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**Burgess Hill Town Council**

*Internal Audit Report: 2014-15 (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 15<sup>th</sup> January 2015 and supplements the initial interim work which took place over two days on 15<sup>th</sup> & 16<sup>th</sup> October 2014. 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 2015.

## **Internal Audit Approach**

In continuing 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 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: -

- Ensured that the ledgers, utilising the Sage software, remain in balance at the end of the most recent period (December 2014);
- 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 Current bank account cashbook to the relevant bank statements for September 2014;
- Checked and agreed transactions in the Council's NatWest Business Reserve bank 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 with 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 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 December 2014. We note that the Clerk's retirement arrangements were finally agreed and that the recruitment process for his replacement has recently been completed, although the new appointee is not yet in post;
- 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 that borrowing approval for a PWLB loan has been obtained but not yet drawn;

- 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 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.

### **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, 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.

We have extended our sample of payments examined from April 2014 to early January 2015, including all those in excess of £2,500 together with a more random sample of every 40<sup>th</sup> cashbook transaction during the period. This sample comprises approximately 75 items in all, totalling more than £290,000 and representing 54% 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 2014 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 2014 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 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 (to July 2015) Zurich Municipal insurance policy and schedule and consider that it continues to meet the general needs of the Council with both Employer's and Public Liability standing at £10 million, Fidelity Guarantee cover of £500,000 and Business Interruption of £70,000.

### *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.

The first interim visit was too early in the financial year for any conclusions in relation to the Precept for 2015-16, although we are pleased to note from our review of minutes and examination of a sample period (end October 2014) that budget reports are presented to members regularly during the year.

Subsequently, at this update visit, we note that draft budgets and precept deliberations had been considered by the Finance Key Group in November with formal conclusions deferred to January 2015, minutes of which were not yet available.

### *Conclusions*

*There are no matters arising in this area currently: 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 2014-15 having been affirmed at the Financed Group meeting in November 2013.

We also note that the tenancy period for the allotments has been extended to one of eighteen months, as a "one-off" to more readily tie in with the ground works and growing seasons and the administration staff will ensure appropriate prepayment journal entries are raised for the purposes of the Annual Accounts

We have previously tested a sample month's receipt transactions, as noted earlier in this report, and at this update visit we have, by reference to the Sales Ledger Day Book invoices and a copy of the magazine verified that the About Town advertisers had been charged in accord with their requirements.

### *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. We only undertook limited work in this area at the first interim visit, checking and confirming the accuracy of the physical cash holding at the date of that visit.

Subsequently, we have examined a sample of two months' transactions (November and December 2014) to ensure that each payment was properly supported by an appropriate supplier invoice and / or till receipt and that any relevant VAT was duly separated and recorded for periodic recovery: no issues were arising, sequentially numbered vouchers continue to be maintained and all payments were properly authorised.

The RFO retains a NatWest One charge card for occasional purchases, such as on-line electronic goods / software to benefit from best available prices or where suppliers no longer accept cheque settlements. A credit limit of £5,000 is in place, with a monthly direct debit settlement of the balance in full: we have checked and agreed one month's transactions (December 2014), of which there were just two, to ensure that each was supported by appropriate invoices and that the goods / services were fit for Town Council activities.

## *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 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, which we have subsequently verified its maturity in December 2014 to bank statements, noting that this has been re-invested, together with an additional £35,000, 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 to the PWLB third party repayment demand notices.

We also note from our examination of recent minutes that the Council has applied for, and been approved for, a further PWLB loan for the proposed purchase of the ex-RBL building but with completion of the process not due until 2016, we are advised by the RFO that no draw-down of the facility is likely in the near future.

### *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.*