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**Burgess Hill Town Council**

***Internal Audit Report: 2015-16 (Interim Update)***

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## **Background and Scope**

The Accounts and Audit Arrangements introduced from 1<sup>st</sup> April 2001 require all Town and Parish Councils to implement an independent internal audit examination of their Accounts and accounting processes annually. The Council complied with the requirements in terms of independence from the Council decision making process appointing Auditing Solutions Ltd to provide the function to the Council: this report sets out those areas examined during the course of our recent update visit to the Council, which was undertaken on 26th January 2016 and supplements the initial interim work which took place on 21<sup>st</sup> October 2015. A further update will be prepared and issued subsequent to the conclusion of the Statement of Accounts and Annual Return detail at a date to be arranged in May / June 2016.

## **Internal Audit Approach**

In continuing our review of the Council's processes and records for 2015-16 we have examined a selection of the Council's fundamental central financial control functions in order to provide assurance to members and the electorate that the systems continue to operate in accordance with best practice and approved Council procedures: we have also had regard to the materiality of those transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts.

As in previous years, we have assessed the risks associated with each financial system, based on previous experience of the extent of potential for those risks coming to fruition and tailored our review programme accordingly.

## **Overall Conclusion**

We are pleased to conclude that, in the areas examined to date, the Council continues to have effective systems in place to ensure that transactions are free from material misstatement. The Responsible Finance Officer (RFO) and his staff are again to be commended on the quality of work produced and the high standards of documentation produced for the purposes of our audit visits

We are again pleased to report that no issues have been identified from the work completed to date warranting formal comment or recommendation.

# Detailed Report

## Review of Accounting Arrangements & Bank Reconciliations

Our objective here is to ensure that the accounting records are being maintained accurately and currently and that no anomalous entries appear in cashbooks or financial ledgers. To that end: -

- We have again verified that an appropriate cost centre and nominal ledger structure remains in place;
- We have checked and agreed the opening Trial Balance in the Sage software for 2015-16 to the closing Financial Statements for 2014-15 to ensure that all the detailed balances have been properly rolled forward with no matters arising to warrant formal comment or recommendation;
- We have checked and agreed two sample months' receipts and payments transactions (April and September 2015) from the Current account cashbook to relevant bank statements;
- We have checked and agreed all receipts and payments transactions for the six months April to September 2015 (due to the relatively low volumes) from the Interest Bearing Deposit account cashbook to relevant bank statements; and
- Finally in this area we have checked and agreed the software based bank reconciliations as at 30<sup>th</sup> April and 30<sup>th</sup> September 2015 to ensure that there are no long-standing, uncleared items or other another anomalous entries arising: one very minor item is awaiting presentation since its issue in October 2014, despite several reminders by the RFO, and will be written back to the Income and Expenditure account, prior to the year-end, in due course.

### Conclusions

*We are pleased to report that no issues have been identified in this review area this year: we shall undertake further work as considered necessary at future visits, including verifying the accurate disclosure of year-end balances in the Council's more detailed Accounts and the year's Annual Return subject to external audit certification.*

## Review of Corporate Governance

Our objective in this area is to ensure that the Council has a robust regulatory framework in place; that Council and Committee meetings are conducted in accordance with the adopted Standing Orders and Financial Regulations and that, as far as we are able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation.

- We note that the Council continues to be serviced by "Key Area Groups" and have extended our examination of the minutes of the Full Council and these Groups for the financial year to end November 2015, with no further meetings of Full Council or Finance Key Area Group since that date at the time of this interim update visit;
- We noted in the previous year's interim update & final audit reports that the Council's extant corporate documentation such as Standing Orders, Financial Regulations,

Members' Code of Conduct are subject to on-going review and were considered fit for purpose (most latterly July 2015): subsequently, we have confirmed with the RFO that no further changes of note have been implemented and that he is aware of the forthcoming revisions to the NALC models for revised tender limits and extant contract publication legislation;

- We note that the General Power of Competence was formally re-adopted in May 2015, subsequent to the Council elections, in accord with extant legislation; and
- There would appear to be no significant issues affecting the Council's financial stability in existence, either in the shorter or longer term: also, we have identified no legal issues whereby the Council may be considering or have taken decisions that might result in ultra vires expenditure being incurred. We note the ongoing works to ensure the successful transfer of the ex-British Legion building into Council ownership and the development of a Community Centre facility, which will of course incur considerable costs but, at present, there are no substantial works in place and we note the more recent time consuming exercises of the Neighbourhood Plan and the sale by the District Council of the retail / residential development site in the Town but have do not consider any further comment to be appropriate from ourselves at present.

### *Conclusions*

*There are no matters arising in this area at present: we shall continue to monitor governance issues and review future minutes at subsequent visits.*

## **Review of Expenditure**

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and budgets;
- An official order has been raised for supply of goods and services on each occasion where one would be anticipated;
- Payments are supported by appropriate documentation, either in the form of an original trade invoice or other appropriate form of document confirming the payment as due and/or an acknowledgement of receipt, where no other form of invoice is available;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- The correct expense codes have been applied to invoices when processed; and
- VAT has been appropriately identified and coded to the control account for periodic recovery.

We have extended our sample of payments examined from April 2015 to 31<sup>st</sup> December 2015, including all those in individually excess of £3,000 together with a more random sample of every 40<sup>th</sup> cashbook transaction (irrespective of value) during the period. This sample comprises approximately 65 items in all, totalling more than £161,000 and representing 47% of all non-pay expenditure incurred during the year to date.

With regard to VAT, we note that the RFO continues to make timely, electronic return submissions: we have previously examined the detail of the March 2015 debtor and return and verified the disclosure in the Statement of Accounts and at this interim update visit we have noted the appropriate conclusion of the September 2015 submission as required.

### *Conclusions*

*We are again pleased to record that no issues have been identified among the sample of payments selected for examination, with all the above criteria met accordingly.*

## **Assessment and Management of Risk**

Our aim here is to ensure that the Council has put in place appropriate arrangements to identify all potential areas of risk of both a financial and health / safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage any risks identified in order to minimise the opportunity for their coming to fruition.

- We have previously noted that the Summary Risk Assessments are presented to Full Council annually and are pleased to note that those for 2015-16 were duly re-considered and agreed in May 2015: these are supported by various H&S assessments in relation to the maintenance team but we have not separately identified such at this interim stage; and
- We note that the Council's insurance cover continues to be provided by Zurich and have obtained a copy of the current year's policy schedule (to July 2016): both Public and Employer's Liability remain at £10 million whilst Fidelity Guarantee remains at £500,000 and there is adequate Business Interruption cover in place.

### *Conclusions*

*There are no matters arising in this area currently: we shall continue to monitor the Council's approach to risk management at future visits.*

## **Precept Determination and Budgetary Control**

We aim, in this area of our work, to ensure that the Council has appropriate procedures in place to determine its future financial requirements leading to the adoption of an approved budget and formal determination of the amount to be precepted on the District Council, that effective arrangements are in place to monitor budgetary performance throughout the financial year and that the Council has identified and retains appropriate reserve funds to meet future spending plans.

Other than noting from examination of current Council and Area Group minutes that periodic budget monitoring reports continue to be considered by members of the Finance Group (most recently to 31<sup>st</sup> October 2015), minutes of which are subsequently affirmed by full Council, no further work has been undertaken in this area. The first visit being too early for any meaningful variances to be identified or for any considerations of the Precept for 2016-17 and, subsequently, this update visit also being prior to the conclusions of the Budget and Precept deliberations which have been deferred to Finance and Council meetings scheduled for later in February 2016.

## *Conclusions*

*There are no matters arising in this area currently to warrant formal recommendation: we shall consider the final Precept deliberations and the closing levels of General and Earmarked Reserves as part of the final audit work in due course.*

## **Review of Income**

In considering the Council's income streams, we aim to ensure that robust systems are in place to ensure the identification of all income due to the Council from its various sources, to ensure that it is invoiced in a timely manner and that effective procedures are in place to pursue recovery of any outstanding monies due to the Council.

- We are pleased to note that members continue to review the Council's scales of fees and charges annually, those for 2015-16 having been affirmed at the Financed Group meeting in November 2014.
- As noted earlier in this report, we have checked and agreed two sample months' receipts transactions from cashbooks to relevant bank statement;
- We have, in accord with the previously agreed five-year rolling programme of work, tested the operations of the Help Point and its associated banking processes. These are considered to be sound, with segregation of duties between the day to day takings / till operations and the physical receipting and coding to Sage nominal ledgers. We are also mindful of the relative immaterial nature of the sums involved (approximately £3,000) and did not consider it necessary to expand the testing work into areas such as stock control, all expenditure arising on such "bought in" goods is written off directly to I&E as and when incurred; and
- Finally in this area at this update visit, we have visually examined all miscellaneous income (excluding Cemetery and About Town tested in 2014-15) nominal ledger transaction reports for the year to date (early January 2016) to ensure that there were no obvious errors or omissions where income could reasonably have been expected, such as periodic rentals: no such issues were identified.

## *Conclusions*

*There are no matters arising in this area to warrant formal comment or recommendation at present: we shall undertake further testing of incomes, including the update of our year-on-year analytical review as part of the final audit work.*

## **Petty Cash and Credit Card Usage**

We are required, as part of the Internal Audit Certification process in the Annual Return to assess and give a view on the effectiveness of control over any petty cash account in use by the Council.

- The Council operates a reasonably limited petty cash scheme in the Administration office, "topped up" as and when required. We have examined a sample of two months' transactions (August and September 2015) to ensure that each payment was

properly supported by an appropriate supplier invoice and / or till receipt and that any recoverable VAT was separately identified. No issues arise from this testing, sequentially numbered vouchers continue to be maintained, all payments were properly authorised and the RFO undertakes independent, periodic reconciliations from Sage control to the cash balances held; and

- We also note that a NatWest Commercial charge card is in place, with a monthly credit limit of £5,000 settled by automatic monthly direct debit. The card is retained in the possession of the RFO, who is currently the only authorised user, generally for emergency purposes or to take advantage of internet supplier deals. In a similar manner to the Review of Payments noted above we have examined a sample month's transactions (August 2015) in full to ensure that each was appropriate for the Council's activities and properly supported by suppliers invoices / till receipts with no issues arising.

### *Conclusions*

*There are no matters arising in this area to warrant formal comment or recommendation.*

## **Salaries and Wages**

In examining the Council's payroll function, we aim to confirm that extant legislation was being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenues and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme as further revised from 1<sup>st</sup> April 2015 in relation to the employee contribution percentage bandings. To meet that objective, we have: -

- Examined salary payments processed in September 2015 for each employee, the underlying detail for which continues to be produced "in house" utilising bespoke SAGE payroll software, agreeing detail to the Council's approved NALC pay scale;
- Checked and agreed Income tax and NI deductions from employees', together with the employer's NI contributions for September salaries to the current year's HMRC Tax & NIC tables following the changes announced in central government's budget;
- Checked and agreed the employees' superannuation contributions again for September 2015, ensuring compliance with the changes in the basis of contributions effective from 1<sup>st</sup> April 2015;
- Ensured that appropriate time sheets have been completed for all relevant staff and are certified as correct for payment, verifying the additional payments actually processed in September 2015;
- Ensured that all staff net salaries, together with the monthly payment to HMRC and the Pension Fund Administrators have been paid in accordance with the underlying payroll documentation for September 2015.

### *Conclusions*

*We are pleased to report that no issues have been identified in this area of review warranting formal comment or recommendation to date this year.*

## **Investments and Loans**

Our objectives here are to ensure that the Council is “investing” surplus funds, be they held temporarily or on a longer term basis, in appropriate banking and investment institutions, that an appropriate investment policy is in place, that the Council is obtaining the best rate of return on any such investments made and that interest earned is brought to account correctly and appropriately in the accounting records. We also aim to ensure that any loan repayments due to or payable by the Council are processed in accordance with the respective and relevant loan agreements.

The Council has previously placed a term deposit of £285,000 with Santander in December 2014 (including some Sidney West funds) and we have subsequently verified its maturity in December 2015 to bank statements. We have also verified to supporting bank advice notes that £250,000 has been re-invested for a further 12 month term to December 2016 at 1.00%.

The Council has one PWLB loan repayable bi-annually. We have, as part of our above expenditure review, verified payment of both half-yearly instalments (May and November 2015) to the PWLB third party repayment demand notices. Additionally, we noted in our final report for 2014-15 that a further loan application was approved by the DCLG for the purposes of the purchase of the ex-RBL building but with completion not expected until the summer of 2016, no drawdown has yet been made.

### ***Conclusions***

***No matters warranting formal comment or recommendation arise in this area at this stage: we shall verify the accurate disclosure of the periodic investments and residual loan account balances in the Statement of Accounts and Annual Return as part of the final audit work at a later date.***