
Berkhamsted Town Council

Internal Audit Report 2013-14 (Final update)

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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 decision making process by initially utilising the services of the local Borough Council. However, they subsequently withdrew this service and, following due consideration of alternative quotations, we at Auditing Solutions Limited were appointed with effect from 2008-09.

This report sets out those areas examined during the course of our recent final visit to the Council, which took place on 6th June 2014 and supplements the interim work undertaken on 22nd October 2013.

Internal Audit Approach

As the Council's Internal Auditor and under the revised audit arrangements, we have a duty to complete the internal audit certificate in the Council's Annual Return, which covers the basic financial systems and requires assurances in ten separate areas.

In concluding our internal audit review for 2013-14, we have continued to have regard to the materiality of transactions and their susceptibility to potential mis-recording or misrepresentation in the year-end Statement of Accounts.

This report sets out the areas of work examined during the year: our reports and file of working papers are available, on request, for review by the Council's external auditors should they require any further assistance in gaining the required level of assurance on the adequacy of those Council's systems examined and detailed for the year.

Overall Conclusion

We are pleased to conclude that, in all areas examined, the Council continues to have effective systems in place to ensure that transactions are free from material misstatement and are reported accurately in the Statement of Accounts for 2013-14. We have previously noted, and discussed with the Clerk, the resignation / retirement of the Finance Officer and the temporary arrangements implemented for some part time coverage provided by Dacorum Community Action: we subsequently note the successful recruitment of an appropriately skilled administrator.

Consequently, there are no formal recommendations arising and we have duly "signed off" the Internal Audit Certificate at Section 4 of the Annual Return, assigning positive assurances in all areas.

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. We note that Sage software continues to be in use and have to date: -

- Ensured that an appropriate nominal coding structure remains in place;
- Verified the opening trial balance detail with that in the 2012-13 Statement of Accounts / Annual Return;
- Ensured that the financial ledger remained in balance throughout the year;
- Checked and agreed a sample of three months' transactions in the Council's NatWest Current Account (April & August 2013 and March 2014) agreeing detail to the relevant bank statements;
- Similarly, checked and agreed all transactions on the other accounts (in view of their relatively low number) for the year to 31st August 2013, and, subsequently also for March 2014, to bank statements or other relevant supporting documentation;
- Reviewed the detail on bank reconciliations as at 30th April & 31st August 2013 and 31st March 2014 on the main NatWest Current Account and as at 31st August 2013 and 31st March 2014 on all other accounts to ensure that no long-standing cheques or other anomalous reconciling entries are apparent; and
- Ensured the accurate disclosure of the combined year-end account balances in the detailed Accounts and Annual Return.

Conclusions

No issues have been identified in this area worthy of formal note; one very minor duplicated posting being appropriately dealt with during the course of the previous interim visit.

Review of Corporate Governance

Our objective is to ensure that the Council has robust corporate governance documentation and procedures in place; that Council and Committee (where appropriate) meetings are conducted in accordance with the adopted Standing Orders 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 have: -

- Concluded our examination of minutes of the Full Council and its Standing Committees' meetings (with the exception of Planning) for the current year to 31st March 2014 to identify whether or not any issues exist that may have an adverse effect, through litigation or other causes, on the Council's future financial stability;
- Noted that extant Standing Orders and Financial Regulations have been reviewed and re-affirmed at the Full Council meeting in May 2013;

- Noted that an appropriate range of working procedures for financial transaction processing have been in place for some time and these were being utilised by the part-time administrator / contractor covering the finance officer's position; and
- Noted that the Budget and Precept deliberations for 2014-15 were properly considered, the latter properly recorded at £154,856 (excluding the support grant of £5,794)

We would also draw members' attention to the recent repeal of Section 150(5) of the LG Act 1972 that previously required all payable orders to be signed by two members: also to approval of the use of electronic banking facilities. We would draw attention to the recent JPAG (Joint Practitioners Accounting Committee) release of an update to the "Governance and Accountability for Local Councils – A Practitioner's Guide" (copy attached) which provides further guidance on the safeguards that need to be implemented should councils change their approach to banking arrangements. NALC has also recently re-issued updated Financial Regulations that take account of these changes in legislation.

Conclusions

We shall continue to review minutes and monitor the Council's approach to governance issues at future visits, also any changes that may be implemented in relation to the recent legislative changes affecting banking arrangements.

Review of Expenditure

Our aim here is to ensure that: -

- Council resources are released in accordance with the Council's approved procedures and approved budgets;
- 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 payments are being reported to Council;
- VAT has been calculated correctly for periodic recovery;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount; and
- That all payments have been coded appropriately.

To confirm compliance with the above criteria, we have selected a sample of payments processed throughout the year including all those individually in excess of £1,000, together with a more random selection of every 20th payment irrespective of value. This sample comprised 50 payments in all, totalling more than £101,000 in value and equating to 73% of all non-pay related payments in the year.

We note that quarterly VAT returns continue to be submitted electronically, as required by extant HMRC legislation, and have checked and agreed the March 2014 submission reported as a year-end debtor in the Annual Statement of Accounts & Return.

Finally in this area, we have updated our year-on-year analysis of expenditure incurred across the range of Council activities with no significant variances arising to warrant further enquiry or explanation by officers.

Conclusions

We are pleased to record that all payments in the sample examined met the above criteria with no issues arising.

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 and safety nature, whilst also ensuring that appropriate arrangements exist to monitor and manage those risks identified in order to minimise the opportunity for their coming to fruition.

- We noted previously in our final report for 2012-13 that a formal Risk Management Strategy and appropriate Registers were completed and adopted by members at the Full Council meeting in March 2013: subsequently, we note that this documentation was re-affirmed by the F&P Committee in October 2013 and, by approval of Committee minutes, by the Full Council in November; and
- We note that the Council's insurance cover continues to be provided by Zurich Municipal: we have examined the current year's policy schedule (to end May 2014) and consider that appropriate cover is in place with Employer's and Public Liability set at £10 million, Fidelity Guarantee at £0.5 million and Business Interruption at £68,000.

Conclusions

No issues arise in this area to warrant formal 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 or Unitary Authority (where applicable) 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. Therefore:

- We note the final conclusion of the deliberations of officers and members in relation to the budgets and precept for 2014-15, formally resolving to adopt the latter at £154,856 (excluding the support grant of £5,794) at the Full Council meeting on 20th January 2014;
- We are pleased to note that, following disbandment of the Accounts Subcommittee earlier in 2012-13, members of the Finance & Policy Committee continue to meet regularly and receive detailed management accounting reports, including appropriate variance analysis commentaries; and

- We note that, as at 31st March 2014, Total Reserves stood at £315,600, comprising specific Earmarked items totalling £140,600 and the residual General Fund of £175,000. We have previously considered that the latter was potentially excessive in the light of CiPFA guidance, which indicates an appropriate General Fund balance of between three and six months be retained: we note that the current balance has been reduced to approximately nine months expenditure at current levels and with further projects planned for Town enhancements no further comment is considered necessary at present.

Conclusions

No formal recommendations arise in this area this year.

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 income 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 note that officers and members continue to periodically consider and agree the scales of fees and charges for the limited range of services provided, agreeing no changes for 2013-14

We note that the Council continues to utilise the bespoke Scribe software to manage its allotments but, with rents only falling due on 1st October 2013 and with processing slightly delayed due to the departure of the Finance Officer, we did not undertake any detailed testing in this area at the interim visit. At this final visit, we are advised that there were no significant issues with the collection of allotment rentals, also that officers may consider revised software solutions to the administration process but nothing formal had yet been established at the date of this final visit.

We have checked and agreed all other income arising for the year to September 2013 by reference to the appropriate Sage nominal ledger account transaction listing and samples of supporting back-up, such as the sales invoices raised for Lagley Centre casual and regular lettings and interest postings on bank deposit accounts.

Finally in this area, we have updated our year-on-year analysis of income incurred across the range of Council activities with no significant variances arising to warrant further enquiry or explanation by officers.

Conclusions

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

Petty Cash Account

A limited petty cash account is in operation at the Council's office on a "topped up as and when" basis with just three such encashments identified during 2013-14.

We have previously tested a sample of 2012-13 transactions from the control sheets to the periodic reimbursement cheques, the Sage cashbook transaction postings and the underlying, supporting receipts and vouchers during last year's final audit work with no issues arising.

Subsequently, in accord with the requirement of the Internal Audit Certificate for this area to be tested annually, we have further checked and agreed transactions for two sample months (February & March 2014) to ensure the same criteria as above were met.

Conclusions

No issues were identified in this area of our review this year.

Salaries and Wages

We note that the Council continues to outsource production of its monthly payroll for the four employees (assuming the Finance Officer is replaced in due course) to Community Action Dacorum. In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the requirements of HM Revenue and Customs (HMRC) legislation and the deduction and payment over of income tax and NI contributions, together with meeting the requirements of the local government pension scheme, as most recently further amended with effect from 1st April 2013, as regards employee contribution bandings. To meet this objective, we have examined the October 2013 salary documentation provided as below:

- Checking that appropriate employment contracts are in place and that staff gross pay is calculated accordingly by reference to the approved pay scales, noting the implementation of the 1% national pay award for 2013-14;
- Checking to ensure that the correct Income Tax codes and National Insurance Tables are being applied correctly, the latter dependent on whether or not the employee is contributing to the LGPS; and
- Checking to ensure that the appropriate percentage superannuation deductions have been applied in accord with the updated salary bandings where applicable.

Ordinarily, we would also verify compliance with extant HMRC legislation, currently requiring electronic monthly submissions of all employers' payrolls (aka RTI) but, due to the nature of the service provision were unable to undertake this at Berkhamsted but there has been no correspondence received at the Town Council to indicate non-compliance.

Conclusions

We are pleased to record that the procedures in place for the determination and physical payment of staff salaries continue to operate soundly.

Fixed Assets

The Accounts and Audit Regulations 1996 (as amended periodically) required all Councils to maintain a comprehensive register of all assets owned and leased by the Council. We aim to ensure that such a register is in place, that it is comprehensive and contains all the basic information that should, ideally, be embodied in the record. We also aim to ensure that the register detail and financial values recorded are in line with the Council's insurance schedule

We are pleased to note the continued existence of an excellent asset register with an exceptionally detailed listing of equipment, its location, dates purchased, cost, current values, etc. The computations therein also form the basis for the determination of the annual transfers to / from the Earmarked Asset Renewal Funds.

In accordance with the revised Practitioners Guidance in this area (effective from 2010) we are pleased to note that any movements in the content of the register have been reflected in the overall totals at Box 9, Section 1 of the Annual Return at acquisition cost only.

Conclusions

There are no issues arising in this area of our work.

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, that interest earned is brought to account correctly and appropriately in the accounting records and that any loan repayments due to or payable by the Council are transacted in accordance with the relevant loan agreements.

We have previously noted that the Council has diversified the deposits of its "surplus" funds in varying banking institutions: however, at the date of this final visit, only one such Term deposit holding remains (£80,000 at Saffron Building Society maturing in February 2015).

The Council currently has no loans outstanding.

Conclusions

There are no issues arising in this area of our work at present.

Statement of Accounts and Annual Return

We have verified the accuracy of detail in the Annual Statement of Accounts, as produced initially by the Sage accounting software, but also supplemented by more formal supporting Income & Expenditure and Balance Sheet statements and

supplementary notes prepared this year by the Council's external contractor (Mrs B Porter) following the retirement of the previous Finance Officer, to the underlying records. We are pleased to note the high standard of reporting previously arising was more than adequately repeated, with comprehensive Supporting Statements and other documentation provided for the purposes of our final visit.

Additionally we have verified the transfer of the summarised results, and prior year's comparators, to Section 1 of the Annual Return.

Conclusions

We are pleased to record that no issues have been identified in this area of our review process: on the basis of the work completed on the Council's Accounts and other relevant supporting documentation for the year, we have duly "signed off" the Internal Audit Certificate at Section 4 of the Annual Return assigning positive assurances in each relevant area, leaving the original documentation with the Clerk for submission to members for approval and, subsequently, onward transmission to the external auditors with any further supplementary information they request.