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# **Berkhamsted Town Council**

*Internal Audit Report 2011-12 (Final)*

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## **Background and Scope**

The Accounts and Audit Arrangements introduced from 1<sup>st</sup> 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 However, they have subsequently withdrawn the provision of these services and, following due consideration of alternative quotations, Auditing Solutions Limited was appointed to provide the service.

This report sets out those areas examined during the course of our visits to the Council for 2011-12, which took place on 8<sup>th</sup> November 2011 and 12<sup>th</sup> June 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 carrying out our internal audit review for 2011-12, 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 2011-12.

On the basis of the work undertaken 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.

# 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: -

- Ensured that an appropriate nominal coding structure is in place (maintained using Sage accounting software) to meet the needs of the Council's reporting requirements;
- Verified the opening trial balance detail with that in the 2010-11 Statement of Accounts;
- Ensured that the ledgers remain in balance at the end of the year;
- Checked and agreed all transactions (receipts, payments and inter account transfers) in the Council's NatWest current and business reserve account cashbooks to the relevant bank statements for three sample months (May and August 2011 and March 2012);
- Checked and agreed detail on bank reconciliations for all accounts as at 31<sup>st</sup> May and August 2011 plus March 2012 ensuring that no long-standing uncleared cheques or other anomalous entries exist; and
- Verified the accurate disclosure of the year-end balances in the Accounts and Annual Return.

### *Conclusions*

*With the exception of two outstanding cheques drawn in 2011 about which Council staff are aware, we are pleased to report that there are no matters arising in this area of our work.*

## 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 no actions of a potentially unlawful nature have been or are being considered for implementation. We have: -

- Examined the minutes of the Full Council and its Standing Committees' (with the exception of Planning) meetings 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
- Considered the Council's approach to corporate governance.

### *Conclusions*

*No significant issues have been identified in this area of our review. However, whilst no formal recommendation is required at this stage, the Clerk may wish to consider*

*setting up policies and procedures to cover governance issues and office procedures that might be required in the event of any long-term absence of staff in order to ensure the effective continuance of the Council's financial functions.*

## **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;
- An official order was placed for all goods and services as necessary when not covered by contracts or similar agreements, such as utility bills;
- VAT has been calculated correctly on all relevant invoices in the sample examined and also that the returns for 2011-12 have been submitted in a timely and accurate manner utilising the HMRC's on-line facility as now required;
- All discounts due on goods and services supplied are identified and appropriate action taken to secure the discount;
- That suitable quotations had been obtained and formally considered for more costly works; and
- That all payments have been coded to the appropriate expenditure code.

To confirm compliance with the above criteria, we have examined a sample of payments made in the year, comprising all payments individually in excess of £1,000, together with a more random selection of every 20<sup>th</sup> cash book transaction irrespective of value. Our test sample includes 54 payments totalling £138,768 in value and representing 93% of all payments in the year.

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

*Overall, we are pleased to record that the above criteria were met appropriately. We have, however, identified two relatively minor issues: the charitable donations, received at the Mayor's reception, have been posted through the Council's accounts. Whilst this is not an uncommon practice, it has the effect of erroneously increasing both the Council's income and expenditure. We also note that wine purchased for the reception was organised by a member and then reclaimed from the Council, meaning that VAT on the purchases could not be included in the VAT reclaim. We would remind the Council that one of the criteria for recovery of VAT is that goods and services should be invoiced directly to the Council, or if paid through petty cash, as a minimum, a till receipt with a VAT registration number should be present.*

*R1. The Annual Return detail should be adjusted at the year-end to exclude the receipt and payment of the Mayor's charitable donations.*

R2. *Wherever possible, purchases for civic events should be made through the Council's purchasing system to enable the legitimate recovery of VAT.*

## **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 ongoing review of the Council's risk registers, although there appears to be no formal link between the Council's Strategic Plan and the risk management process; and
- Noted that the Council's insurance cover continues to be provided by Zurich Municipal: we have examined a copy of the most recent policy (to May 2012) to ensure that suitable Employer's and Public Liability and Fidelity Guarantee protection is in place.

### ***Conclusions and recommendation***

***The Council's risk management analysis was reviewed in March 2012, with the Council demonstrating effective prioritisation of resources and value for money.***

R3. *The Council should consider further strengthening its risk management by formally linking the achievement of strategic objectives to the risk register. (The HM Treasury 'Orange Book' may be a useful reference).*

## **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. To meet this objective, we:

- Note that the process for determining the 2012-13 budget and precept requirement was completed at the Council's meeting in January 2012 with the Council agreeing a precept of £160,500 for the forthcoming year;
- Note that members of the Finance Panel sub-committee continue to meet on a regular basis receiving detailed management accounting reports.
- Note that the Council has Capital and other Asset Replacement Earmarked Reserves in place: these have been reviewed as part of the Accounts closing process.

### ***Conclusions***

***There are no issues arising from our work in this area.***

## 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. To meet this objective, we have:

- Noted that the Council continues to utilise the bespoke Scribe software for the maintenance of its Allotment Registers;
- Tested a sample of income from allotments, using the allotment register to ensure that all income due has been received, banked on a timely basis and correctly posted to the accounts;
- Tested a further sample of invoices noted as paid to ensure that the cash had been appropriately banked; and
- Noted that, at the time of our interim visit review, payment of allotment rents due on 29<sup>th</sup> September were still being received by the Council.

### *Conclusions*

*We are pleased to record that no issues have been identified in this area warranting formal comment or recommendation, the one issue raised at our interim visit having been addressed appropriately.*

## Petty Cash Account

A very limited petty cash account and manual postage book is operated in the Council's office on a simple "top-up as required".

We have reviewed a sample of payments during the year ensuring that each is appropriately supported by a trade invoice and / or till receipt.

### *Conclusions*

*No matters arise in this area.*

## Salaries and Wages

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 last amended with effect from 1<sup>st</sup> April 2011, as regards employee contribution bandings. To meet the above objective, we have: -

- Checked to ensure that the Council has reviewed and approved appropriate pay scales for staff by reference to employment contracts;
- We have checked and agreed the amounts paid to individuals by reference to the NJC schedule, examining payments made in October 2011; and

- Ensured that PAYE, NIC and superannuation deductions have been made accurately by reference to the HMRC tool and the current DCLG contribution band.

### ***Conclusions and Recommendation***

***We noted two small discrepancies (£11 and £6) between the rates of pay on payslips compared with the rate per the NJC pay scale details. We also identified that one member of staff appears to be paying LGPS contributions at the wrong rate for her pay band (6.5% rather than 5.9%).***

- R4. The clerk should complete a review of the payroll to ensure that payments are being made correctly adjusting any under or over-payments in the next pay run. We understand that this process is ongoing.***

## **Fixed Asset Register**

The Accounts and Audit Regulations 1996 require 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 commented previously on the exceptionally detailed asset register in place and have not repeated those observations here; and
- We noted previously the Council's plan to update the register to reflect the recent changes to the Practitioners Guide to record all assets at cost (or best estimate of replacement value) and are pleased to record that this has been achieved as part of the Accounts closure process.

### ***Conclusions***

***We are pleased to report that no issues have been identified in this area. Best practice suggests that, whilst the Annual Return requires the asset values to be reported at purchase cost or, where that value is unknown, the nearest approximation thereto, there are benefits from a future financial planning viewpoint to also identify the annually uplifted value of assets in the register. We note that this is already the case with regard to allotment assets and would suggest that the same principle be applied unilaterally.***

## **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.

The Council currently has no loans outstanding.

### *Conclusions*

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

## **Statement of Account and Annual Return**

The 1996 Accounts and Audit Regulations required all Councils to prepare annually a detailed Statement of Accounts, together with supporting statements identifying other aspects of the Council's financial affairs. We have verified the accuracy of detail in the Statement of Accounts and Annual Return by reference to the underlying records with no issues arising.

### *Conclusions*

*We have duly signed off the Internal Audit Certificate at Section 4 of the Annual Return, assigning positive assurances in each relevant area.*

Rec. No.	Recommendation	Response
<b>Review of Expenditure</b>		
R1	The Annual Return detail should be adjusted at the year-end to exclude the receipt and payment of the Mayor's charitable donations.	
R2	Wherever possible, purchases for civic events should be made through the Council's purchasing system to enable the legitimate recovery of VAT.	
<b>Assessment and Management of Risk</b>		
R3	The Council should consider further strengthening its risk management by formally linking the achievement of strategic objectives to the risk register. (The HM Treasury 'Orange Book' may be a useful reference).	
<b>Review of Payroll</b>		
R4	The clerk should complete a review of the payroll to ensure that payments are being made correctly adjusting any under or over-payments in the next pay run.	We understand this process is on-going.