorised the monthly payroll summary which includes the overtime hours worked by the Clerk and Administration Assistant.</p> <p>A detailed review of the monthly payroll record will be undertaken at the next audit as part of the payroll audit verification.</p> <p>For the sample checked National Insurance and PAYE deductions have been correctly paid to HMRC each</p>
---	--	--

		<p>month.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● If it is the councils wish to pay the 2018/19 pay settlement, the difference between the 2017/18 rate actually paid and the 2018/19 rate, applicable last year, should be calculated for the total number of hours worked during 2018/19 and paid during the current year.</li> <li>● Following the issue of updated guidance from HMRC during September last year, the council should note 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;  <a href="http://www.gov.uk/government/publications/employment-allowance-more-detailed-guidance/eligibility-for-employment-allowance-further-employer-guidance">www.gov.uk/government/publications/employment-allowance-more-detailed-guidance/eligibility-for-employment-allowance-further-employer-guidance</a></li> </ul>
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><b>Findings</b></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>It was noted that some assets had 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. The Clerk has now confirmed that the <i>"amendments advised from the audit have been actioned."</i></p> <p>The council does not hold any investments.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>● All assets purchased should be added to the register at the net cost to the council, excluding VAT.</li> </ul>

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><b>Findings</b></p> <p>The council holds five bank accounts:</p> <ul style="list-style-type: none"> <li>• <i>Current</i></li> <li>• <i>General Reserves</i></li> <li>• <i>Earmarked Reserves</i></li> <li>• <i>Winterton Community Pavilion</i></li> <li>• <i>Petty Cash (currently frozen).</i></li> </ul> <p>Monthly reconciliations have been produced from the accounting system for all of the council's accounts and these have been presented to council and authorised by two council members.</p> <p>The previous audit recommended that 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 to allow the authorising council members to compare and agree the month end balances and then also to sign off the bank statements as being authorised. The council's action plan following the audit confirms that, as bank statements contain sensitive personal information regarding individual salaries, two nominated councillors will "check the figures against bank reconciliations and sign off and then present to Main meeting".</p> <p>The Clerk has confirmed that; <i>"the Council agreed for the nominated Councillors to sign the bank statements and not send them to the meeting. The payments made are then checked against the bank statement."</i> This procedure will be reviewed as part of the 2020/21 Interim Audit.</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><u>Correct accounting basis and previous Internal Audit Report actioned</u></p> <p><b>Findings</b></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. It is noted, however, that, following the 2018/19 Internal Audit, the</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>figures in box 4, staff costs, and Box 6, all other payments, have been amended. This means the comparative figures brought forward for boxes 4 and 6 do not now agree with the equivalent figures carried forward last year. When this is the case the instructions from the External Auditor require the council to note "RESTATED" against these figures on the AGAR.</p> <p>There is an audit trail from underlying financial records to the year-end statements. As noted in section 1 of this report, however, the council has included the cost of staff clothing and PPE and staff training in box 4, staff costs, on the Annual Governance and Accountability Return. In accordance with Government requirements these costs should be included in box 6, all other payments.</p> <p>The total value of assets on the Asset Register, to be declared in box 9, fixed assets, on the AGAR, requires amendment to reflect the revised valuations of assets on the register (to exclude VAT) of recently added purchases.</p> <p>The 2018/19 Internal Audit Report was presented to council on the 10th December 2019 together with an action plan to address the recommendations therein.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● The council should add the word "RESTATED" against the brought forward figures in boxes 4 and 6 on the year-end Accounting Statement on the AGAR.</li> <li>● The council should contact RBS, its accounting software supplier, and request them to re-allocate staff clothing &amp; PPE and staff training from box 4, staff costs, to box 6, all other payments, on the AGAR in accordance with Government requirements.</li> <li>● If it has not already done so, the council should amend the total valuation on the Asset Register to reflect the revised valuation (to exclude the VAT element) of recently purchased assets. The declaration on the Annual Return, and the equivalent figure in RBS, will also need to be similarly amended.</li> </ul>
---	--

		<ul style="list-style-type: none"> <li>All agreed Internal Audit recommendations should be implemented during the 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.</li> </ul>
12	Has the council met its responsibilities as a Trustee?	<p><u>Trustee responsibilities</u></p> <p><b>Findings</b> I have seen no evidence that the council has responsibility for managing 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><b>Findings</b> 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><b>Findings</b> The Notice of Public Rights was published on the council's website on the 11th December 2019 following a delayed Internal Audit and the issuing of a Public Interest Report by the External Auditor. The dates provided on the Notice for the inspection of council's records were from the 12th December 2019 to the 3rd February 2020.</p> <p><b>Recommendation</b></p> <ul style="list-style-type: none"> <li>The publication of the Notice of Public Rights, and the timeframe for inspection of council records, are statutory requirements and must, in the future, be issued in accordance with the instructions published each year by the External Auditor.</li> </ul>

15	Are the council's minutes maintained in accordance with legislative requirements?	<p><u>Correct maintenance of council minutes</u></p> <p><b>Findings</b> The council's minutes are maintained in a loose leaf format.</p> <p>All of the pages of Full Council and Policy and Finance Committee minutes, up to the last review in December 2019, have been signed/initialled in accordance with the Local Government Act 1972. It was noted that the page number 34 of the Full Council minutes on the 10th September 2019 has been duplicated on the following meeting held on the 8th October 2019. It is also noted that the page numbers do not follow on consecutively from the meeting held on the 8th October 2019 to the next meeting held on the 12th November. The Clerk has identified the reason for these differences and confirmed that she will substitute the correct minutes for October and arrange for these to be resigned. Owing to current Government restrictions I have been unable to confirm that this has been done. The Chairman has confirmed that; <i>"the confusion regarding the September minutes was that they, nor any accounts, were presented at the October meeting for approval and signing."</i></p> <p>The Personnel Committee met in June and July 2019 and twice in December 2019. The minutes of the June meeting have been signed as a correct record but they have not been numbered in accordance with legislative requirements. At the time of the last audit visit, the minutes of the July meeting had not yet been printed and approved and signed as a correct record or numbered. The Committee has not met since the December meetings and, hence, these minutes have not yet been approved, signed or numbered.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>● If not yet done, the minutes of the Full Council should be renumbered from the meeting held on the 8th October 2019 to comply with the 1972 Local Government Act.</li> <li>● If not yet done, the minutes of the Personnel Committee should be signed and numbered in accordance with legislative requirements,</li> </ul>
----	---	--

## Executive Summary

2019/20 has been another challenging year for the council. The very late Internal Audit of the 2018/19 year of account has resulted in many of the significant issues highlighted in last year's Audit Report (and the 2017/18 report) not being rectified during 2019/20. Hence, again, the accounts and governance arrangements of the council have been maintained to a less than adequate standard.

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.

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*

18<sup>th</sup> May 2020

*Public Sector Audit*

**UKCS**

Registered with  
UK Copyright Service  
Reg. No.: 284714616