
Berkhamsted Town Council

Internal Audit Report 2014-15 (Final)

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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 for 2014-15, which took place on 8th June 2015, and supplements the interim work undertaken on 31st October 2014.

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 2014-15, 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.

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 were reported accurately in the Statement of Accounts for 2014-15. We are pleased to record that no issues arise warranting formal recommendation. We have duly "signed off" the Internal Audit Certificate at Section 4 of the Annual Return, assigning positive assurances in each relevant category.

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 with “trading” bank accounts operated at NatWest supplemented by various reserve holdings at other institutions to ensure a spread of risk following the previous banking “crisis” and have:

- Ensured that an appropriate nominal coding structure remains in place;
- Verified the opening trial balance detail with the closing balances disclosed in the 2013-14 Statement of Accounts and Annual Return;
- Ensured that the financial ledger remains in balance at the financial year-end;
- Checked and agreed a sample of three months’ transactions in the Council’s NatWest Current and Reserve Accounts (April & September 2014 plus March 2015) agreeing detail to the relevant bank statements, including all inter account “sweep” transactions;
- Similarly, checked and agreed all transactions on the other accounts (in view of their relatively low number) for the year in full to March 2015 to relevant bank statements or other relevant supporting documentation;
- Reviewed the detail on bank reconciliations as at 30th September and at 31st March 2015 on all accounts to ensure that no long-standing cheques or other anomalous reconciling entries are apparent; and
- Verified the accurate disclosure of the combined cash and bank balances in the year’s Annual Return.

Conclusions

There are no issues arising in this area to warrant formal recommendation.

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 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 that extant Standing Orders and Financial Regulations have again been reviewed and re-affirmed at the Full Council meeting in May 2014, with subsequent revision of the former to allow for the “Openness” legislation with regard to recording, etc. at meetings; and

- Noted the retirement of the previous Clerk, although his departure was not effective until the current (2015-16) financial year, and the permanent appointment of the Finance Administrator from the previous contractor agency.

Conclusions

There are no issues arising in this area to warrant formal recommendation.

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 approx. 60 payments for the financial year including all those individually in excess of £1,000, together with a more random selection of every 20th cashbook transaction (irrespective of value). Our test sample totalled just under £122,000 and equated to 74% of all non-pay related payments in the year.

Other than noting that VAT Returns continue to be submitted electronically on a quarterly basis, no further work was undertaken in this area at the interim stage, having previously checked and agreed the March 2014 submission and year-end debtor disclosed in the Statement of Accounts. Subsequently, we have verified the submission of the March 2015 Return to the underlying control account balance and the debtor disclosed in the closing Accounts for the year.

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

Conclusions

There are no issues arising in this area to warrant formal recommendation.

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 2013-14 that a formal Risk Management Strategy and appropriate Registers were completed and adopted by members at the Finance and Policy Committee meeting in early April 2014 and, by subsequent minute approval, Full Council in May 2014. Subsequently, we note that these were re-affirmed in November 2014, together with the adoption of the Statement of Internal Control in March 2015: consequently no further comment is considered necessary in this regard this year; 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 31st May 2015) and consider that appropriate cover is in place with Employer's and Public Liability both set at £10 million, Fidelity Guarantee initially at £500,000 and Loss of Revenue at £75,000. As part of the examination of current year's minutes (F&P in August 2014), we note that Fidelity cover was to be increased to £1 million with no additional premiums payable.

Conclusions

There are no issues arising 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 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.

The interim visit was too early in the current financial year for any significant progress to have been made in respect of the budget and precept deliberations for 2015-16: we have considered the outcome of these at this subsequent final visit noting that the latter was formally adopted in January 2015 at £156,375, excluding the Support Grant of £4,314.

We are also pleased to note that the Finance & Policy Committee have continued to be provided with detailed and regular management information reports for the year.

Finally in this area, we note that Total Reserves as at 31st March 2015 stood at £280,000, which comprised specific Earmarked items totalling £136,000 and the residual General Fund balance of £144,000: the latter represents approximately seven months' expenditure at current levels and is considered to be more than adequate at present.

Conclusions

There are no issues arising in this area to warrant formal 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 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 noted previously that the Council has determined that an alternate bespoke software provider should be utilised for the management of its allotments but, with rents only falling due on 1st October 2014 and with processing slightly delayed due to the introduction of the new systems, we did not undertake any detailed testing in this area at the interim stage other than to note from minutes that rents and other fees for the 2014-15 year would remain unchanged.

Subsequently, at this final visit we have:

- Checked and agreed all interest arising on Term deposits and other Reserves for the year;
- As noted earlier, checked and agreed three months' cashbook receipt transactions to relevant bank statements;
- Noted that sound controls are exercised over the collection of allotment rentals with just £11 remaining outstanding as at 31st March 2015;
- Examined sample sales invoices in relation to the Langley Centre lettings to ensure that correct fees and charges have been levied; and
- Finally in this area, we have updated our year-on-year analysis of income across the range of Council activities with no significant, unidentified variances to warrant further explanation or enquiry by officers.

Conclusions

There are no issues arising in this area to warrant formal 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 independent control and approval by the Clerk, subsequent to the Finance Officer's transaction processing and cash counting, on a monthly basis.

We have previously tested a sample of 2013-14 transactions (February and March 2014) 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 visit with no issues arising and no further work was carried out in this area at the interim stage. Subsequently, we have checked August & September 2014 in a similar manner.

Conclusions

There are no issues arising in this area to warrant formal recommendation.

Salaries and Wages

We note that the Council continues to outsource production of its monthly payroll for the three remaining employees (following the replacement of the Finance Officer by an external contractor) 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 2014, as regards employee contribution bandings. To meet this objective, we examined the October 2014 salary documentation provided:

- Checking that staff gross pay is calculated accordingly by reference to the approved pay scales, noting that there has yet to be any national pay award for implementation in 2014-15. Subsequently at this final visit, we note that examination of minutes confirm the adoption of the NJC award for 2014-2016 with effect from December 2014;
- 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;
- Checking to ensure that the appropriate percentage superannuation deductions have been applied in accord with the updated salary bandings where applicable; and
- Reconciling the net pay and employer's "on costs" to that recharged by the bureau provider.

Conclusions

We are pleased to record that the procedures in place for the determination and physical payment of staff salaries continue to operate soundly and, in the absence of any evidence to the contrary, must assume that the monthly electronic payroll submissions to HMRC required by extant legislation (aka Real Time Initiative) are being undertaken in a timely manner. We noted that officers had previously identified a minor anomaly with regard to the recharge of employer's national insurance in a previous year (approximately £200): steps were duly taken to address this and no further recommendation is considered necessary.

Fixed Assets

The Governance and Accountability Manual requires 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 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 March 2011) 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 to warrant formal recommendation.

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 balances of its “surplus” funds in varying banking institutions with no specific Treasury Term deposits held, although a Tracker Bond is in place with the Saffron Building Society, and have verified all balances in full to the closing Statement of Accounts and Annual Return disclosures, with all interest arising thereon also checked and agreed to cashbooks.

The Council currently has no loans outstanding either repayable by, or to, it.

Conclusions

There are no issues arising in this area to warrant formal recommendation.

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 again this year by the Council’s external contractor (Mrs Beverley Porter), 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.

Conclusions

We are pleased to record that no issues have been identified in this area and, on the basis of the satisfactory conclusions drawn from our programme of over this year, we have duly “signed off” the Internal Audit Certificate at Section 4 of the Annual Return assigning positive assurances in each relevant area.