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**Burgess Hill Town Council**

*Internal Audit Report: 2014-15 (First interim)*

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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 first visit to the Council for 2014-15, which took place over two days on 15<sup>th</sup> & 16<sup>th</sup> October 2014.

## **Internal Audit Approach**

In commencing our review of the Council's processes and records for 2014-15 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 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.

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: -

- Ensured that the ledgers, utilising the Sage software, remain in balance at the end of the financial year;
- Verified that the closing balances reported in the 2013-14 Statement of Accounts have been correctly rolled forward as opening balances for 2014-15;
- Checked and agreed transactions in the Council's NatWest bank account cashbook to the relevant bank statements for September 2014;
- Checked and agreed transactions in the Council's NatWest business reserve account cashbook to the relevant bank statements for the full financial year to 30<sup>th</sup> September 2014;
- 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, also for September 2014; and
- Checked detail on the bank reconciliation for the current and business reserve accounts as at 3<sup>rd</sup> October 2014 to ensure that no long-standing uncleared cheques or other anomalous entries exist and that detail agreed the Sage Trial Balance at that date.

### *Conclusions*

***We are pleased to report that no issues have been identified in this review area this year: we shall undertake further work 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 commenced our examination of the minutes of the Full Council and these Groups for the financial year to date. 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; and

- 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.

### **Conclusions**

*We note that the Council has considered its position in relation to the repeal of Section 150(5) of the 1972 LG Act and considered whether or not to use electronic banking facilities across the board wherever possible, a trial being undertaken currently.*

*There are no matters arising in this area at present: we shall continue to monitor governance issues and review future minutes at subsequent visits, also assessing the appropriateness of controls put in place in relation to any changes arising from the trial use of electronic banking.*

## **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 £2,500 together with every 40<sup>th</sup> non-pay related payment in the year. Our test sample includes 34 payments totalling £184,200 and equates to 49% of non-pay expenditure incurred during the year to date.

### **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. We shall extend our test sample at future visits to cover the remainder of the year ensuring continued compliance with the above criteria, also examining the year's VAT returns and any tendering procedures arising during the year, noting the existence of one potential tender for the year to date relating to the employment of Hobart Paving.*

## 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 6<sup>th</sup> May 2014; 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 currently: we shall continue to monitor the Council's approach to risk management at future visits reporting any issues that might arise accordingly.*

## 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.

### Conclusions

*No issues arise in this area of our review process at present, which was too early in the financial year for any conclusions to deliberations in relation to the precept for 2015-16, although we are pleased to note from our review of minutes that budget reports are presented to members regularly during the year.*

## Petty Cash Account

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. We have only undertaken limited work in this area to date, checking and confirming the accuracy of the physical cash holding at the time of this first interim visit.

### Conclusions

*No issues have arisen from testing completed in this area to date: we shall examine a selection of petty cash transactions at our next visit to ensure that appropriate control procedures are in place.*

## 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 significantly further revised from 1<sup>st</sup> April 2014 in relation to the inclusion of overtime in calculating employee contributions with the percentage bandings also now base on the actual annual salary payable rather than WTE pay rates. To meet that objective, we have: -

- Examined salary payments processed in September 2014 for each employee 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 2014, ensuring compliance with the changes in the basis of contributions effective from 1<sup>st</sup> April 2014;
- 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 2014;
- 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 2014.

### *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 placed a term deposit of £250,000 with Santander on 12<sup>th</sup> December 2013, maturing on 12<sup>th</sup> December 2014 at 0.80%.

The Council has one PWLB loan repayable bi-annually. We have, as part of our above expenditure review, verified payment the first half-yearly instalment to the PWLB third party repayment demand.

## *Conclusions*

*No matters warranting formal comment or recommendation arise in this area at this stage of our review process: we shall undertake further work in this area at future visits, including checking detail of any further term deposits and verifying their accurate disclosure in the year-end Accounts and Annual Return, also verifying the accurate disclosure of the residual value of the outstanding loan liability.*