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# **Burgess Hill Town Council**

*Internal Audit Report: 2012-13 (Final 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 provides a comprehensive record of the work undertaken during the course of our interim and final visits to the Council, the last of which took place on 12<sup>th</sup> & 13<sup>th</sup> June 2013. It also incorporates the work undertaken on the Sidney West Charity Accounts for 2011-12 leading to completion of the Independent Examiner's Certificate for submission to the Charity Commission.

## **Internal Audit Approach**

In carrying out our review of the Council's records for 2012-13 we have examined the 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, the Council continues to have effective systems in place to ensure that transactions are free from material misstatement. The Clerk and Responsible Finance Officer (RFO) and their 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.

No significant issues have been identified this year and we have duly signed off the Internal Audit Certificate at Section 4 of the year's Annual Return assigning positive assurances in each relevant area.

With regard to the Sidney West Charity, the financial ledger for 2011-12 was split from the Council's bank accounts. The segregation of accounting activities for the Charity required additional work in order that we may satisfy ourselves as to the soundness of controls over income and expenditure associated with the Charity's activities before "signing-off" the Charity Commission Independent Examiner's report. We have adopted a similar approach to the review of these records as to those of the Council, also examining a sample of payments and income streams accordingly. We duly signed off the Examiner's Certificate for 2011-12 with no issues arising and enabling officers to finalise the Charity's Accounts for approval by the Trustees prior to submission to the Charity Commissioners. We shall undertake a review of the Charity's 2012-13 records and again complete the necessary certificate as part of our first interim visit to the Council for 2013-14.

# 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: -

- Verified that the closing balances reported in the 2011-12 Statement of Accounts have been correctly rolled forward as opening balances for 2012-13;
- Ensured that the financial ledgers, utilising Sage software, remain in balance at the year end;
- Checked and agreed transactions in the Council's NatWest bank account cashbook to the relevant bank statements for the sample months of May to July 2012 and March 2013;
- Checked and agreed transactions in the Council's NatWest business reserve account cashbook to the relevant bank statements for the financial year;
- Checked and agreed bank transfers between the NatWest Current and Reserve account cashbooks (automatically generated by the bank daily on a "sweep" basis to ensure a level £10,000 is maintained in the current account) to the relevant bank statements, for the same four months as above;
- Checked detail on bank reconciliations for the current and business reserve accounts as at 31<sup>st</sup> July 2012 and 31<sup>st</sup> March 2013 to ensure that no long-standing uncleared cheques or other anomalous entries exist and that the Sage Trial Balance values for the same were accurate.

### *Conclusions*

*We reported after our visit previous to our interim visit that time did not permit us to complete the bank reconciliation at either our interim or final visits in 2011-12, because the period between reconciliations was longer than expected.*

*At this year's interim visit, we undertook a more comprehensive check of transactions including those from 1<sup>st</sup> May to 31<sup>st</sup> July 2012 and were, consequently, able to confirm the validity of the period-end reconciliation with no issues of concern identified in this area. However, in checking the schedule of unpresented cheques, we noted one long-standing cheque for £3.15, which the RFO has written back accordingly prior to the financial year-end.*

## 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” rather than committees and have examined the minutes of the Full Council and these Groups for the financial year. We are again pleased to record that no issues affecting the Council’s financial stability appear to exist at present: also, that 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 are pleased to also note that the Council continues to develop, review and formally adopt a series of protocols and procedural documentation to be observed by both members and officers and consider these to represent best practice; and
- We also note that the Standing Orders and Financial Regulations were reviewed and re-adopted by the Audit Committee in November 2012.

### *Conclusions*

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

In order to check compliance with the above objectives, we have examined a sample of payments including those in excess of £1,500 together with every 30<sup>th</sup> non-pay related payment to date. Our test sample, which includes 9 Direct Debits, 89 cheque payments and 1 CHAPS payment totals £420,900 and equates to 64% of non-pay expenditure incurred during the year.

### *Conclusions*

*We are pleased to report that no issues have been identified among the sample of payments selected for examination, with all criteria met. We are also pleased to record that VAT returns continue to be prepared in a timely and accurate manner and are, as now required by current legislation, submitted to HMRC electronically.*

## 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 are pleased to note that the RFO ensures that risk assessments are reviewed and updated regularly with the latest edition of documentation approved at the full Council meeting on 7<sup>th</sup> May 2013; and
- We have reviewed the current year's Zurich Municipal insurance policy and schedule and consider that it continues to meet the general needs of the Council.

### *Conclusions*

*There are no matters arising in this area.*

## 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.

The Town precept of £736,827, including a Council Tax Subsidy of £42,767, was approved at the Town Council meeting on 28<sup>th</sup> January 2013. We are pleased to note that all Key Area group members continue to receive comprehensive budget monitoring reports from the RFO routinely throughout the year, generally quarterly, and consider this to be more than acceptable, given the level of other controls and processes in place to manage income and expenditure.

Finally, we understand that Earmarked Reserves were reviewed and agreed by the Finance Key Area Group in December 2012 with General Reserve movement adjustments relating to the annual Surplus/ Deficit and in respect of land purchased at Junction Road for Allotments.

### *Conclusions*

*No significant matters arise in this area at the present time. We shall undertake more detailed work in this respect at future visits.*

## 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 undertook testing in this area at our interim visit, examining a sample of income received for Lettings at 38 Church Road, the management fee for the Sidney West Centre Charity, Council Chamber Lettings and Income related to Burials. We previously noted that members review the scale of fees and charges to be levied annually, approving 2012-13 rates at the Finance Key Area Group November 2011 meeting. This Group also approved rates for 2013-14 in December 2012;

We have also examined the Nominal Activity report, from which we selected an invoice from each Income Cost Centre and traced detail from booking to banking, also agreeing detail to relevant bank statements via paying in slips and credit card records.

Finally, in this area, we have reviewed the aged debtor schedule noting only one account dating back to 2011 relating to an annual contract, split into 4 quarterly payments, the last of which was payable in December 2012.

### *Conclusions*

*We are pleased to record that no significant issues have been identified in respect of the identification and recovery of income with cash and cheque income banked routinely each week.*

## **Petty Cash Account**

We have examined the operation of the Council's petty cash account with a view to ensuring probity of transactions and accuracy of recording of detail of expenditure incurred in order that we may assign an appropriate comment in the Annual Return's IA Certificate for the financial year. We have: -

- Examined a sample of petty cash account payments agreeing detail to supporting vouchers, invoices and till receipts for August 2012;
- Ensured that VAT has been identified, wherever appropriate, and coded to the VAT control account for subsequent recovery; and
- We have also confirmed that the individual cheques drawn on the current bank account reimbursing the petty cash float have been processed appropriately.

### *Conclusions*

*No issues have arisen from testing completed in this area.*

## **Salaries and Wages**

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenue 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 verifying that the appropriate employee banding percentages, as most recently amended from 1<sup>st</sup> April 2012, have been applied.

We have examined the June 2012 payroll, noting that this continues to be prepared monthly by the RFO using Sage software examining the following specific areas:

- We have checked detail of the monthly salaries paid to each member of staff to the approved Spinal Column rates;
- Where changes in basic working hours and / or other permanent amendments to staff terms and conditions have arisen, we have verified detail to the relevant supporting letters and / or minutes confirming the changes;
- We have verified that the appropriate tax code and NI deduction tables have been applied by reference to the HMRC Basic PAYE Tools software;
- Verified the LGPS pension percentage deductions applied to staff contributing to the pension fund to ensure compliance with the revised contribution banding arrangements revised with effect from 1<sup>st</sup> April 2012;
- Ensured that the net pay amounts transferred to individuals' accounts were in line with the Sage pay slips produced for the month; and
- Ensured that any additions to pay were appropriately supported by certified time sheets or travel expense claims.

### ***Conclusions***

*We are pleased to report that no issues have been identified in this area of review.*

## **Asset Registers**

The Accounts and Audit Regulations 1996 required all councils to develop and maintain a register of assets identifying detail of all land, buildings, vehicles, furniture and equipment owned by the Council.

We would draw attention in last year's report to the change in accounting practice requiring asset values to be disclosed in the Annual Return at purchase cost or, where that value is unknown, the best approximation to that. Subsequent year's Returns should, consequently, identify that same value and not be subject to depreciation or inflationary increases as included in the annual insurance schedule. The only change in values that should arise annually now is in relation to any new acquisitions or deletion of assets disposed of or taken out of service.

### ***Conclusions***

*We are pleased to note compliance with the current reporting requirements.*

## **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 one PWLB loan repayable bi-annually. We have verified the two half-yearly repayment instalments by reference to appropriate prime documentation.

***Conclusions***

*No matters warranting formal comment or recommendation arise in this area.*

## **Statement of Account and Annual Return**

The 1996 Accounts and Audit Regulations required all Councils to prepare annually a detailed Statement of Accounts, together with supporting statements identifying other aspects of the Council's financial affairs.

We have reviewed and agreed the content of the Council's Accounts by reference to the year-end Sage Trial Balance and RFO's working papers, also ensuring the accurate transfer of resultant data to the Annual Return.

***Conclusions***

*On the basis of the satisfactory completion of our review programme this year, we have duly signed off the Internal Audit certificate at Section 4 of the Annual Return, assigning positive assurances in each relevant area.*