



## **Burgess Hill Town Council**

*Internal Audit Report: 2017-18 (Final)*

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*For and on behalf of  
Auditing Solutions Ltd*

## **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 final visit to the Council for 2017-18, which took place on 12<sup>th</sup> June 2018 and supplements the interim work undertaken on 4<sup>th</sup> October 2017 and 6<sup>th</sup> February 2018.

## **Internal Audit Approach**

In completing our review of the Council's processes and records for the year 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 all the areas examined, 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 warrant formal comment or recommendation and we have duly signed off the Internal Audit Report at Page 3 of the revised Annual Governance and Accountability Return (AGAR in short), assigning positive assurances in all relevant categories.

# 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. The Council remains a full Sage software user, with Current and Interest Bearing Deposit accounts operated at NatWest Bank with separate cashbooks in the nominal ledger records. There is currently one supplementary Term deposit holding (at Santander Bank), which is being “rolled over” on a monthly basis until such time as members determine an appropriate longer-term investment. Consequently: -

- We have again verified that an appropriate nominal ledger structure remains in place;
- We have checked and agreed the opening Trial Balance in the Sage software for 2017-18 to the closing Financial Statements for 2016-17 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 three sample months’ receipts and payments transactions (August & December 2017 and March 2018) from both the Current account and Special Interest Bearing account cashbooks to relevant bank statements, including the daily “sweep” transfers; and
- Finally in this area we have checked and agreed the software based bank reconciliations as at 31<sup>st</sup> August 2017, 5<sup>th</sup> January 2018 and 31<sup>st</sup> March 2018 to ensure that there are no long-standing, uncleared items or other another anomalous entries arising.

### *Conclusions*

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

## 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’s extant corporate documentation such as Standing Orders, Financial Regulations & Members’ Code of Conduct are subject to ongoing review and were most recently considered fit for purpose in June and July 2016, having been appropriately revised in accord with contract limits and publication regulations; and
- We have extended our examination of the minutes of Full Council and its Key Area Groups’ meetings (with the exception of Planning) for the year to end March 2018 to ensure that, as far as we can practically be expected to be aware no issues exist affecting the Council’s financial stability in the short, medium or long-term exist.

- We noted previously the potential development of, and public consultation for, a new “Performance Venue” in the town and have identified from the current review of minutes that the public did not vote in favour at this time and the project has been “put on the back burner” for the foreseeable future whilst alternate, smaller projects are investigated; and
- We are pleased to note that the Precept for 2018-19 was formally adopted at, and properly recorded in the Agenda and minutes for, the Full Council meeting in January 2018.

### *Conclusions*

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

## **Review of Expenditure**

Our objective 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 for the remainder of the year to 31<sup>st</sup> March 2018, including all those individually in excess of £3,000 together with a more random sample of every 30<sup>th</sup> cashbook transaction (irrespective of value) during the period. Our test sample comprised approximately 90 items in all, totalling just over £587,500 and representing 72% of all non-pay expenditure incurred during the year.

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 2017 debtor and return and verified the disclosure in the Statement of Accounts and at the previous interim update visit we have noted the appropriate conclusion of the December 2017 submission in accord with the underlying Sage control account balances as required. Subsequently, at this final visit, we note that the March 2018 submission was completed in a timely manner and have verified the recovery claim therein to the year-end debtor disclosed in the Accounts.

Finally in this area, we have updated our year-on-year analytical review of expenditure incurred across the range of Council activities with no significant, un-identified variances warranting further explanation by officers.

## *Conclusions*

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

## **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 2017-18 were duly re-considered and agreed in May 2017 and those for 2018-19 in May 2018: these are supported by various H&S assessments in relation to the Cemetery and the Town's maintenance team but we have not separately identified currently; 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 2018): 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 to warrant formal comment or recommendation.*

## **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. Consequently:

- We note from examination of current Council and Key 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> December 2017), minutes of which are subsequently affirmed by Full Council, and there are no significant, un-explained variances arising therein;
- We noted previously from Agenda papers for meetings held in late January 2018 that members had been provided with, and duly considered in some detail, the proposed budgets and Precept for 2018-19 and also for 2019-20 in the light of the potential Venue development. Subsequently, we have confirmed from current minute reviews the previous verbal feedback of the RFO that the Precept was formally adopted at £915,962 at the Full Council meeting in January 2018; and
- We note that Total Reserves as at 31<sup>st</sup> March 2018 stood at £741,000, which comprised of specific Earmarked items totalling £518,000 and the residual General Fund of £223,000.

- The latter approximates to two to three months expenditure at current levels (which was higher than average due to the RBL building capital costs) and is considered to be more than acceptable to meet the needs of the Council.

### *Conclusions*

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

## **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 2017-18 having been affirmed at the Finance Group meeting in November 2015;
- As noted earlier in this report, we have checked and agreed three sample months' receipts transactions from cashbooks to relevant bank statement;
- All About Town advertising in the December 2017 edition has been checked to ensure that each trader was charged the correct level of fees in accord with the current published rates depending on size taken and whether colour or black & white;
- All sundry incomes of any substantial value have been verified from Sales Ledger day books to copy invoices to ensure that there are no errors or omissions where receipts could ordinarily have been expected, such as monthly lettings at Worlds End; and
- We have tested the incomes arising from Cemetery activities by reference to a sample period (five months from August to December 2017 inclusive) of burial register entries to ensure that each was properly supported by Funeral Director's application forms, death / cremation certificates, fees were properly levied in accord with the current published scales and that receipts had been banked in a timely manner.

Finally in this area, we have updated our year-on-year analytical review of income arising across the range of Council activities with no significant, un-identified variances warranting further explanation by officers.

### *Conclusions*

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

## Petty Cash and Credit Card Usage

We are required, as part of the Internal Audit process for the purposes of the AGAR 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 by either cheque encashments or Help Point receipts. We have examined a sample month’s transactions (August 2017) 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 undertaking independent, periodic reconciliations from Sage control account 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 Petty Cash noted above, we have examined a sample month’s transactions (August 2017) to ensure that each was appropriate for the Council’s activities and properly supported by suppliers invoices / till receipts.

### *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 2017 in relation to the employee contribution percentage bandings. We have undertaken an examination of the payroll procedures in place and the physical payments made to staff in 2017-18 by reference to the August 2017 documentation, the underlying detail for which continues to be produced “in house” by the RFO utilising bespoke SAGE payroll software. Consequently:

- Gross pay rates have been checked to ensure that the NJC pay award for 2017-18 had been duly implemented;
- PAYE Tax Codes and National Insurance Rates have been checked to ensure that appropriate allowances are being applied for the year following the annual budgetary increases in personal allowances with effect from April 2017;
- Local Government Pension Scheme deduction rates have been checked to ensure they are in accord with the revisions to the bases of employee contributions, most latterly with effect from 1<sup>st</sup> April 2017 (albeit relatively minor changes to the salary banding widths);

- Variable hours and expenses have been verified to individuals' timesheets and claim forms;
- We have checked and agreed the net pay computations on pay slips to the payroll summaries and resultant bank statement and cashbook transactions; and
- We note that electronic monthly returns are made in a timely and accurate manner in accord with current HMRC legislation (aka Real Time Initiative).

### ***Conclusions***

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

## **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 have previously drawn attention 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 value. Subsequent years' Returns should, consequently, identify that same value and not be subject to depreciation or inflationary increases as included in the annual insurance schedule and we are pleased to note compliance with the current reporting requirements, a comprehensive register continues to be maintained with only limited movement in the year for occasional acquisitions and disposals. Consequently, we have checked and agreed the values recorded at Box 9, Page 5 of the revised AGAR to the supporting registers at cost.

### ***Conclusions***

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

## **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.

- We noted previously in our interim update report for 2017-18 that the twelve month, fixed term Bond held with Santander Bank had matured in the preceeding financial year and we had subsequently verified the monthly re-investments and maturities, including the interest thereon which was being similarly "rolled over", to the end of December 2017. At this final visit, we note that this remains the case and have checked the balance disclosed in the Accounts to the underlying Sage control account as at 31<sup>st</sup> March 2018; and

- The Council currently has two PWLB liabilities and we have checked and agreed the instalment repayments throughout 2017-18 (in June, September & November 2017 and February 2018) to their third party advice notes as part of the higher value supplier testing noted earlier in this resume. Also, we have verified the closing capital liability balances disclosed at Box 10, Page of the AGAR to their independent statement as at 31<sup>st</sup> March 2018.

### *Conclusions*

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

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

The 1996 Accounts and Audit Regulations (as amended from time to time) require all Councils to prepare annually a detailed Statement of Accounts, together with supporting statements identifying other aspects of the Council's financial affairs.

We are again pleased to note the comprehensive file of working papers prepared by the RFO for this purpose and have checked and agreed the content of the Council's Accounts by reference to the underlying year-end Sage Trial Balance to such workings, also ensuring the accurate transfer of resultant data to Page 5 of the revised AGAR.

### *Conclusions*

*There are no matters arising in this area to warrant formal comment or recommendation, and we have, as noted in the opening preamble to this report, duly signed off the Internal Audit Report within the Return.*