
Burgess Hill Town Council

Internal Audit Report: 2016-17 (Interim Update)

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***For and on behalf of
Auditing Solutions Ltd***

Background and Scope

The Accounts and Audit Arrangements introduced from 1st 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 15th February 2017 and supplements the initial interim work which took place on 6th October 2016. 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 2017.

Internal Audit Approach

In continuing our review of the Council's processes and records for 2016-17 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 2016-17 to the closing Financial Statements for 2015-16 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 (August and December 2016) from both the Current account and Special Interest Bearing account cashbooks to relevant bank statements; and
- Finally in this area we have checked and agreed the software based bank reconciliations as at 2nd September & 31st December 2016 on the Current account and as at 16th September 2016 & 3rd February 2017 on the Special Interest Bearing account to ensure that there are no long-standing, uncleared items or other another anomalous entries arising: no such issues arise.

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 our final visit, 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 2016;
- 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
- 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.

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 to include those to early February 2017, including all those individually in excess of £3,000 together with a more random sample of every 30th cashbook transaction (irrespective of value) during the period. Our test sample comprised approximately 70 payments totalling more than £435,500 and represented 67% 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 2016 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 December 2016 submission in accord with the underlying Sage control account balances 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 2016-17 were duly re-considered and agreed in May 2016: these are supported by various H&S assessments in relation to the Cemetery and Parish 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 2017): 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. 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 31st December 2016), minutes of which are subsequently affirmed by Full Council, and there are no significant, un-explained variances arising therein; and
- We note from recent Agenda papers for meetings held in late January 2017 that members had been provided with, and duly considered in some detail, the proposed budgets and Precept for 2017-18. Whilst this update visit was too early for minutes of these meetings to have been approved, we are verbally advised by the RFO that Full Council ratified the Finance recommendations and the Precept was formally adopted at £820,756.

Conclusions

There are no matters arising in this area currently to warrant formal recommendation: we shall consider 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 2016-17 having been affirmed at the Finance Group meeting in November 2015;
- As noted earlier in this report, we have checked and agreed two sample months' receipts transactions from cashbooks to relevant bank statement;
- We have tested the incomes arising from Cemetery activities by reference to a sample period (four months from September to December 2016 inclusive) of burial register entries to ensure that each was properly supported by Funeral Director 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: there were no matters arising.

Conclusions

There are no matters arising in this area to warrant formal comment or recommendation at present: we shall undertake further testing of income, including the update of our year-on-year analysis of income 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 by either cheque encashments or Help Point receipts. We have examined a sample of two months' transactions (April and August 2016) 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, with all payments properly authorised and the RFO undertaking independent, periodic reconciliations from Sage control account to the cash balances held.

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 2016) 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 1st April 2015 in relation to the employee contribution percentage bandings. We have commenced our examination of the payroll procedures in place and the physical payments made to staff to date in 2016-17 by reference to the August 2016 documentation, the underlying detail for which continues to be produced "in house" by the RFO utilising bespoke SAGE payroll software. Consequently:

- PAYE Tax Codes 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 2016;
- National Insurance Table deduction rates have been checked to ensure that computations would be made accurately, particularly ensuring appropriate update to reflect the government's withdrawal of reduced rate contributions for members of employers' occupational schemes;
- Local Government Pension Scheme deduction rates have been checked to ensure they are in accord with the revisions to the bases of employee contributions effective from 1st April 2015;
- 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

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.

- We noted in our final report for 2015-16 that the Council had “invested” £285,000 in a twelve month, fixed rate Term deposit with Santander Bank in December 2015. There had been no movement in this balance at the time of the first interim visit for 2016-17 but we have subsequently verified its maturity and re-investment in more short-term, monthly deposits in December 2016 and January 2017 with any interest arising thereon being similarly “rolled over”;
- The Council previously had one existing PWLB liability and we have checked and agreed the two bi-annual instalment repayments for 2016-17 to third party advice notes as part of the higher value supplier testing noted earlier in this resume; and
- We note that the Council has finally drawn-down the previously approved additional lending for the purchase of the ex-RBL building in August 2016 prior to the expiry of the extension of the DCLG authority: no repayments had yet to be made for testing at the first interim stage. Subsequently, at this update visit, we note the first instalment repayment was due on 16th February 2017 and shall verify this from cashbooks to advice notes at the final visit.

Conclusions

No matters warranting formal comment or recommendation arise in this area currently: 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 our final audit review.