



## **Burgess Hill Town Council**

*Internal Audit Report: 2021-22 (Final update)*

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## **Background and Scope**

Statute requires all town and parish councils to arrange for an independent Internal Audit (IA) examination of their accounting records and systems of internal control and for the conclusions to be reported each year in the Annual Governance and Accountability Return (AGAR). We thank the Corporate Finance Manager (CFM), and his colleagues for their assistance in providing a mix of hard copy and electronic documentation to facilitate completion of the IA review for 2021-22.

In undertaking 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 applying appropriate sample testing in each area to provide assurance that the Council's systems and controls continue to operate effectively, securely, and in line with best practice and the Council's approved procedures. We have also had regard to the materiality of those transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts and AGAR.

## **Internal Audit Approach**

In conducting our review for 2021-22, we have again had regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts / AGAR 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 this year, the Council continues to operate effective controls that help ensure that transactions are free from material misstatement: we are again pleased to report that no significant issues or concerns have been identified from the work completed with only one or two areas identified at our first review visit in the autumn of 2021 where we considered a degree of action was required to ensure compliance with best practice and extant legislation. We are also pleased to acknowledge the actions taken by officers to address those matters and reflect the current position with regard to each recommendation raised in the body of the report and appended Action Plan.

We have duly signed off the IA Certificate in the year's AGAR, assigning positive assurances in each relevant area.

We take this opportunity to remind officers and the Council of the Accounts and Audit Regulation 2015 requirements with regard to publication of the AGAR and other related documents on the Council's website: the AGAR disclosure requirements are, as I am sure you are aware, summarised in the preface to the AGAR.

# 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 uses Sage software to maintain the financial records, with Current and Interest-Bearing Deposit accounts operated at NatWest Bank in separate “cashbooks” in the nominal ledger records. A supplementary Term Deposit Account is also in place with Santander Bank, which is “rolled over” monthly until such time as members determine to place surplus funds in an appropriate longer-term investment. Consequently, we have: -

- Ensured that an appropriate nominal ledger structure remains in place;
- Checked and agreed the opening Trial Balance in the Sage software for 2021-22 to the closing Financial Statements for 2020-21 to ensure that all the detailed balances have been brought forward accurately;
- Checked and agreed four months’ receipts and payments transactions (April & September 2021, plus January and March 2022) in the Current account “cashbooks” to supporting bank statements, including the daily “sweep” transfers: those for the Interest-Bearing account have been similarly checked excepting March 2022;
- Checked and agreed the year’s transactions on the Santander account to the supporting “investment / deposit” statements;
- Checked and agreed the software-based bank reconciliations as of 2<sup>nd</sup> November 2021 and 3<sup>rd</sup> February 2022 on both the Current and Interest-Bearing accounts and 31<sup>st</sup> March 2022 on the Current account to ensure that there are no long-standing, uncleared items or other anomalous entries in existence; and
- Ensured the accurate disclosure of the combined year-end cash and bank balances in the year’s AGAR at Section 2, Box 8.

### *Conclusions*

*We are pleased to record that no issues arise in this area currently warranting 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 (SOs) and Financial Regulations (FRs) and that, as far as we are reasonably 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 combined corporate documentation (SOs & FRs) is subject to periodic review having previously been re-adopted in June 2021. Examination of their content at our first review for the year indicated that they required a degree of updating to incorporate appropriate reference to the Public Contract Regulations 2015, rather than the

2006 document referred to in the SOs at Para 26.2.b. We are pleased to note that, following our first review recommendation, the combined document has been subjected to further appropriate amendment being adopted in December 2021, together with an appropriate Investment Strategy embodied therein.

We have extended our examination of the minutes of the Full Council and its Key Area Group meetings (with the exception of Planning) for the year and to date in 2022-23 as posted on the Council's website to ensure that, as far as we can reasonably ensure, no issues exist affecting the Council's financial stability in the short, medium or long-term.

We have also examined the pack of documentation due to be presented to the Finance Key Group at the meeting due to be held on 23<sup>rd</sup> June, examining the year-end financial detail and level of reserves to be rolled forward to 2022-23 included therein with no issues arising warranting formal comment or recommendation.

We have previously noted the planned development of a new cultural centre (The Beehive), noting that progress is now being made with approval to demolish the former buildings. We also noted in our first report for the year that the Council has received approval from the UK Debt Agency for a £4.8 million loan to assist with the development of the former British Legion site.

Finally in this area, we note that the external auditor raised various issues in their certificate on the 2020-21 AGAR relating to timing issues on adoption of the AGAR and publication of the Notice of Public Rights. Careful consideration will need to be given to these matters when completing the 2021-22 Governance Statement ensuring that it is completed appropriately. We will also have to give a negative assurance in the 2021-22 IA Certificate at Box N.

### ***Conclusions and recommendations***

***Whilst there are no significant matters arising in this area, we previously urged that the Council should undertake a comprehensive review of its SOs and FRs ensuring that they reflect the requirements of the 2015 amended Public Contracts Regulations. Also, as above, consideration should be given to the 2021-22 AGAR Governance Statement assertions in the light of the 2020-21 External Audit report on that year's AGAR.***

- R1. When next reviewing the Council's formal governance documentation (i.e., Standing Orders and Financial Regulations) care should be taken to ensure they record and reflect the requirements of the updated (2015) edition of the Public Contract Regulations. Appropriate action has been taken with the revised document adopted at the recent Council meeting.***
- R2. When completing the 2021-22 Governance Statement at Section 1 of the year's AGAR, care will need to be taken to ensure that appropriate assertions are given in the light of the 2020-21 external audit report. Noted and will be actioned accordingly.***

## **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 discussed the controls in place over the approval and release of funds with officers and consider them appropriate for the Council's ongoing requirements. We have extended our examination of a sample of payments processed during the year to mid-March 2022: the sample now includes all payments individually in excess of £3,000 together with a more random selection of every 40<sup>th</sup> cashbook transaction (irrespective of value) and includes 51 individual payments including two annual NNDR payments and totalling £216,100 equating to marginally in excess of 50% by value of the year's total trader payments to date. We are pleased to report that all payments were fully supported and met the above criteria.

With regard to VAT, we note that the CFM continues to make timely, electronic return submissions and have examined those returns for the June, September & December 2021 quarter-ends with no issues arising

### ***Conclusions***

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

## **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 similar arrangements exist to monitor and manage any risks identified in order to minimise the opportunity for their coming to fruition.

We note that the Summary Risk Assessment document was reviewed, presented to and adopted by full Council at the May 2021 meeting, have examined the content of the document and consider that it remains appropriate for the Council's present requirements. We now also note that it has been the subject of further review and been re-adopted at the May 2022 full Council meeting.

We note that the Council's insurance cover continues to be provided by Zurich and have reviewed the current year's policy schedule: with Public and Employer's Liability cover in place at £15 million and £10 million respectively, together with Fidelity Guarantee cover in

place at £500,000, we consider the level of insurance cover appropriate for the Council's present requirements.

### **Conclusions**

*We are pleased to record that no issues have been identified in this area warranting formal comment or recommendation.*

## **Precept Determination and Budgetary Control**

We aim, in this review area, 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.

We note that the Council, after due deliberation, resolved to adopt the 2022-23 budget and precept at its meeting in January 2022, setting the latter at £933,618.

We are also pleased to note from our examination of minutes that periodic budget monitoring reports and accompanying variance analysis commentaries continue to be considered by members of the Finance KAG, minutes of which are subsequently affirmed by Full Council: we have examined the latest such report with no significant, unexplained variances identified.

### **Conclusions**

*No issues arise in this area currently and as indicated in the earlier section of this report, we have examined the financial outturn data and movements in reserves at the financial year-end as incorporated in the agenda papers for the Finance Key Area Group meeting due to be held on 23<sup>rd</sup> June 2022, with no issues or concerns identified warranting further 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 2021-22 having been affirmed at the Finance Key Area Group meeting in the previous municipal year in accordance with the Council's FRs, also noting the review and agreement of those for 2022-23 at a recent Finance KAG meeting.

We examined, at our first review for the year, a sample of 6 burials occurring between April and October 2021 by reference to the official records now maintained electronically ensuring that the appropriate legally required documentation (i.e., burial / cremation certificates), together with undertaker's applications were retained and fees charged and paid in

accordance with the approved scale of fees and charges. We are pleased to record that no issues have arisen in this respect.

We also, at that first visit, examined income arising from annual plot rentals at the six sites managed by the Council, with full and appropriate detail being recorded on a spreadsheet record: we were also pleased to note that the spreadsheets identified the settlement dates and manner in which payment was made to the Council. We were also pleased to record that the appropriate fees had been recovered with only 7 tenants identified as having still to pay their allotment rents at that time: we now note that all have been paid accordingly.

Due to the Covid situation, the Council closed its facilities (Council Chamber) for much of the current financial year to external hirers and has only recently (January 2022) reopened them.

The CFM has kindly provided us with detail of hires for the financial year, which we are pleased to note have been invoiced appropriately in accordance with the Council approved hourly hire rate, with one invoice still to be raised for a single hire due on 23<sup>rd</sup> March 2022.

Finally in this area, we have reviewed the Sage generated schedule of unpaid debts at the present date (i.e., 15<sup>th</sup> March 2022) noting that 13 invoices remain unpaid currently, with all but one issued a further reminder on 9<sup>th</sup> March 2022. The residual one outstanding invoice dates from July 2021 and is under consideration for referral to the small claims court. We shall continue to monitor the position at our next on-site review.

### ***Conclusions***

***We are pleased to record that there are no issues arising in this area currently.***

## **Petty Cash and Credit Card Usage**

We are required, as part of the IA certification process in 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 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 transactions occurring to date in November 2021 and are pleased to record that all transactions are appropriately supported.

We have also checked and agreed the physical cash holding during the course of our review visit noting a potential shortfall of £5.71.

We note that a NatWest Commercial charge card remains in use, with a monthly credit limit of £5,000 settled by automatic monthly direct debit. The card is retained in the possession of the CFM who is currently the only authorised user, generally for emergency purposes or to take advantage of internet supplier deals and, as part of the cashbook to bank statements testing noted earlier in this report, we have verified one month’s detail as part of our aforementioned payment testing review, also referring to the underlying supporting documentation with no issues arising.

## *Conclusions*

*There are no matters arising in this area warranting formal recommendation currently, although we urge that the CFM undertakes the quarterly “petty cash audit” as referred to in the FRs para 27.8b, formally recording the outcome of that review and signing-off and dating the documentation accordingly.*

## **Review of Staff Salaries**

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 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 last revised from 1<sup>st</sup> April 2021 in relation to the employee contribution percentage bandings. We have examined the payroll procedures in place together with a sample of physical payments made to staff in October 2021 by reference to the underlying payslips, which are produced “in house” by the CFM using bespoke SAGE payroll software. Specifically, we have: -

- Ensured that all staff gross pay for the above month is in line with the CFM’s schedule of staff in post, which identifies either the point on the national NJC salary scale or the appropriate hourly / fixed payment rate and contracted weekly hours payable;
- Checked deductions of tax by reference to staff tax codes, as advised by HMRC and recorded on the payslips, also ensuring that the appropriate NI deductions and employer’s contributions have been calculated and applied;
- Ensured the appropriate pension contribution percentages have been applied noting one instance where a new appointee (employee ref 133) has had their September pension contribution deducted at 5.8% instead of the correct rate of 5.5%; and finally
- Noted that electronic monthly returns are made in a timely and accurate manner in accord with current HMRC legislation (aka Real Time Initiative).

## *Conclusions*

*We have drawn the application of the incorrect pension payment percentage to the CFM who has agreed to make the necessary amendment in the employee’s next month’s salary payment. Consequently, we do not consider it necessary to raise a formal recommendation and will ensure the correct percentage deduction is being applied at our next review.*

## **Fixed 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 AGAR 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 in the year's AGAR at Section 2, Box 9 to the supporting registers.

### *Conclusions*

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

## **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 noted at our first review for the year that, other than reference to the Council's approach to investments in the FRs, no formal Investment Strategy / Policy was in place. Statutory guidance on local government investments, issued under section 15(1)(a) of the Local Government Act 2003, was revised with effect for financial years commencing on or after 1<sup>st</sup> April 2018 now requiring all councils with funds held in excess of £100,000 to develop and formally adopt an appropriate Investment Strategy / Policy. To assist the Council, we provided the CFM a few examples in place at a couple of our other clients and are pleased to note the development and adoption of an appropriate Policy, which is embodied in the recently adopted and updated SOs / FRs.

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 note that the term deposit held with the Santander Bank continues to be "rolled over" and have, as indicated in the first section of this report, verified the re-investments and maturities, including the interest thereon during the financial year.

The Council currently has two PWLB loans being repaid half-yearly: we have checked the two half-yearly repayments for 2021-22 as part of our above referenced payment review, agreeing both repayments to the UK Debt Agency third party advice notes. We have also, at this final review, verified the accurate disclosure of the residual loan liability repayable to the UK Debt Agency by reference to their website where detail of all such local government loans are recorded.

### *Conclusions and recommendation*

*We are pleased to now acknowledge the preparation and adoption of an appropriate Investment Strategy. Consequently, no residual issues remain in this area warranting further formal comment or recommendation.*

- R3. The Council should ensure compliance with the requirements of the above statute developing and adopting an appropriate Investment Strategy / Policy. **An appropriate Strategy has been developed and is embodied in the revised and adopted Standing Orders / Financial Regulations document.***

## **Statement of Account and AGAR**

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

The CFM has provided us with a copy of the year-end Sage Trial Balance detail of which we have agreed to the prepared spreadsheet working paper which analyses the data for inclusion in the year's AGAR at Section 2, detail of which we have also agreed to the prepared AGAR Section 2.

### *Conclusions and recommendation*

*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 at Page 3 within the AGAR.*

Rec. No.	Recommendation	Response
<b>Review of Corporate Governance</b>		
R1	When next reviewing the Council's formal governance documentation (i.e., Standing Orders and Financial Regulations) care should be taken to ensure they record and reflect the requirements of the updated (2015) edition of the Public Contract Regulations.	<i>Appropriate action has been taken with the revised document adopted at the recent Council meeting.</i>
R2	When completing the 2021-22 Governance Statement at Section 1 of the year's AGAR, care will need to be taken to ensure that appropriate assertions are given in the light of the 2020-21 external audit report.	<i>Noted and will be actioned accordingly.</i>
<b>Review of Investments and Loans</b>		
R3	The Council should ensure compliance with the requirements of the above statute developing and adopting an appropriate Investment Strategy / Policy.	<i>An appropriate Strategy has been developed and is embodied in the revised and adopted Standing Orders / Financial Regulations document.</i>