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Public Sector Audit

Epworth Town Council

Internal Audit Report for the year ended 31 March 2020

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.

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.

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Prioritisation of recommendations

In accordance with good internal audit reporting practice and the Governance and Accountability for Local Councils Practitioners Guide, the Page | 3 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 has been maintained on spreadsheets on a receipts and payments basis. It is noted that the format was changed during the year to make its appearance more user friendly.</p> <p>The revised cash book does not provide detailed analyses of the information required for the preparation of the Annual Governance and Accountability Return (AGAR). The required analysis is contained in the budget report which is presented monthly to council.</p> <p>A year-end bank reconciliation has been performed and monthly reconciliations are presented to each council meeting and signed as authorised by the Chairman.</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's Financial Regulations were last reviewed and approved in July 2019. A revised Model has since been issued by NALC however.</p> <p>Standing Orders were also last reviewed and approved by council in July 2019. During 2018 NALC revised its Model Standing Orders to acknowledge new legislation since the previous Model was published.</p> <p>The Clerk has prepared a record of routine office procedures that are undertaken on a weekly, monthly and annual basis. Such a document is invaluable in the event of the unexpected absence of the Clerk and would assist in the seamless continuation of the running of the council.</p> <p>Recommendations</p> <ul style="list-style-type: none"> • The council should review and approve the latest NALC Model Financial Regulations which were published

		<p>in July 2019.</p> <p>• The council should review and approve the latest NALC Model Standing Orders which were published in July 2018.</p>
3	<p>Are payment controls effective and VAT properly accounted for?</p> <p>Has the council recorded s137 expenditure separately and is it within the statutory limit?</p>	<p><u>Adequate payment controls</u></p> <p>Findings</p> <p>I have tested a sample of payments to the cash book and the authorised finance schedules which have been presented to council.</p> <p>I have reviewed the payments for compliance with Financial Regulations, completeness, accuracy, correct year of account and classification within the council's accounts.</p> <p>I have checked that VAT has been correctly identified and recorded in the cash book for the purpose of reclaim from HMRC. It was noted that, on several occasions, the VAT element for the purchase of petrol had not been recorded in the cash book for reclaim purposes.</p> <p>The total expenditure for the year under s.137 is £5,554. The expenditure is appropriate for this statutory power and is well within the statutory limit.</p> <p>I have checked the council's cheque stubs to verify that there is evidence that the 2 signature rule has been applied. On a number of occasions it was noted that the stubs were initialled by only one signatory.</p> <p>A schedule of payments made each month is presented to council for review and approval and is authorised by the Chairman.</p> <p>It is noted that during the year the council authorised the use of a debit card. The Clerk has confirmed that <i>"the schedule of cheques for payment includes information on debit card purchases; matching invoices and receipts are kept in the accounts files and the schedules are signed by the Chairman present at the meeting;</i></p>

		<p><i>when using the card for a payment I send an email to the finance committee and obtain written permission for card use; I keep a copy of the permissions." This new procedure will be subject to audit review during 2020/21.</i></p> <p>Recommendations</p> <ul style="list-style-type: none"> ● Care should be taken to ensure that all VAT is recorded in the cash book for reclaim purposes. ● Both cheque signatories should initial the cheque stubs to confirm agreement with the details on the cheque and the documentation provided to them 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.
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 maintains the following detailed Risk Assessments:</p> <ul style="list-style-type: none"> ● Town Council offices and cemetery, approved June 2019. ● Financial Risks, approved in June 2019. ● Hanging basket watering, the lighting of the Beacon, tree maintenance, play equipment and volunteers, approved in July 2019. <p>The council also has an annual inspection contract with NLC for its play equipment.</p> <p>It is noted that the Risk Assessments include provision for them to be signed by the Town Clerk and dated to confirm that they have been reviewed and are current. They have not, however, been signed and dated, but the minutes do identify that the council has reviewed and approved them annually.</p> <p>The Town Clerk performs a weekly inspection of the Kings Head Croft including the play equipment, fences</p>

		<p>and grassed areas. Detailed inspection sheets are completed and any issues concerning damage or wear and tear are noted. The sheets include provision for the recording of any action taken to remedy defects and the date on which corrective action was taken. It is noted that the periodic inspections of the cemetery, however, have not been regularly maintained for several months as time has not allowed for these inspections. Provision should be made to include details of any remedial work found to be necessary and the date(s) that these were completed.</p> <p>The council does not currently carry out routine inspections of other council owned assets such as street furniture. The insurance company will be pleased to advise the council on the recommended frequency of such inspections.</p> <p>I have reviewed the council's insurance policy and the indemnity limits are considered to be adequate.</p> <p>I have reviewed the council's arrangement for the security of its electronic data. During the year the council contracted with an independent company for the automatic daily back up of all of its electronic data.</p> <p>Recommendations</p> <ul style="list-style-type: none"> • The council's cemetery inspections should be recommenced and the inspection sheets should be amended to include the action taken to remedy any defaults and the dates on which this has been done. • The council should carry out periodic inspections of any other assets it owns and record such inspections in the recommended way.
5	<p>Has the annual precept requirement resulted from an adequate budgetary process?</p> <p>Has progress against budget been regularly monitored and reported</p>	<p><u>Adequate budgetary process</u></p> <p>Findings</p> <p>The council prepared a detailed annual budget in support of its Precept. The Precept for 2019/20 was agreed at the council meeting held on the 19th January 2019.</p> <p>The NLC Precept and Council Tax Grant agree with the income received in the cash book and the bank in April</p>

	and were reserves appropriate?	<p>and September 2019.</p> <p>Detailed budget monitoring reports are presented to each council meeting and the reports are signed as reviewed by the Chairman.</p> <p>Council balances were £23,071 as at 31/03/20. The whole of the balances are held as general reserves which equates to 40% of the 2019/20 Precept and are considered to be adequate.</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>Apart from the Precept and Council Tax Grant, the council received income in respect of VAT refunds, hanging basket contributions, cemetery, In Bloom grant, wayleaves and a small amount of bank interest.</p> <p>The council's current Scale of Charges for the cemetery is dated 4th July 2017. The council has since discussed the charges and resolved to not increase them.</p> <p>A schedule of income received each month is presented to council for review and approval and is authorised by the Chairman.</p> <p>I have checked and agreed a large sample of income for the cemetery received during the year to the Scale of Charges and the cash book.</p> <p>I have checked a sample of other income received during the year to supporting documentation and duplicate receipts.</p>
7	Were petty cash payments appropriate and supported by receipts?	<p><u>Appropriate petty cash controls</u></p> <p>Findings</p> <p>A separate petty cash system is not maintained. All petty disbursements by Members of the council are reclaimed monthly and reimbursed through the payments system together with salary, mileage etc. The</p>

	<p>Was all expenditure approved and reported to members?</p> <p>Has VAT been correctly accounted for?</p>	<p>council has approved the use of a debit card for the Clerk to purchase sundry items. Purchases are entered on to a schedule which is presented to council together with the appropriate invoices and receipts. The schedule is authorised by the two council members.</p> <p>For the sample checked, the VAT element of such expenditure has been separately analysed and identified in the cash book.</p> <p>Petty disbursements are reported to council monthly together with all other council payments.</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>All employees have contracts of employment which contain clear terms and conditions.</p> <p>I have checked gross pay figures for each month for all employees to ensure that they agree to the contracts of employment, including any subsequent authorised changes and the annual pay award. At the time of the initial audit, in February 2020, it was noted that the new 2019 hourly rate for the council's office cleaner had not been paid for the months May 2019 to January 2020. The Clerk brought this to the attention of the council's payroll provider who recognised their mistake and subsequently made an appropriate adjustment to the employees' February pay.</p> <p>Detailed timesheets are maintained by the Clerk and these are authorised by the Chair of the Personnel Committee each month.</p> <p>Employees are subject to PAYE and NI regulations and, for the sample checked, statutory deductions have been correctly paid to HMRC.</p> <p>Recommendation</p> <ul style="list-style-type: none"> ● It is noted that the council has been made aware that it should not be claiming National Insurance Employment Allowance as it does not have charitable status. As a result the payroll provider has amended the

		<p>council's payroll software package and the resultant arrears of National Insurance contributions for the year have been paid to HMRC.</p> <p>The following link provides more information on this subject: 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's Asset Register is maintained in a spread sheet format and is updated annually. The Clerk has confirmed that it will be reviewed at the next Zoom meeting of the Finance Committee.</p> <p>It is noted that the Asset Register is now maintained in the recommended format including dates of purchase/acquisition and the disposal of assets as they occur.</p> <p>It is noted that the valuations of Cemetery Lodge and Cemetery Chapel have been updated during the year to reflect revised re-instatement valuations. This method of valuation for Town Councils is not, however, in accordance with Government guidance. Original or cost valuations should not be amended during the life of the asset or whilst in the council's ownership. Guidance on the valuation of assets for Town and Parish councils can be found in the latest NALC/SLCC Governance and Accountability Guide.</p> <p>The council does not hold any investments.</p> <p>Recommendations</p> <ul style="list-style-type: none"> ● The valuations for Cemetery Lodge and Cemetery Chapel should be amended on the Asset Register to reflect the previous valuations. ● The total of the Asset Register as at 31/03/20 should be reduced when the above valuations have been amended.

<p>10</p>	<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>A year-end bank reconciliation has been performed and monthly reconciliations, which include the council's Current account and Business Money Manager account, are presented to each meeting of the council.</p> <p>There are no unexplained balancing entries in the reconciliations.</p> <p>The reconciliations have been signed and dated as authorised by the Chairman. At the time of the final audit the Clerk confirmed that; <i>"Bank reconciliations for March are being discussed and approved at the zoom meeting scheduled for next Tuesday (28th April 2020), after which, I will post the paperwork at Chairman's House for his signature, asking him to return it to office post box promptly."</i></p>
<p>11</p>	<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 audit trail from underlying financial records to the year-end statements.</p> <p>The 2018/19 Accounting Statement has been amended by the External Auditor and the restated 2018/19 figures have been correctly brought forward on to the 2019/20 Accounting Statement on the AGAR.</p> <p>The 2018/19 Internal Audit Report was presented to the meeting of the council held on the 14th May 2019. It was noted that some findings need to be acted upon. It was resolved to note the report and refer it to the Finance Committee/Clerk (then back to full council) for action.</p> <p>Recommendation</p> <p>⊛ The figure of fixed assets in box 9 on the AGAR should be amended to reflect the reduced total on the Asset</p>

		Register following the recommendation in section 9 above.
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	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>I have confirmed by a review of the council's website that, during the summer of 2019, the council correctly provided the proper opportunity for the exercise of public rights in accordance with the requirements of the 2015 Accounts and Audit Regulations.</p>
5	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 council's minutes were due to be reviewed as part of the final visit to the council's office following the year-end closedown.</p> <p>Owing to government restrictions this has not been possible. The minutes are audited to ensure that they comply with legislative requirements. This verification, however, does not form part of the Internal Audit certification on the AGAR and will be reviewed next year when the restrictions have been lifted.</p>

Executive Summary

The accounts and governance arrangements of the council have been maintained to a good standard and the hard work of the Clerk during the year in updating the council's financial controls and governance procedures is acknowledged.

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The internal financial control environment within the council is satisfactory 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

23rd April 2020

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