
Berkhamsted Town Council

Internal Audit Report 2012-13 (Interim)

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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 However, they have subsequently withdrawn this service and, following due consideration of alternative quotations, we at Auditing Solutions Limited were appointed.

This report sets out those areas examined during the course of our interim visit to the Council for 2012-13, which took place on 29th November 2012.

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 commencing our internal audit review for 2012-13, 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 work completed is available, on request, for review by the Council's external auditors and should assist them in gaining the required level of assurance on the adequacy of those Council's systems examined and detailed in this report.

Overall Conclusion

We are pleased to conclude that, in the areas examined, the Council continues to have effective systems in place to ensure that transactions are free from material misstatement and should be reported accurately in the Statement of Accounts for 2012-13. We have noted one or two areas where we consider that the governance regime could be enhanced and strengthened, together with noting an anomaly with staff salaries and the tax deductions being made thereon: full detail is set out in the body of the detailed report following, with recommendations arising further summarised in the appended Action Plan.

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 is 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 2011-12 Statement of Accounts / Annual Return;
- Ensured that the ledgers remain in balance at the present date;
- Checked and agreed a sample of two months transactions in the Council's NatWest Current and Interest Bearing Accounts (April and October 2012) agreeing detail to the relevant bank statements;
- Similarly, checked and agreed transactions on all other accounts for the year to date (in view of their relatively low number) to bank statements or other relevant supporting documentation; and
- Reviewed the detail on bank reconciliations as at 3rd May and 2nd November on the two main Nat West accounts and as at 31st October on all other accounts to ensure that no long-standing cheques or other anomalous reconciling entries are apparent.

Conclusions

No issues have been identified in this area at present, apart from noting the existence of two long standing uncleared cheques at 2nd November: even so, we are pleased to note that they have been written back appropriately in advance of our interim visit. We shall undertake further testing at our final visit, ensuring the accurate disclosure of the year-end balances on all accounts in the Annual Return.

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: -

- Commenced our examination of minutes of the Full Council and its Standing Committees' (with the exception of Planning) meetings for the current year to date 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; and
- Noted the adoption of the revised Members Code of Conduct;
- Paid due regard to the Council's approach to corporate governance matters.

Conclusions and recommendation

Whilst, we have noted no areas of significant concern, we identified an anomaly in the Council's Standing Orders and Financial Regulations in relation to the level at which formal tender action should be implemented. In the former, the value is set at £50,000 and in the latter at £10,000: we discussed this with the Clerk during the course of our visit, who advised that he had spotted the anomaly himself and intends to review both documents and ensure full consistence in a number of areas in the New Year before representing the documents to Council for formal adoption. His review will, we understand, also pick up on the impact of implementing the revised Members Code of Conduct.

We also drew the Clerk's attention to a further issue in relation to the new Code of Conduct and the requirement, as part of members' disclosure of pecuniary interests to obtain a formal dispensation to set the precept annually.

R1. The Council should ensure that its governance documentation is brought up to date to reflect and incorporate the impact of the recent changes in legislation, also ensuring that Standing Orders and Financial Regulations are consistent in their content.

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 to November 2012 including all those individually in excess of £1,500, together with a more random selection of every 20th payment irrespective of value. This sample includes 27 payments totalling £62,600 in value equating to 75% of all non-pay related payments in the year to date.

Conclusions

We are pleased to record that all payments in the sample examined met the above criteria with no issues arising. We shall extend our testing in this area at the final visit

to include a similar sample of payments and will also review the content of the quarterly VAT reclaims prepared and submitted to HMRC.

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 note the Clerk's intention to review and update all risk assessments in the next few months in line with the guidance on the HM Treasury "Orange Book", the resultant registers being presented to Council for formal approval and adoption: we shall review the outcome of this review at our final visit.
- Noted that the Council's insurance cover continues to be provided by Zurich Municipal: we have examined the current year's policy schedule and consider that appropriate cover is in place with Employer's and Public Liability set at £10 million and Fidelity Guarantee at £0.5 million.

Conclusions

No issues arise in this area at present: as indicated above, we shall review the outcome of the Clerk's review of risks at our final visit and, if appropriate, make further comment at that time.

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 parent 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 process for determining the 2013-14 budget and precept requirement is under way currently and will examine the outcome at our final visit.

We are pleased to note that, following disbandment of the Accounts Sub-committee earlier in 2012-13, members of the Finance & Policy Committee continue to meet regularly and receive detailed management accounting reports.

Conclusions

There are no issues arising from our work in this area at present: we shall return to this area at our final visit ensuring that the Council takes appropriate action, as regards the issue of dispensations to members to allow them to formally approve the 2013-14 precept and budget, also ensuring that appropriate reserves are retained to meet the Council's ongoing revenue spending and future development aspirations.

We shall also examine, in conjunction with the update of our year-on-year analysis of income and expenditure, the year-end budget outturn following up and seeking appropriate explanations for any significant variances that might exist.

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 the Council continues to utilise the bespoke Scribe software to manage the allotments and have, in view of the large number of plots covering some 40 pages on the software, examined detail on the first ten pages ensuring that, where an allotment is identified as being leased to a tenant, the appropriate fees have been charged via invoice and that those fees have been received accordingly. With rents only falling due on first October 2012, we have noted that a number of tenants have still to settle their accounts. We have examined the files of paid and unpaid accounts and will further examine the latter at our final visit to ensure that no significant stragglers exist and that income due to the Council is recovered accordingly.

We also note that the Youth Centre, for which the Council has relatively recently assumed management responsibility, hires rooms out to the public: we have not had an opportunity to review the process in any depth at this interim visit, but note that appropriate hire agreement documentation is in place incorporating an invoice for the resultant fees due to the Council. We shall examine the procedures in place at our final visit and comment accordingly at that time.

Conclusions

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

Salaries and Wages

We note that the Council continues to outsource production of its monthly payroll for the four employees 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 2012, as regards employee contribution bandings. To meet this objective, we have examined the November salary payments: -

- Checking that appropriate employment contracts are in place and that staff gross pay is calculated accordingly by reference to that documentation and also to the national pay scales in force currently examining payslips acquired from the provider on the day of our visit;

- Checking to ensure that the correct tax is being deducted in accordance with HMRC legislation by reference to the HMRC Basic PAYE Tools software pertaining to 2012-13;
- Ensured that NIC deductions are similarly correctly calculated applying the correct Table letter dependent on whether or not the employee is contributing to the pension scheme;
- Ensuring that the appropriate percentage superannuation deductions have been applied.

Conclusions and recommendation

We are pleased to record that the procedures in place for the determination and physical payment of staff salaries continue to operate soundly. However, in examining the November 2012 payslips and checking the tax deductions being applied, we have identified an apparent anomaly resulting in the over-deduction of income tax from all four employees.

As all four staff contribute to the pension scheme, their tax deduction should be calculated on the net gross salary: i.e. the pension contribution, currently in the range of 5.9% to 6.5% for all four staff is non-taxable. However, it appears from examination of the payslips for November that tax is being deducted on the full gross salary earned in the year without abatement by the pension contribution.

We note that the format of the provider's payslips has changed from that in use last year, which may indicate a change in their software resulting in the above anomaly.

R2. The clerk should discuss the apparent anomalous tax position with the payroll provider ensuring that, if the error is confirmed, appropriate adjustment is made to all staff's tax position and that appropriate deductions are made in future.

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 note that the Council has diversified the "investment" of its surplus funds in various deposits with varying banking institutions.

The Council currently has no loans outstanding.

Conclusions

There are no issues arising in this area of our work at present; we shall ensure that interest earned is brought account appropriately at our final visit.

Rec. No.	Recommendation	Response
Review of Corporate Governance		
R1	The Council should ensure that its governance documentation is brought up to date to reflect and incorporate the impact of the recent changes in legislation, also ensuring that Standing Orders and Financial Regulations are consistent in their content.	
Review of Payroll		
R2	The clerk should discuss the apparent anomalous tax position with the payroll provider ensuring that, if the error is confirmed, appropriate adjustment is made to all staff's tax position and that appropriate deductions are made in future.	